

Financial Sector (Collection of Data) (reporting standard) determination No. 2 of 2018 – Reporting Standard ARS 223 Residential Mortgage Lending

EXPLANATORY STATEMENT

Prepared by the Australian Prudential Regulation Authority (APRA)

Financial Sector (Collection of Data) Act 2001 (the Act)

Under paragraph 13(1)(a) of the Act, APRA may, by writing, determine reporting standards with which financial sector entities must comply. Such standards relate to reporting financial or accounting data and other information regarding the business or activities of the entities. Subsection 15(1) of the Act provides that APRA may declare a day on and after which the reporting standards are to apply.

On 16 January 2018, APRA made Financial Sector (Collection of Data) (reporting standard) determination No. 2 of 2018 (the instrument) which determines *Reporting Standard ARS 223.0 Residential Mortgage Lending* (ARS 223.0).

The instrument commences on 1 February 2018.

1. Background

APRA's mandate is to ensure the safety and soundness of prudentially regulated financial institutions so that they can meet their financial promises to depositors, policyholders and fund members within a stable, efficient and competitive financial system. APRA carries out this mandate through a multi-layered prudential framework and is empowered under the *Banking Act 1959* to issue legally binding prudential standards that set out specific prudential requirements with which ADIs must comply.

Residential mortgages as a proportion of ADIs' lending exposures has increased over the past few years, currently standing at more than 60 per cent of total loans. Given the significance of the concentration in residential mortgage lending, a build-up of risks in this segment has the potential to pose significant prudential and financial stability risks.

In response, APRA and other regulators have increased their focus on residential lending practices, which requires access to robust data about various aspects of ADIs' lending practices and activities, including loan purpose, counterparty and other risk indicators. Analysis of this information underpins measures taken by APRA to help contain the risks associated with ADIs' residential mortgage portfolios.

2. Purpose of the instrument

The purpose of the instrument is to determine a new reporting standard ARS 223.0, which introduces a new reporting form, *Reporting Form ARF 223.0 Residential Mortgage Lending*. ARS 223.0 collects information from ADIs on both the portfolio stock and new lending activity each quarter. This information will be used by APRA for the purpose of prudential supervision. This information may also be used by the Reserve Bank of Australia.

3. Consultation

On 24 October 2016, APRA released a discussion paper, *Residential mortgage lending reporting requirements for ADIs* (the Discussion Paper), on the proposed introduction of ARS 223.0, along with a draft reporting standard¹. This was followed by a second consultation letter on 23 May 2017². APRA released the final response to submissions and final form of the proposed ARS 223.0 on 10 January 2018, incorporating the feedback received from the consultation³.

4. Regulation Impact Statement

APRA prepared a Regulation Impact Statement which has been lodged as supporting material.

5. Statement of compatibility prepared in accordance with Part 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*

A Statement of compatibility prepared in accordance with Part 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011* is provided at Attachment A to this Explanatory Statement.

¹ <http://www.apra.gov.au/adi/PrudentialFramework/Pages/residential-mortgage-lending-reporting-requirements-ADIs-Oct16.aspx>

² <http://www.apra.gov.au/adi/PrudentialFramework/Pages/Response-to-submissions-New-residential-mortgage-reporting-requirements-for-ADIs.aspx>

³ <http://www.apra.gov.au/adi/PrudentialFramework/Pages/Residential-mortgage-lending-reporting-requirements-response-Jan-2018.aspx>

ATTACHMENT A

Statement of Compatibility with Human Rights

Prepared in accordance with Part 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*

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This Legislative Instrument is compatible with the human rights and freedoms recognised or declared in the international instrument listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011* (HRPS Act).

Overview of the legislative instrument

The instrument determines a new reporting standard under the *Financial Sector (Collection of Data) Act 2003*. The new reporting standard collects information from ADIs on their residential mortgage lending activity.

Human rights implications

APRA has assessed the instrument and is of the view that it does not engage any of the applicable rights or freedoms recognised or declared in the international instruments listed in section 3 of the HRPS Act. Accordingly, in APRA's assessment, the instrument is compatible with human rights.

Conclusion

This Legislative Instrument is compatible with human rights as it does not raise any human rights issues.