



Cortell Australia Pty Ltd

CoreBIS APRA Solution



Customer Advisory Board (CAB) Meeting: 6
2021 Quarter 2



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Statement of Confidentiality

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Distribution

Document will be placed on CoreBIS Wiki.

Name	Company	Job Role	Present at meeting
Robert Salisbury	Bank Australia	Financial Controller	×
Kon Hara	Bank Australia	Finance Manager	ü
Liuyang Li	Bank Australia	Regulatory Reporting Accountant	ü
Victor Anderson	Bank of Sydney	CFO	×
Champsman Yung	Bank of Sydney	Head of Financial Reporting	×
Kerri McCarron	Beyond Bank	Integration Business Manager	ü
Nick Edwards	Beyond Bank	Financial Controller	ü
Trevor Boggs	Beyond Bank	Regulatory Reporting Accountant	ü
Stephen Nounnis	Beyond Bank	Regulatory Reporting Accountant	×
Meelad Khalil	Teachers Mutual	Finance Manager – Budgeting and Planning	×
Shane Camilleri	Teachers Mutual	Financial Performance and Analytics Manager	×
Vishal Lagdev	Teachers Mutual	Business Analyst	ü
Trent Bennett	Teachers Mutual	Financial Accountant – Regulatory Reporting	ü
Belinda Hogan	:86400	Chief Financial Officer	×
Alfred Villegas	:86400	Financial Controller	ü
Jared Hill	:86400	Financial Accountant	×
Bronwyn Woodwood	Volt	Head of Financial Control	ü
Simon Carne	Volt	Manager Financial Information Systems	ü
Michelle Li	Volt	Regulatory Reporting Finance	ü
Hannah Kipp	P&N	Financial Controller	
Rod Chamberlain	Heritage	Financial Controller	
Lisa Beutel	Heritage	Financial Accountant	
Karl Blackler	Cortell	CoreBIS Senior Technical Manager	ü

Name	Company	Job Role	Present at meeting
Tania Tambimuttu	Cortell	Support Desk Team Leader	ü
Paul Horton	Cortell	Business Delivery Manager	ü
Bree Rivers	Cortell	Financial Services Consultant	
James Corner	Cortell	CoreBIS Product Manager	ü

CONTENTS

Statement of Confidentiality	2
Distribution	2
Agenda	5
1. Introduction / Action Items.....	6
1.1 Action Items from last meeting	6
2. Executive Summary	7
3. Regulatory Updates	8
3.1 Wayne Byres Banking AFR Speech summary	8
3.1.1 Capital Reforms: Once fully implemented, the capital framework will operate with:.....	8
3.1.2 Credit Performance	8
3.1.3 Liquidity positions are strong.....	8
3.1.4 Operational Resilience	9
3.1.5 Contingency	9
3.1.6 Competition.....	9
3.2 APRA's Data Collection.....	9
3.3 APS 220 – Credit Risk Management (March 2022).....	11
3.4 Capital Revision Framework.....	13
3.4.1 APS110 Summary Impacts:	13
3.4.2 APS111 Summary of Impacts	15
3.4.3 APS112 Summary Impacts	15
3.5 Market Data Publication.....	16
3.6 PPG 239 Climate Change Financial Risks.....	16
4. CAB NOTES Carries forward from last quarter.....	18
4.1 EFS Changes (June 2021)	18
5. APRA Enforceable undertakings summary:.....	19
6. Demonstrable assets	20
7. Other Feedback.....	21
8. Appendix 1: Terms of Engagement for CAB	22

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CAB Context..... 22
CAB Meetings..... 22

9. Appendix 2: Minutes and ACTION ITEMS FOR NEXT MEETING 23

Agenda

1. Welcome to all
2. Previous meeting action items
3. Regulatory Updates
4. Demonstration of Enhancements and New Features
5. Other feedback from Customers

For the purposes of the minutes, the initial references are:

- BA = Bank Australia
- BB = Beyond Bank
- TMB = Teachers
- 86 = 86400
- BoS = Bank of Sydney
- Vol = Volt
- PN = P&N Bank
- Her = Heritage
- Cor = Cortell

1. Introduction / Action Items

Cortell:

- Welcome to P&N and Heritage.
- Cortell will take minutes
- CDAO, COBA, MAGPI, Regtech, Big 4 Partners

1.1 Action Items from last meeting

WHO	TIMELINE	Status	ISSUE / ACTION	Comments
Cortell	Q1 2021	WIP	Update CAB on submission process for Connect	Update provided below.
All	Q1 2021	Open	What considerations do we need to make for new D2A download in March (D2A v6)	Please update / inform Cortell where you will or have saved your new D2A file download. Cortell will connect CoreBIS to the location and it will work.
Cortell	Q1 2021	Open	Investigate the possibility of having orderly representation of data in tables	This is possible however it does have flow on impacts for consideration. Cortell is reviewing this in line with changes to reporting standards such as ARS220.
Cor	Q1 2021	Open	BB mentioned ratios in last meeting that APRA are monitoring internally	If there is anything that you are seeing that we can incorporate into CoreBIS let us know
BB	Q1 2021	Open	Can validation rules be less confusing	Unfortunately, not, we do not foresee any changes until ARS220 comes into play
BB	Q1 2021	Open	Can we consider a training session with the auditors to bring them up to speed with CoreBIS to minimize the questions they field	We are open to this, is it possible to share with us some of their key questions and or what you would like included in this deliverable?

2. Executive Summary

- Cortell Test strategy for APRA Connect transition can be seen below. Cortell will test in house during Phase 1 in Qtr 3 with client-based testing to commence in Qtr 4. Migration to production environment in expected Qtr 4 2021.
- Cyber security remains a very hot topic, be across CPS234 – IT security, especially in light of APRA Connect changes (consider BEAR implications)
- ARS 220 credit reporting has been pushed back until Q2 2023 for most organisations, however we recommend commencing the review of your data model as soon as possible.
- Capital forecasting on Basel reforms should start to be considered (2023 rollout) to allow enough runway to change business plans and associated operational plans such as Funding.
- Consider downside and upside risk of Climate risk, this will continue its move towards the forefront of risk planning and management by APRA, start your education on this if not already
- Digital Financial Reporting was supported by a number of industry bodies to Parliamentary Joint Committee (PJC) on Corporations and Financial Services Inquiry into the regulation of auditing in Australia, Cortell has evolved its ASIC reporting module so watch this space!

3. Regulatory Updates

3.1 Wayne Byres Banking AFR Speech

A Summary of the key points taken from Wayne Byres speech:

3.1.1 Capital Reforms: Once fully implemented, the capital framework will operate with:

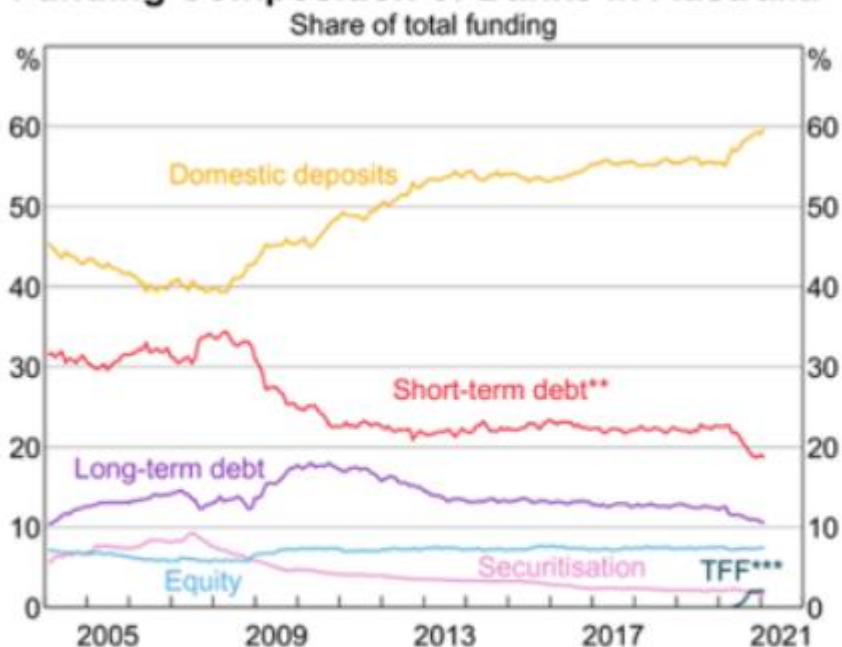
- more flexibility, with a greater proportion of capital held as buffers that can be drawn down in periods of stress and reflatd afterwards;
- provide greater risk sensitivity, with more differentiated risk weights in some important areas such as housing and SME lending; and
- enhanced transparency to ensure capital strength can be more easily understood and compared, both domestically and internationally.

3.1.2 Credit Performance

Non-performing loans are low but to be expected given government support initiatives during COVID. Rising house prices, lower debt to income ratios and changes in lending standards are expected to grow credit, however whilst they are not being complacent, they do not foresee any immediate risk.

3.1.3 Liquidity positions are strong

Funding Composition of Banks in Australia*



* Adjusted for movements in foreign exchange rates; tenor of debt is estimated on a residual maturity basis

** Includes deposits and intragroup funding from non-residents

*** Term Funding Facility

Sources: ABS; APRA; Bloomberg; RBA; Refinitiv; Standard & Poor's

3.1.4 Operational Resilience

A comprehensive review is being undertaken with a view to introduce a new prudential standard on operational risk. As part of this review they are undertaking a revision to the existing:

- CPS231 – outsourcing
- CPS232 – CBP
- CPS233 – Pandemic Planning
- CPS234 – IT security

3.1.5 Contingency

In last year's budget, the Government approved a temporary increase in APRA's resources to implement a stronger recovery and resolution prudential framework

3.1.6 Competition

There are 12 new ADI licenses currently in the pipeline

3.2 APRA's Data Collection

APRA connect is a web-based submission portal that is being implemented by APRA. APRA Connect will replace the existing D2A submission portal that all financial service entities currently send their data to for each reporting period.

As part of the subscription-based service for CoreBIS clients, migrating onto the Connect Platform will be delivered by Cortell. Development and testing of all required changes will take place by Cortell from June 17th when the APRA Connect test environment will become available.

Cortell will be testing the seamless transition to APRA Connect for CoreBIS clients. It is expected to provide limited impact to CoreBIS users, with additional functionality of signing into CoreBIS providing sign into APRA Connect, along with the added functionality for an automated submission from CoreBIS to Connect for all required data, including validation commentary.

The target date to finalise all Client CoreBIS testing and migration into production is quarter 4 2021 (for commencement in 2022).

Attestation against CPG234 requirements will be provided by Cortell, however clients will need to consider the impact given the web-based impact of the CoreBIS server.

It is also recommended clients review their CPG232 Business Continuity Planning and update any references made to D2A within their control frameworks.

CORTELL TEST STRATEGY

Phase 1:

The Test environment for APRA Connect becomes available on the 17th June. From this point Cortell will be developing and testing the changes required to accommodate the transition of all its clients onto the new APRA Connect platform.

Development and testing will take place on Cortell's own CoreBIS Development environment, with interfaces to Cortell's own APRA Connect test environment. Access to this environment will be controlled through the Governments MyGov ID.

The test cases and test scripts will be made available to CoreBIS clients upon their request.

Phase 2:

Upon successful completion of all Phase 1 test cases, CoreBIS updates will be packaged for deployment into Client Development Environments for testing as part of Phase 2 testing.

Cortell will then complete testing of client CoreBIS applications in their respective Development environment to ensure all migrated changes are successfully updated.

Cortell will require access to client APRA Connect test environments through MyGov ID. Cortell will supply the respective MyGov ID's of Cortell employees to clients so each client's Relationship Reporting Administrator.

Clients will then be required to provide approval to migrate changes onto the Client Production environment.

TIMING

MONTH	WHO	DELIVERABLE
Jun-21	Client	Test environment available - test your own client access to the test environment
	Cortell	CoreBIS Quarterly CAB
	Cortell	Cortell to provide Client with Digi ID of Cortell employees conducting testing
	Client	Client RRA to grant access for Cortell employees to client Connect Test environment using Digi ID
Jul-21	Cortell	Cortell Phase 1 testing - developing changes in processes within CoreBIS and testing within CoreBIS Development environment
	Client	Consult your own IT department regarding web access from the Cortell Server
Sep-21	Cortell	Cortell to share client test plans with respective clients
Oct-21	Cortell	Cortell Phase 2 testing - Cortell to migrate CoreBIS updates to clients Development environment Testing of CoreBIS client environments to take place
Nov-21	Cortell / Client	Finalisation of Client test plans for Go/No go decision to move into Production
Dec-21	Cortell / Client	Migrate all client CoreBIS applications into Production

Impacts to CAB members

- ➔ *Be prepared to support your updated client instance in Quarter 4 before migration into Production which we expect will be delivered for end of Quarter 4.*
- ➔ *FAQ's to be published as a living document on the Wiki*

3.3 APS 220 – Credit Risk Management (March 2022)

Delayed but it is coming!

Appendix: High Level Timeframe - 220 Strategic Collection

Timeframe	Activity
Q3 2021	<ul style="list-style-type: none">Pilot collection (pilot group only)Release of high-level data expectations to industry
Q4 2021	<ul style="list-style-type: none">Pilot collection (pilot group only)
Q1 2022	<ul style="list-style-type: none">Quarterly incremental collections
Q2 2022	<ul style="list-style-type: none">Quarterly incremental collections
Q3 2022	<ul style="list-style-type: none">Quarterly incremental collections
Q4 2022	<ul style="list-style-type: none">Quarterly incremental collectionsRelease of finalised standards
Q1 2022	
Q2 2023 (March quarter end)	<ul style="list-style-type: none">First formal collection
Q3 2023	<ul style="list-style-type: none">Tactical standards cease

Table 1: Exposures and provisions

Complete Table 1 for all financial instruments subject to *AASB 9 Financial Instruments*.

Report data as at the end of the *reporting period*.

	Context	Name	Unique identifier	Applicable to:	Valid values	Description
1	Loan Characteristic	Loan identifier	Y	All ADIs	Free text	Report the loan identifier. This should be a unique identifier assigned by the lender for each individual loan. It must not include any personal details such as names, addresses or date of birth. The loan identifier should be consistent across collections.
23	Loan Characteristic	Gross carrying amount of credit exposures		All ADIs	Dollar values	Report the <i>gross carrying amount of credit exposures</i> .
28	Capital adequacy	Credit RWA		All ADIs	Dollar values	Report the value of <i>credit risk-weighted assets</i> .

As we shift to the data space, there are significant opportunities going to present.:

- *“APRA is designing new data collections which are based on data models that can be used for multiple purposes”*
- *“Future collections... will move away from form-based returns to concept-dimension models ”*
- *“The data collected by ARS 220.0 will form the basis of an ADI financial instrument data model which will be extended at a future date to include topics such as capital adequacy for credit risk amongst other areas of interest.”*

- ➔ Possibility to form a sub-working group on what the data release will tell us, primarily in consideration for:
 - summary dashboards / ratios
 - augmented intelligence for compliance approvals
- ➔ Real opportunity for leveraging this to drive:
 - significant enhancements to your internal credit reporting capabilities
 - integrated management reporting suite

3.4 Capital Revision Framework

APRA expects ADIs to be fully compliant with the revised capital framework from 1 January 2023

Key dates are listed below:

Policy	Timing
Targeted QIS	Released July, due August 2021
Release of final Prudential Standards	November 2021
Release of draft Prudential Practice Guides (PPG)	November 2021
APRA to notify ADIs on their eligibility for the simplified framework	November 2021
Release of final PPGs	Q2 2022
Consequential amendments to related standards	Q3 2022
Attestation from accountable person that the ADI will be compliant with the updated standards	December 2022
Capital standards effective	1 January 2023

Reporting	Timing
Initial details on reporting requirements provided to ADIs	August 2021 (Q4 2021 for ARS 117)
Release of interim reporting standards (draft)	Q1 2022
Release of interim reporting standards (final)	Q3 2022
Parallel run of September 2022 quarter end Parallel run of December 2022 quarter end	Q4 2022 Q1 2023
Attestation from accountable person that the ADI will report accurate regulatory capital data	March 2023
Interim reporting requirements effective	Q1 2023
Release of final reporting standards	Q2 2024
Reporting requirements effective	Q2 2024

3.4.1 APS110 Summary Impacts:

- Definition of Small ADI incorporated:

(b) small ADI – means a standardised ADI, that is not a foreign ADI, **foreign-owned ADI** or PPF provider, that:

- (i) has total assets less than \$20 billion at Level 1, or where relevant Level 2;
- (ii) does not operate a trading book;
- (iii) has immaterial non-centrally cleared derivative exposures; and
- (iv) has domestic activities only and does not source any of its funding offshore;

- Which impacts operational risk calculation:

(d) either:

- (i) for small ADIs, 10 per cent of the sum of RWA calculated under subparagraphs (a) and (b) as capital held against operational risk; or

- Leverage Ratio Introduced

For standardised ADIs, APRA proposes to adopt a simplified approach which uses accounting-based measures that are already reported to APRA to calculate most components of the exposure measure. These simplifications are intended to reduce complexity and regulatory burden to better reflect the status of the leverage ratio requirement as a simple backstop measure.

ADIs will be expected to satisfy a minimum leverage ratio requirement at all times, but as is the case under the risk-based capital framework, they will only be required to report leverage ratios on a quarter-end basis.

The Leverage ratio for standardised ADI's will most likely be >3%. This figure will need to be reported on your APS 330 (subject to the finalisation of the current consultation for capital reform).

The calculation of the Leverage Ratio is:

1. An ADI must calculate its leverage ratio as follows:

$$\text{Leverage ratio} = \frac{\text{Tier 1 Capital}}{\text{Exposure Measure}}$$

where:

- (a) Tier 1 Capital is determined in accordance with APS 111; and
- (b) the exposure measure is determined in accordance with this Attachment and is calculated as the sum of:
 - (i) on-balance sheet exposures;
 - (ii) non-market related off-balance sheet exposures;
 - (iii) derivative exposures; and
 - (iv) securities financing transaction (SFT) exposures.

Key definitional considerations need to be given to balance collateral positions for your derivatives, and non-market off balance sheet related positions. (Attachment D, worth reviewing for your own impact statement).

3.4.2 APS111 Summary of Impacts

Primarily definitional changes. Several changes on convertible instruments require a review.

3.4.3 APS112 Summary Impacts

Many definitional changes that require independent consideration and impact assessments on items like:

- your credit policy e.g. the 2.5% buffer on interest rates for mortgages is being removed
- officially incorporating the First home deposit scheme to treat as if 80% LVR
- definition of what is included in a non-standard loan

Key changes are going to be in the RW% as seen below:

Standard loan LVR %		RW %						
		≤ 50	≤ 60	≤ 70	≤ 80	≤ 90	≤ 100	> 100
Owner-occupied principal-and-interest mortgages	LMI	20	25	30	35	40	55	70
	No LMI					50	70	85
Other residential mortgages	LMI	25	30	40	45	50	70	85
	No LMI					65	85	105

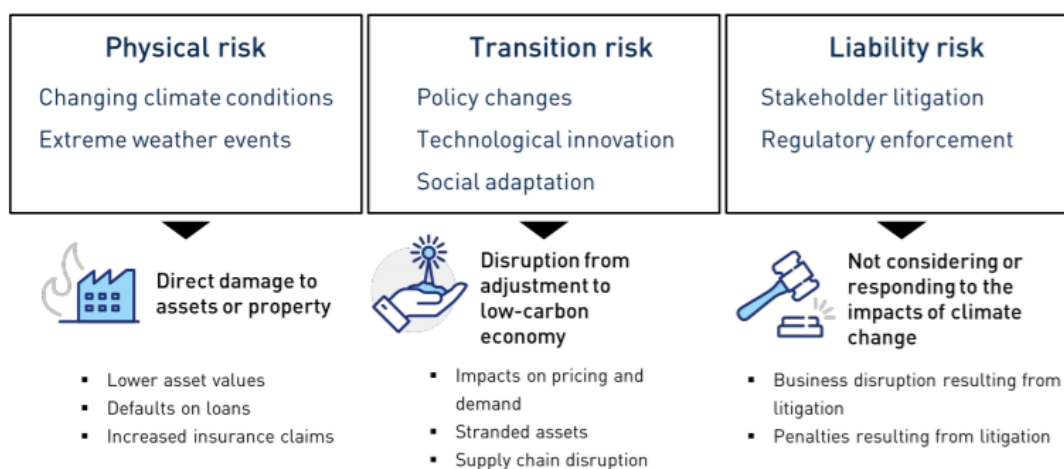
3.5 Market Data Publication

Has anyone heard anything? Cortell’s position remains that this is a initiative we support, we believe it would provide additional value add benefits to the market share reporting.

3.6 PPG 239 Climate Change Financial Risks

The Financial risks associated to climate change are summarised into the below categories by APRA:

Figure 2. Climate change financial risks



These in turn give rise to:

- credit risk – through a potential increase in defaults on loans by businesses and households that may be affected by adverse climate events, as well as the potential for assets used as collateral to decline in value;
- market risk – through the impact of potential re-pricing of financial instruments and corporate debt affecting the value of securities held on an institution’s balance sheet;
- operational risk – including the risk of supply chain disruption and forced facility closures;
- underwriting risk – through a potential increase in insured losses as a result of more frequent and/or extreme weather events;
- liquidity risk – through an increased demand for liquidity to respond to extreme weather events or the difficulties that may be faced in liquidating assets negatively impacted by climate risks; and
- reputational risk – including an institution’s ability to attract and retain customers and employees due to changing employee and community expectations.

These type of risks should be already covered under your existing risk frameworks, however consideration for entities will need to be given to:

- Changes in policies and procedures
- Key risk identification
- Risk monitoring
- Risk management

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- Risk reporting
- ➔ Cortell are interested in this evolving risk and opportunity to embed environmental risk monitoring, reporting and forecasting into CoreBIS if this is something being considered by clients

4. CAB NOTES Carries forward from last quarter

4.1 EFS Changes (June 2021)

APRA have released for consultation changes to the EFS requirements. There are many small changes which are the primary result on incorporating FAQ's into the reporting standards.

These changes are proposed to be effective for the reporting period ending June 2021.

A summary of the summary of key changes we foresee providing review:

1. ARF 730_0 ABS/RBA Statement of Financial Performance
 - 730.0 Updated item 9 - impairment expense instructions
 - Renamed item 14 (added gross to title)
 - Added items 2.1.5 and 8.1.8 to separately report related party management fee income and expense items
 - Added item 4.1.6 and additional reporting instructions to report operating lease liabilities as per AASB 16 (FAQ 96)
 - Updated instructions for Item 7 to include market data services.
2. ARF 747_0B ABS/RBA Deposits Stocks, Flows and Interest Rates (Reduced)
 - ARF 747.0A/B: Added new column *interest rate band* to Item 1.
 - ARF 747.0A/B: Updated item 1, 3, 4, 5 to clarify *other related parties* – FAQ 94
 - ARF 747.0B: updated item 4 instructions to specify units (FAQ 114, consistency with ARF 747.0A).
3. ARF 743.0 – ABS/RBA Housing Finance
 - Reduced threshold for reporting on the Reporting Standard from \$6bn to \$3bn of housing credit outstanding.
4. ARF722 – Derivatives –
 - reporting required from March 2021 where derivatives > \$1b

5. APRA Enforceable undertakings summary:

APRA takes action against Macquarie Bank over multiple breaches of prudential and reporting standards

The Australian Prudential Regulation Authority (APRA) has increased Macquarie Bank Limited's (Macquarie Bank's) liquidity and operational risk capital requirements in response to multiple material breaches of APRA's prudential and reporting standards.

The enforcement action relates to the incorrect treatment of specific intra-group funding arrangements for the purposes of calculating capital and related entity exposure metrics, as well as multiple breaches of APRA's reporting standards on liquidity between 2018 and 2020. These resulted from deficiencies in Macquarie Bank's ability to manage the operational risk inherent in the complex intra-group structure, within which it transacts with its related entities.

The breaches are historical and do not impact on the current overall soundness of Macquarie Group's capital or liquidity positions. However, they raise serious questions about the bank's risk management practices and ability to calculate and report key prudential ratios.

As a consequence of the breaches, APRA will require:

Macquarie Bank to hold an operational capital overlay of \$500 million, reflecting deficiencies in its management of operational risk inherent in the bank's intra-group structure;

- a 15 per cent add-on to the net cash outflow component of its LCR calculation; and
 - a 1 per cent adjustment to the available stable funding component of its NSFR calculation.
- The increases in Macquarie Bank's capital and liquidity requirements will take effect from 1 April 2021. In addition, APRA will require Macquarie Bank to resubmit and restate selected regulatory returns.

APRA Deputy Chair John Lonsdale said: "APRA's legally-binding prudential and reporting standards play an essential role in enabling APRA to adequately monitor risks to financial safety and stability. For one of the country's largest financial institutions to have committed breaches of this nature is disappointing and unacceptable.

"Alongside the enforcement actions, APRA will subject Macquarie Bank to intensified supervision to address the bank's persistent difficulties in complying with its prudential obligations. We cannot rule out further action as more information comes to light about the root causes of these breaches," Mr Lonsdale said.

6. Demonstrable assets

Enhancements to existing features

New Features

- NF25: Stat / ASIC Reporting*

*Not part of monthly migrations.

7. Other Feedback

What would you like to see in the product?

How can we help?

8. Appendix 1: Terms of Engagement for CAB

CAB Context

The **CoreBIS** Customer Advisory Board (CAB) has been established to ensure the **CoreBIS** platform provides its users with the best features and functionality possible to achieve their regulatory deliverables.

CAB will provide a forum where member improvement ideas can be tabled, shared, and agreed upon in a collaborative environment before moving forward into development and release into their respective production environment.

The CAB will also provide an opportunity to openly discuss regulatory changes impacting the industry and any relevant flow on effects that will impact CAB members and CoreBIS.

It is expected the CAB forum will provide valuable input into its members internal and external audit processes and support their own internal risk management processes. In addition, CAB documentation can support supervisory reviews and/or site visits from APRA.

CAB Meetings

Meetings to be held once per quarter, in the month leading into Quarter end, on a date as agreed by consensus with members

- A quorum of two members is required for voting, with a majority required before moving forward with any feature enhancements or development initiatives
- Members are welcome to have more than one attendee at the meetings; however only one vote is permitted per member client
- Cortell will take notes and distribute minutes of meetings to each member

9. Appendix 2: Minutes and ACTION ITEMS FOR NEXT MEETING

September – user group to be setup to explore CoreBIS expansion (Kerri going to lead from BB)