



24 September 2020

Ms Maryanne Hinwood c/o Ms Katy Emmett
Senior Manager, Group Strategy and Performance
Enterprise Services Division
APRA
By email: katy.emmett@apra.gov.au

Dear Ms Hinwood

Proposed APRA performance measures

Thank you for inviting feedback from the Australian Banking Association (the ABA) on APRA's proposed performance measures.

The ABA welcomes the timely review of APRA's performance measure and supports a more streamlined performance metrics. Developing new metrics is an opportunity for APRA to clearly demonstrate how it is implementing best practice and considering the compliance costs in its decision making holistically.

The monitoring of good regulatory practice is of significant interest to the ABA. Developing key performance indicators can increase accountability and ensure that regulatory practice is aligned with community expectations. The ABA understands that the proposed metrics have been developed in consideration of metrics used by other Australian regulators. However, given the significance of the prudential regulatory framework to the economy, we would suggest that further consideration be given to the proposed metrics.

The ABA's key overarching points concerning metrics are noted below. More specific comments on each proposed KPI is included in the table below.

Improved reporting KPIs

APRA's reporting KPIs on MOUs for simplification and coordination appear well intended, however they provide limited feedback on the measure of success for reporting entities, the quality of reporting for users and benchmarking of APRA's reporting against international standards.

The ABA would encourage the inclusion of a broader set of KPIs for regulatory reporting such as those below:

- A focus on elimination and simplification of requirements. This could include:
 - Number of returns/adhoc requests eliminated by APRA/Agencies due to data sharing
 - Reduction in collected data points/reductions in Agency collections due to MOU
 - Extent of collected data shared with MOU agencies, and
 - Reduction in D2A agency queries – For example, we often see similar queries from the RBA/ABS.
- Introducing quality measures on the implementation of new standards
 - Number of revisions/FAQs issues on new reporting standards and guidance
 - Reduction in D2A queries



- Number of resubmissions during a parallel run
- Quality feedback from stakeholders on publications from collected data, such as market participants and investor relations.
- Reporting impost from information collection
 - Annual cost/FTE surveys
 - Number of new reporting standards implemented with a year to measure burden
- Benchmarking
 - Extent of information collected published versus international regulators rate
 - Frequency benchmarking in comparison to international regulators
 - Industry cost benchmarking.

Improved transparency of policy priorities timetable

While banking will always be a highly regulated industry, the ABA considers that improved transparency and planning by APRA can reduce compliance costs significantly. Banks plan two years in advance the implementation and consultation on regulatory changes to ensure appropriate resources are available. Any changes to the policy priority timeline are therefore significantly costly if project teams are not utilised as planned. Further, it is difficult to commit resources to a revised timeline at short notice and resources are redeployed elsewhere on other projects, which can lead to delays in implementation of important requirements.

Given this, the ABA would welcome APRA committing to publishing its policy priorities at least twice yearly with monthly online updates on the likely consultation, final standard publication and implementation dates. This practice is currently being undertaken by the UK Financial Conduct Authority and would be a relatively low-cost method for APRA to reduce the significant costs associated with project planning.¹ In addition, a performance metric counting how APRA has met its policy priorities timeline and where it has not, would be a useful indication of compliance costs.

Greater visibility of number of standards changed and implemented each year

Compliance costs are also increased by the rate of change in regulation. Given this, the metrics could capture the rate of change in regulation by measuring the number of changes made to regulation each year. In particular, the metrics can demonstrate how APRA is meeting its commitment to minimising the regulatory burden during COVID-19.

To do this, the proposed metrics should capture how many regulatory changes to standards are consulted on and implemented each year. It would also include a metric to measure the number of regulations reviewed and repealed. This proposed metric would count all standards including guidance, reporting standards and prudential standards. While a basic count of consultations does not capture the significance of a standard, it will however give both regulators and Government a basic level of the rate of change occurring within the industry year on year. This will demonstrate to industry and Government APRA's efforts to minimise unnecessary regulation.

Monitor super-equivalent requirements in response to international standards

A key issue for the ABA is the consistency of Australian financial regulation with international standards. As noted in previous submissions, the ABA supports regulatory change that ensures the regulatory framework meets international requirements. However, any deviations – including any requirements greater than international standards (super equivalent) – imposes significant costs on banks. These costs are in turn passed on to consumers in the form of higher costs of banking and/or reduced opportunity to improve service offering. It does this in the following ways:

- Increases costs when seeking international funding. An international consistent framework means that international funders can easily understand the potential financial risks when

¹ <https://www.fca.org.uk/publications/corporate-documents/regulatory-initiatives-grid>



investing in a small economy such as Australia. However, the more the system deviates from international requirements, the greater the perceived risk of the investment. Given this, the number of potential suppliers of funding could diminish and the costs increase from a reduction in competition.

- Reducing international competitiveness of Australian ADIs. Implementing a regulatory framework that requires greater capital holdings and processes than the international standard makes Australian banks more expensive when competing for business in international markets.
- Increases compliance costs without reducing risk. International standards are agreed in consultation with all countries to address the risk presented by globally systematic banks. Applying these standards to non-globally or domestically significant banks increases compliance costs to address international contagion risks that are not present from smaller banks.
- Increases the compliance costs for international banks opening and operating in Australia. Deviations from international standards require foreign banks to develop local policies to be designed and maintained which increases the cost of compliance.

Given the significant costs associated with super equivalency of international standards, it would be useful to design a metric that monitors how many policy changes are equivalent, above, or less than international standards. This will increase accountability and transparency better than the proposed metrics such as the number of international meetings attended each year.

Consultation on policy options to continue

The ABA has valued the additional informal and formal consultation recently as APRA developed new policy in relation to COVID-19. The ABA also welcomes further workshops between APRA and ABA members. These workshops are particularly effective to help work through implementation and more technical issues in a timely fashion.

The ABA would like this to continue and would welcome a greater opportunity for stakeholders to provide input into the policy option decision making process. Greater consultation as part of the consideration of policy options will lead to more effective and faster regulatory decisions as it is likely to:

- Reduce the potential time between policy consultation and publishing the final standard.
- Ensure that the full costs and benefits from each policy option can be considered before a final policy option is chosen; and
- Is consistent with good regulatory practice.

Previously, APRA has undertaken consultation on one policy option rather than considering a range of options. Often, this option has a number of implementation issues and complexities that could be avoided by consulting on all possible policy options. In the case of deferrals, open discussions with industry about the potential policy options has shown that policy changes can be made effectively and quickly when this process is used. Given this, the ABA would recommend that the metric monitor and consider the number of policy options considered in a consultation. This would ensure that good regulatory practice is embedded and transparent in the organisation.

Further, the ABA believe sometimes there is an inequity between the communications held with the major banks and the non-major banks. The proportionality aspect is highly important to non-major banks particularly during the formal policy consultation process. The measurement of 'Publishing 100% of feedback' is expected, and we would recommend lifting the standard to identifying and measuring the level of communications with all entities during the consultation process. Additionally, we would recommend APRA consider providing individual responses to entities that submit consultation responses.

More frequent and updated survey needed

Whilst the biennial surveys provide useful qualitative feedback from ADI's on APRA, these are too infrequent to capture feedback in a rapidly changing environment. The ABA recommends that the



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survey frequency is increased to at least annual overall and that APRA consider semi-annual in areas of rapid change.

Thank you again for the opportunity to provide input to this important process. Please do not hesitate to contact me using the details below if you have any queries about the ABA's submission on the proposed metrics.

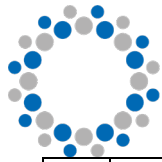
Yours sincerely

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KPI 1 – Regulators do not unnecessarily impede the efficient operation of regulated entities

| KPI | RPF characteristics of good regulatory performance | APRA's proposed measures | ABA Feedback KPI 1 |
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| <p>The proposed measures appear to be generic in nature and we'd recommend APRA consider adopting a more detailed standard of measurement. For example, measurement against the Office of Best Practice requirements is the Government's internal policy rulebook and we would expect APRA to already comply.</p> <p>A key part of efficient operation of markets is to ensure that competition is not impeded unnecessarily. The ABA would support a competition related KPI metric to be included below.</p> | | | |
| 1i. | Regulators demonstrate an understanding of the operating environment of the industry or organisation, or the circumstances of individuals and the current and emerging issues that affect the sector. | At least annual publication of APRA's operating environment and emerging issues. | Consider at least semi-annual publication of APRA's operating environment and emerging issues. The constantly changing economic environment requires more frequent communication |
| 1ii. | Regulators take actions to minimise the potential for unintended negative impacts of regulatory activities on regulated entities or affected supplier industries and supply chains. | <p>100% compliance with Office of Best Practice (OBPR) requirements.</p> <p>Number of applications for regulatory relief / exemption granted during the reporting period.</p> <p>>=80% of APRA stakeholders agree that 'In its supervision [of your industry], APRA effectively pursues financial safety, balanced with considerations of efficiency, competition, contestability and competitive neutrality, and promotes financial stability.' <i>Source: existing biennial stakeholder survey question.</i></p> | <p>APRA to consider providing more information on what regulation changes are put through the OBPR process. For example, the number of regulatory changes made each year and how many are subject to OBPR review.</p> <p>This can be expanded to include standard service delivery metrics such as turnaround time.</p> <p>The ABA queries whether 80 per cent is the appropriate level. Given the importance of APRA to the economy, a higher percentage could be considered.</p> <p>Survey responses should be anonymised to ensure meaningful responses.</p> |



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| 1iii. | Regulators implement continuous improvement strategies to reduce the costs of compliance for those they regulate. | Level of compliance with international principles. | One of the key issues for the ABA is consistency with international principles. In particular, when APRA requirements exceed international requirements then banks face an international cost disadvantage. This measure needs to be expanded to include how many comply and exceed/differ from international principles. As noted above, international consistency with Basel standards is a significant issue. |
| | | Number of international meetings attended / international committees participated in during the reporting period. | This is an expected industry norm. Attending international meetings does not effectively reduce compliance costs. Instead, requiring a transparent cost benefit analysis of any regulatory change would be more effective. |
| | | >=80% of APRA's stakeholders agree that 'Changes to APRA's prudential framework sufficiently consider the costs of regulation imposed on industry'. <i>Source: existing biennial stakeholder survey question.</i> | The ABA queries whether 80 per cent is the appropriate level. Given the importance of APRA to the economy, a higher percentage could be considered. Survey responses should be anonymised to ensure meaningful responses. |



KPI 2 – Communication with regulated entities is clear, targeted and effective

| KPI | RPF characteristics of good regulatory performance | APRA's proposed measures | ABA Feedback KPI 2 |
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| <p>We believe that the existing APRA biennial stakeholder survey is straight forward, and the questions appear to encourage positive responses. We would recommend increasing the frequency of the survey to at least annual and encouraging more open industry discussions. Further, we would ask you to increase the response rate from 80 per cent and consider anonymising responses.</p> <p>With regard to regulatory advice we note that the published policy doesn't always align or address bilateral discussions. APRA could also consider tailoring their communications to target different sized entities, rather than across the board general communications on policy and advice.</p> | | | |
| 2i. | Regulators provide guidance and information that is up to date, clear, accessible and concise through media appropriate to the target audience. | <p>>=80% of APRA stakeholders agree that 'APRA's prudential standards clearly communicate requirements.' <i>Source: existing biennial stakeholder survey question.</i></p> | <p>The ABA queries whether 80 per cent is the appropriate level. Given the importance of APRA to the economy, a higher percentage could be considered.</p> <p>Survey responses should be anonymised to ensure meaningful responses.</p> |
| | | <p>>=80% of APRA stakeholders agree that 'APRA's Prudential Practice Guides' are extremely/very useful. <i>Source: existing biennial stakeholder survey question.</i></p> | <p>The ABA queries whether 80 per cent is the appropriate level. Given the importance of APRA to the economy, a higher percentage could be considered.</p> <p>Survey responses should be anonymised to ensure meaningful responses.</p> |
| | | <p>Level of compliance with Government accessibility requirements.</p> | |
| 2ii. | Regulators consider the impact on regulated entities and engage with industry groups and representatives of the affected stakeholders before changing policies, practices or service standards. | <p>>=80% of APRA stakeholders agree that 'APRA communicates clearly during consultation with industry about proposed changes to prudential standards and guidance materials.' <i>Source: existing biennial stakeholder survey question.</i></p> | <p>The ABA queries whether 80 per cent is the appropriate level. Given the importance of APRA to the economy, a higher percentage should be considered.</p> <p>Survey responses should be anonymised to ensure meaningful responses.</p> |

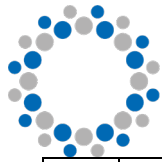


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| | | 100% of feedback is published following formal policy consultation processes. | With regard to clear communications we believe sometimes there is an inequity between the communications held with the major banks and the non-major banks. The proportionality aspect is highly important to non-major banks particularly during the formal policy consultation process. The measurement of 'Publishing 100% of feedback' is expected, and we would recommend lifting the standard to identifying and measuring the level of communications with all entities during the consultation process. Additionally, we would recommend APRA consider providing individual responses to entities that submit consultation responses. |
| 2iii. | Regulators' decisions and advice are provided in a timely manner, clearly articulating expectations and the underlying reasons for decisions. | 100% compliance with targets included in APRA's published service charter. <i>Once re-published.</i> | Agree. Would be interested in consulting with APRA on its draft service charter to ensure it reflects business expectations. We would recommend APRA consider adopting service level agreement type measurement standards. |
| | | >=80% of APRA stakeholders agree that 'APRA's communications to [my entity] are clear and effective.' <i>Source: existing biennial stakeholder survey question.</i> | The ABA queries whether 80 per cent is the appropriate level. Given the importance of APRA to the economy, a higher percentage could be considered. APRA could also consider anonymising responses. |
| 2iv. | Regulators' advice is consistent and supports predictable outcomes. | >=80% of APRA stakeholders agree that 'APRA's regulatory advice is consistent and supports predictable outcomes.' <i>Source: proposed NEW biennial stakeholder survey question.</i> | This could be expanded to include a requirement to undertake post implementation reviews of a proportion of existing regulations. See discussion in letter about reporting the number of reviewed and repealed requirements annually. The ABA queries whether 80 per cent is the appropriate level. Given the importance of APRA to the economy, a higher percentage could be considered. Survey responses should be anonymised to ensure meaningful responses. |



KPI 3 - Actions undertaken by regulators are proportionate to the regulatory risk being managed

| KPI | RPF characteristics of good regulatory performance | APRA's proposed measures | ABA Feedback – KPI 3 |
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| 3i. | Regulators apply a risk-based, proportionate approach to compliance obligations, engagement and regulatory enforcement actions. | APRA publishes its Statement of Expectations and Intent. | <p>This could be expanded to require an assessment in each consultation of how the proposed policy document meets APRA's Statement of Expectations and Intent.</p> <p>We suggest that the Statement of Expectations include a reference to proportionate approach to regulation. ADIs vary in size, scale and business model and these factors need to be considered when making standards.</p> <p>A metric would be OBPR assessment of this compliance.</p> |
| | | <p>>=80% of APRA stakeholders agree that 'APRA meets its stated approach of being primarily risk-based in its supervision.'</p> <p>Source: existing biennial stakeholder survey question.</p> | <p>The ABA queries whether 80 per cent is the appropriate level. Given the importance of APRA to the economy, a higher percentage could be considered.</p> <p>Survey responses should be anonymised to ensure meaningful responses.</p> |
| 3ii. | Regulators' preferred approach to regulatory risk is regularly reassessed. Strategies, activities and enforcement actions are amended to reflect changing priorities that result from new and evolving regulatory threats, without diminishing regulatory certainty or impact. | APRA publishes its supervisory and policy priorities annually. | <p>Recommend increasing frequency to at least twice a year basis. These priorities regularly change with no transparent public feedback. See further information above about updating on a regular basis.</p> |
| | | <p>>=80% of APRA stakeholders agree that 'APRA assists [your institution] to identify and mitigate emerging risks.' Source: existing biennial stakeholder survey question.</p> | <p>The ABA queries whether 80 per cent is the appropriate level. Given the importance of APRA to the economy, a higher percentage could be considered.</p> <p>Survey responses should be anonymised to ensure meaningful responses.</p> |



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| 3iii. | Regulators recognise the compliance record of regulated entities, including using earned autonomy where this is appropriate. All available and relevant data on compliance, including evidence of relevant external verification is considered. | No quantitative metrics proposed. Will be addressed through qualitative narrative and examples. | <p>Suggest that this be transparent with the affected entity. A broad level of principles could be published so an entity can self-assess.</p> <p>A metric regarding how many entities were considered and approved each year could be a useful indicator of APRA's progress.</p> <p>Guidance published annually on best practice to inform entities wishing to achieve more autonomy.</p> |
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KPI 4 – Compliance and monitoring approaches are streamlined and coordinated

| KPI | RPF characteristics of good regulatory performance | APRA's proposed measures | ABA Feedback – KPI 4 |
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| <p><i>The ABA suggests improving these KPIs by adopting international best practice metrics here. It would be useful if any metrics could include incentives to reduce the of reg collections and submissions. Metrics could also capture how information is used and shared to reduce the impact on industry from frequent queries.</i></p> | | | |
| 4i. | Regulators' information requests are tailored and only made when necessary to secure regulatory objectives, and only then in a way that minimises impact. | 100% compliance with Office of Best Practice (OBPR) requirements when developing reporting standards. | <p>100% compliance with Office of Best Practice (OBPR) requirements when developing reporting standards.</p> <p>>=80% of APRA stakeholders agree that 'APRA appropriately coordinates/consults' on regulatory changes</p> <p>As noted, earlier a metric which counts the number of requests per year would enable APRA to monitor the impact on ADIs. Further, the review and repeal of requirements would be monitored under these metrics.</p> |
| 4ii. | Regulators' frequency of information collection is minimised and coordinated with similar processes including those of other regulators so that, as far as possible, information is only requested once. | Number of MOUs in place that include information sharing and joint co-operation protocols. | The "number of supervisory colleges attended" is an expected industry activity and we suggest APRA consider an alternate measurement method. |
| | | Number of supervisory colleges held / attended during the reporting period. | |



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| | | >=80% of APRA stakeholders agree that 'APRA appropriately coordinates regulatory requests and other regulatory engagements with other Australian regulators where appropriate.' <i>Source: proposed NEW biennial stakeholder survey question.</i> | |
| 4iii. | Regulators utilise existing information to limit the reliance on requests from regulated entities and share the information among other regulators, where possible. | Number of regulators / agencies that APRA actively shares data with on an ongoing or ad-hoc basis. | |
| | | Number of Council of Financial Regulators (CFR) working groups which include APRA representation. | |
| 4iv. | Regulators base monitoring and inspection approaches on risk and, where possible, take into account the circumstance and operational needs of the regulated entity. | >=80% of APRA stakeholders agree that 'The information that APRA collects in the course of supervision is adequate to assess risks in the ABA.' <i>Source: existing biennial stakeholder survey question. To be supported by case examples of joint inspections/ regulatory interventions undertaken with peer agencies during the reporting period.</i> | |

KPI 5 - Regulators are open and transparent in their dealings with regulated entities

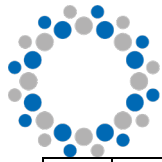
| KPI | RPF characteristics of good regulatory performance | APRA's proposed measures | ABA Feedback - KPI 5 |
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| 5i. | Regulators' risk-based frameworks are publicly available in a format which is clear, understandable and accessible. | APRA publishes its supervisory and enforcement approaches on its website meeting Govt. accessibility requirements. | ? |
| 5ii. | Regulators are open and responsive to requests from regulated entities regarding the operation of the regulatory framework, and approaches implemented by regulators. | APRA publishes its service charter on its website meeting Government accessibility requirements. >=80% of APRA stakeholders agree that 'APRA's resolution of [your entity's] technical and supervisory requests are timely.' <i>Source: existing biennial stakeholder survey question.</i> | The ABA queries whether 80 per cent is the appropriate level. Given the importance of APRA to the economy, a higher percentage should be considered. Survey responses should be anonymised to ensure meaningful responses. |



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| | | >=80% of APRA stakeholders agree that 'APRA's resolution of [your entity's] enquiries regarding reporting requirements are timely.' <i>Source: proposed NEW biennial stakeholder survey question.</i> | The ABA queries whether 80 per cent is the appropriate level. Given the importance of APRA to the economy, a higher percentage could be considered. Survey responses should be anonymised to ensure meaningful responses. |
| | | >=80% of APRA stakeholders agree that 'APRA is open and responsive to requests from regulated entities regarding the operation of the regulatory framework.' <i>Source: proposed NEW biennial stakeholder survey question.</i> | The ABA queries whether 80 per cent is the appropriate level. Given the importance of APRA to the economy, a higher percentage could be considered. Survey responses should be anonymised to ensure meaningful responses. |
| 5iii. | Regulators' performance measurement results are published in a timely manner to ensure accountability to the public. | All performance measures committed to in APRA's Corporate Plan are published [on time] in APRA's Annual Performance Statement for the relevant reporting period. | |

KPI 6 – Regulators actively contribute to the continuous improvement of regulatory frameworks

| KPI | RPF characteristics of good regulatory performance | APRA's proposed measures | ABA Feedback - KPI 6 |
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| The ABA would recommend the measurement is expanded to not just include "a number of key stakeholders" but rather an industry wide view and metric. We suggest the "key topics raised with Treasury" is prioritised to ensure they are the important topics to industry and not just the 'quick wins' that are straightforward to implement. | | | |
| 6i. | Regulators establish cooperative and collaborative relationships with stakeholders to promote trust and improve the efficiency and effectiveness of the regulatory framework. | Number of key stakeholder events held to facilitate the development of regulatory frameworks. >=80% of APRA stakeholders agree that 'APRA works with stakeholders to improve the regulatory framework.' <i>Source: proposed NEW biennial stakeholder survey question.</i> | The ABA queries whether 80 per cent is the appropriate level. Given the importance of APRA to the economy, a higher percentage could be considered. Survey responses should be anonymised to ensure meaningful responses. |



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| 6ii. | Regulators engage stakeholders in the development of options to reduce compliance costs. This could include industry self-regulation, changes to the overarching regulatory framework, or other strategies to streamline monitoring and compliance approaches. | APRA has a clearly published mechanism for stakeholders to provide feedback on the regulatory framework. | The ABA doesn't think the metric meets KPI6ii. The KPI specifically calls for working through options with industry to reduce compliance costs. This currently does not happen in an open and transparent way. Instead, a policy option is chosen and published for comment. A better metric would be the number of options papers published ahead of consultation on the final policy position. Further, the number of post implementation reviews of the compliance costs of existing regulation completed in consultation with industry would be a better metric. |
| | | Number of recommendations from external reviews implemented during the reporting period. | This is not related to KPI6ii. KPI6ii is about compliance costs rather than adding more regulation from external reviews. For example, external review could include outcomes from the Banking Royal Commission, this is clearly not a reduction in compliance costs. |
| 6iii. | Regulators regularly share feedback from stakeholders and performance information (including from inspections) with policy departments to improve the operation of the regulatory framework and administrative processes. | Number of key topics designed to improve the regulatory framework raised with Treasury during the reporting period. <i>To be supported by summary of engagement with international organisations during the reporting period to learn from peer experiences and share better practice.</i> | The ABA would welcome APRA sharing feedback with Treasury. Better communication between APRA policy, supervision and central government would be welcome. A published workplan to implement improvements to the regulatory framework which is regularly updated with progress could improve this metric. |