

Recent changes to APRA's Regulation of Non-ADI Lenders

Background

On 5 March 2018, the *Treasury Laws Amendment (Banking Measures No.1) Bill 2017*, also known as the 'Non-ADI Lender Rules', received royal assent and incorporated the proposed changes to the definition of registrable corporations (RFCs) and broadening of Australian Prudential Regulation Authority (APRA)'s powers into the *Financial Sector (Collection of Data) Act 2001* (FSCODA).

RFC registration requirements

The definition of registrable corporations under FSCODA has been revised to include corporations whose business activities in Australia **includes the provision of finance**, or have been identified either individually or as a class of corporations specified by APRA.

Currently, there are certain categories of entities which are excluded from registration requirements, as they are typically already regulated by APRA (e.g. ADIs). In addition to these entities, new criteria has been applied to also allow exclusions for corporations which have:

- i) **less than \$50 million of debts due to the corporation** resulting from the provision of finance; and
- ii) **less than \$50 million of principal outstanding** (as at the time the loan or other financing arose) from loans or other financing resulting from the carrying out of activities by the corporation during the most recent financial year.

Entities are also required to consider all related corporations (e.g. subsidiaries) as if they were part of the corporation itself when assessing the \$50 million thresholds for exclusion from registration.

These changes broaden the businesses which will be captured by the RFC registration and reporting requirements to include non-ADI lenders such as automotive financiers, mortgage securitisers, asset financing companies and pawnbrokers. This is a significant change whereby businesses are captured based on the amount of financing, regardless of the primary purpose of the business or balance sheet composition as per the previous definition.



RFC reporting requirements

In addition to APRA's new powers to make rules in relation to lending activities of non-ADI lenders, APRA will also collect data from RFCs under the new Economic and Financial Statistics (EFS) Collection from March 2019 onwards.

At a minimum, RFCs with total assets below \$400 million will be required to submit balance sheet data on an annual basis. RFCs which exceed this threshold will be required to submit this data monthly.

Similar to ADIs, RFCs will also need to assess their balance sheet against the specific EFS reporting thresholds for each of the new reporting forms in the EFS Collection, which will require additional data points to be submitted compared to previous returns. These returns require granular data such as counterparty classifications, loan purpose and interest rate details, and data submitted will be required to meet the finalised *RPG 702.0 Data Quality for the EFS Collection* guidance.

For RFCs which are already reporting under the existing APRA RFC Reporting framework, there will be a **period of parallel runs** where both old and new returns will be required. With an emphasis on the ongoing data quality journey, some organisations are also evaluating the business case for **automation** with the help of third party vendors.

RPG 702.0 Reporting Error Benchmarks

	Benchmark for a large institution (an ADI or RFC with over \$200 billion in total assets measured on a domestic books basis)			Benchmark for an ADI or RFC that is not a large institution	
	Priority	% of series	Absolute dollar value	% of series	As absolute dollar value
Stock	Very high	0.50	\$2 billion	2.0	\$500 million
	High	5.00		10.00	
	Standard	Judgement		Judgement	
Flow	Very high	5.00	\$250 million	10.00	\$100 million
	High	10.00		20.00	
	Standard	Judgement		Judgement	

RFC audit requirements

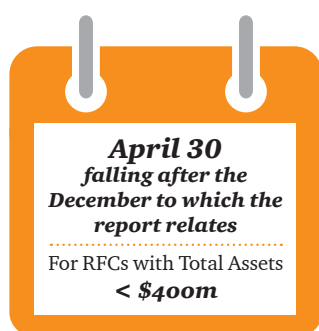
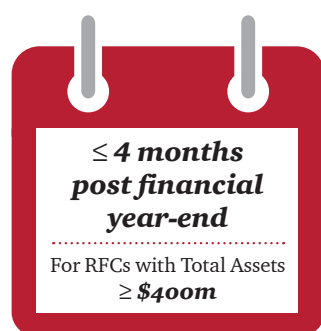
On 8 March 2018, the APRA published *RRS 710.0 Audit requirements for Registered Financial Corporations - EFS collection* (RRS 710.0), effective from **1 July 2019**, which imposes an assurance regime similar to APS 310.

RRS 710.0 requires an annual auditor's report to be submitted within the required timeframe providing:

- **reasonable assurance** over accounting data included in specified forms listed in RRS 710.0 Appendix A (Specified Forms),
- **limited assurance** over non-accounting data included in Specified Forms, and
- **limited assurance** over the design and operating effectiveness of the RFC's systems, processes and internal controls throughout the data life cycle.

The three specified returns for RFCs are *ARF 720.0A Statement of Financial Position*, *ARF 720.1B Loans and Leases* and *ARF 720.2B Deposits*.

In order to meet the RRS 710.0 requirements, RFC's must ensure the auditor's report is submitted to the RFC's Board within either four months of financial year-end or by 30 April of the subsequent calendar year depending on the balance sheet size and applicable reporting forms.



Who is impacted?

The updated registration requirements for RFCs became effective from the date of royal assent, with the upcoming EFS reporting requirements effective from March 2019. Up until this date, existing RFC reporting requirements will continue to apply to existing and newly registered RFCs.

It is important to also consider any other entities within broader corporate groups which may, either individually or in aggregate, meet registration thresholds or be subject to new reporting requirements.

The burden for EFS readiness by March 2019 continues to be a challenge, particularly with the new audit requirements for RFCs. Specific topics such as residential mortgages are likely to require further consultation with APRA for RFCs.

How can PwC help?

PwC can help work with you to:



Understand RFC registration and reporting requirements for your business or entities within your group



Provide you with a readiness assessment and gap analysis for regulatory reporting considering your current systems, processes and controls



Consider and assess the likely impacts of the new reporting and RPG 702.0 data quality requirements on your portfolio and reporting processes



Define or optimise a tailored regulatory reporting operating model for your organisation



Consider potential automation strategies, vendor evaluation and system implementation.

Contacts

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