

Reporting Form ARF 112.2A

Standardised Credit Risk – Off-balance Sheet Exposures

Instruction Guide

This instruction guide is designed to assist in the completion of the *Standardised Credit Risk - Off-balance Sheet Exposures* form. This form captures the risk-weighted assets (**RWA**) relating to an authorised deposit-taking institution's (**ADI's**) off-balance sheet exposures under the standardised approach to credit risk. In completing this form, ADIs should refer to *Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk (APS 112)*.

General directions and notes

Reporting entity

This form is to be completed at Level 1 and Level 2¹ by each ADI that satisfies both of the following requirements:

- (a) it is applying the standardised approach to credit risk to all or part of the ADI's off-balance sheet exposures for capital adequacy purposes (refer to APS 112 or *Prudential Standard APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk*); and
- (b) it is included in one of the classes of ADI to which this form applies, as set out in the table below.

Class of ADI	Reporting required
Bank – Advanced or Applicant Advanced ²	Yes
Bank – Standardised	Yes
Branch of a Foreign Bank	Yes ³
Building Society	Yes
Credit Union	Yes

¹ Level 1 and Level 2 defined in accordance with *Prudential Standard APS 110 Capital Adequacy*.

² When an ADI is seeking APRA's approval to use the internal ratings-based approach to credit risk and/or an advanced measurement approach to operational risk, and is therefore classified as a "Bank – Advanced or Applicant Advanced", the ADI may concurrently be classified as a "Bank – Standardised", and therefore also subject to the reporting requirements for a "Bank – Standardised" (refer to the section below on "Where both "Bank – Standardised" and "Bank – Advanced or Applicant Advanced" reporting requirements and timeframes apply to an ADI").

³ A branch of a foreign bank is only required to partially complete this form, as detailed in the *Reporting entity* section.

Specialist Credit Card Institution (SCCI)	Yes ⁴
Provider of Purchased Payment Facilities	No
Other ADI	Yes

If an ADI is a subsidiary of an authorised non-operating holding company (NOHC), the report at Level 2 is to be provided by the ADI's immediate parent NOHC.⁵

Branches of foreign banks and SCCIs operating through branches in Australia (i.e. are incorporated in an overseas jurisdiction) are only required to complete column 1 *Notional principal amount* in all sections of this reporting form.

Securitisation deconsolidation principle

Except as otherwise specified in these instructions, the following applies:

1. Where an ADI (or a member of its Level 2 consolidated group) participates in a securitisation that meets APRA's operational requirements for regulatory capital relief under *Prudential Standard APS 120 Securitisation (APS 120)*:
 - (a) special purpose vehicles (SPVs) holding securitised assets may be treated as non-consolidated independent third parties for regulatory reporting purposes, irrespective of whether the SPVs (or their assets) are consolidated for accounting purposes;
 - (b) the assets, liabilities, revenues and expenses of the relevant SPVs may be excluded from the ADI's reported amounts in APRA's regulatory reporting returns; and
 - (c) the underlying exposures (i.e. the pool) under such a securitisation may be excluded from the calculation of the ADI's regulatory capital (refer to APS 120). However, the ADI must still hold regulatory capital for the **securitisation exposures**⁶ that it retains or acquires and such exposures are to be reported in *Form ARF 120.0 Standardised – Securitisation* or *Forms ARF 120.1A to ARF 120.1C IRB – Securitisation* (as appropriate). The RWA relating to such securitisation exposures must also be reported in *Form ARF 110.0 Capital Adequacy*.
2. Where an ADI (or a member of its Level 2 consolidated group) participates in a securitisation that does not meet APRA's operational requirements for regulatory capital relief under APS 120, or the ADI elects to treat the securitised assets as on-balance sheet assets under APS 112 or *Prudential Standard APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk*, such exposures are to be reported as on-balance sheet assets in APRA's regulatory reporting returns. In addition, these exposures must also be reported as a part of

⁴ A specialist credit card institution operating through a branch in Australia is only required to partially complete this form, as detailed in the *Reporting entity* section.

⁵ Refer to paragraph 4 of *Reporting Standard ARS 112.2 Standardised Credit Risk – Off-balance Sheet Exposures*.

⁶ Securitisation exposures are defined in accordance with APS 120.

the ADI's total securitised assets within *Form ARF 120.2 Securitisation – Supplementary Items*.

Reporting period and timeframes for lodgement

The form is to be completed as at the last day of the stated reporting period (i.e. the relevant quarter). The table below sets out the number of business days after the end of the relevant reporting period, within which each class of ADI must submit data to APRA.

Class of ADI	Number of business days
Bank – Advanced or Applicant Advanced	30
Bank – Standardised	20
Branch of a Foreign Bank	20
Building Society	15
Credit Union	15
Specialist Credit Card Institution (SCCI)	15
Provider of Purchased Payment Facilities	Not applicable
Other ADI ⁷	20

An immediate parent NOHC must submit data to APRA within the same timeframe as its subsidiary ADI.

Where both "Bank – Standardised" and "Bank – Advanced or Applicant Advanced" reporting requirements and timeframes apply to an ADI

In the following cases an Australian-owned bank or a foreign subsidiary bank must meet reporting requirements and timeframes applicable to both a "Bank – Advanced or Applicant Advanced" and a "Bank – Standardised":

- (a) where the ADI is operating under the standardised approach to credit risk under APS 112, but has applied for IRB approval under APS 113, in which case the ADI will be both a "Bank – Advanced or Applicant Advanced" and a "Bank – Standardised"; and
- (b) where the ADI has received IRB approval under APS 113 in respect of most (but not all) of its operations, and has approval for partial use of the standardised approach under APS 112 for the remainder of its operations.

Such an ADI must report under ARF 112.2A (the **form**) as follows:

⁷ Cairns Penny Savings and Loans Limited is to be treated in accordance with the reporting period requirements applicable to credit unions.

Description of ADI	Reporting requirement	Timeframes for lodgement
ADI is operating under Basel II ⁸ APS 112 standardised approach, but has applied to adopt IRB approach for <u>all</u> its operations	Report under the form (for purposes of calculating credit risk component of regulatory capital for all of its operations)	“Bank – Standardised” timeframe (within 20 business days)
ADI is operating under Basel II APS 112 standardised approach, but has applied to adopt IRB approach for <u>most (but not all)</u> of its operations (or APRA has indicated that it does not propose to grant IRB approval in respect of all of the ADI’s operations)	Report under the form (for purposes of calculating credit risk component of regulatory capital for all of its operations)	“Bank – Standardised” timeframe (within 20 business days)
	Separately report under the form in respect of assets that will remain under the standardised approach (i.e. partial use) after IRB approval given (for purposes of assessing prospective credit risk component of regulatory capital calculation after IRB approval (i.e. “parallel run” of data)	“Bank – Advanced or Applicant Advanced” timeframe (within 30 business days)
ADI has IRB approval, but some operations remain under Basel II standardised approach	Report under the form in respect of operations that will remain under standardised approach (for purposes of calculating partial use credit risk component of regulatory capital)	“Bank – Advanced or Applicant Advanced” timeframe (within 30 business days)

These ADIs will also have certain reporting obligations under the ARF 113 series of reporting forms.

Unit of measurement

This form should be completed in Australian dollars (**AUD**) and in accordance with the units set out for each class of ADI in the table below.

Class of ADI	Units
Bank – Advanced or Applicant Advanced	Millions of dollars rounded to one decimal place
Bank – Standardised	Millions of dollars rounded to one decimal place
Branch of a Foreign Bank	Millions of dollars rounded to one decimal place

⁸ If an ADI is required to apply the Basel I capital adequacy standards pending APRA’s determination of an application made before 1 January 2008 for approval to use an internal ratings-based approach to credit risk and/or an advanced measurement approach to operational risk, the ADI must report under the Basel I capital reporting standards: refer to *Reporting Standard ARS 150 Capital Adequacy: Basel II Transition (Advanced ADIs)* and paragraph 14 of *Prudential Standard APS 150 Capital Adequacy: Basel II Transition (Advanced ADIs)*.

Building Society	Whole dollars with no decimal place
Credit Union	Whole dollars with no decimal place
Specialist Credit Card Institution (SCCI)	Whole dollars with no decimal place
Provider of Purchased Payment Facilities	Not applicable
Other ADI	Whole dollars with no decimal place

An immediate parent NOHC must complete this form in AUD and in accordance with the same units as its subsidiary ADI.

Amounts denominated in foreign currency are to be converted to AUD in accordance with *AASB 121 The Effects of Changes in Foreign Exchange Rates*.

Scope

The risk-weighting process used for measuring the off-balance sheet credit exposures of an ADI covers *all or part of* the ADI's off-balance sheet exposures, including both market-related and non-market related transactions that are subject to the standardised approach to credit risk, except the following specifically excluded items:

- (a) securitisation exposures, which are subject to the requirements of APS 120; and
- (b) items subject to capital requirements under *Prudential Standard APS 116 Capital Adequacy: Market Risk*. However, the trading book exposures that expose the ADI to counterparty credit risk are to be included in this form.

Definitions

In this instruction guide and its corresponding reporting form (ARF 112.2A), the following expressions have the defined meanings as set out below:

Off-balance sheet exposures

Off-balance sheet exposures are exposures that need to be converted to a credit equivalent amount (CEA) before they can be risk-weighted. Items that were treated as off-balance sheet items for the purposes of this form prior to the adoption of the Australian equivalents of the International Financial Reporting Standards (AIFRS) will continue to be treated as off-balance sheet items in the post-AIFRS context.

Netting

Netting refers to the process under a netting agreement of combining all relevant outstanding transactions between two counterparties and reducing them to a single net sum for a party to either pay or receive (refer to Attachment I to APS 112).

Specific instructions (for selected items)

Guidance on columns 1 to 4 (Section A) and 1 to 6 (Section B)

Column 1. Notional principal amount

The notional principal amount is the face value or gross amount of a given off-balance sheet transaction and not the fair value. Absolute values should be reported.

Column 2. Credit conversion factor

A credit conversion factor (CCF) is the percentage value used to convert an off-balance sheet exposure into an on-balance sheet equivalent (i.e. the CEA). CCFs are generally pre-defined in the form and correspond to the CCFs detailed in Attachment B to APS 112 for non-market-related and market-related off-balance sheet exposures. Where CCFs have not been pre-defined in the form, the ADI does not need to report a CCF as more than one CCF may have been used in relation to that exposure type (see the section below for column 3 *Credit equivalent amount*).

Column 3. Potential future exposure (Section B only)

The potential future exposure amount is calculated by multiplying the notional principal amount of a market-related contract (regardless of whether the contract has a zero, positive or negative mark-to-market value) by the relevant CCF, as detailed in Attachment B to APS 112. It represents an “add-on” component to the current exposure amount and is used in the current exposure method to calculate the CEA of market-related off-balance sheet credit exposures.

Generally, the potential future exposure amount is a derived field in the form. In some cases, however, the amount must be entered by the ADI. The potential future exposure amount for some off-balance sheet exposure types may consist of several discrete exposures, each potentially attracting different CCFs. The ADI must, by reference to Attachment B to APS 112, determine the appropriate CCF(s) to be applied to the exposure(s) to calculate the potential future exposure amount for that off-balance sheet exposure type and report the total as a single potential future exposure amount.

Column 4. Current exposure (Section B only)

The current exposure amount for each type of market-related off-balance sheet exposure is the sum of the positive mark-to-market value (or replacement cost) of each individual contract within each classification.

Column 3. Credit equivalent amount (Column 5 in Section B)

A CEA is the on-balance sheet equivalent of an off-balance sheet exposure.

Non-market-related off-balance sheet transactions

In relation to a non-market-related off-balance sheet transaction, CEA is calculated by multiplying the notional principal amount of a particular transaction by the relevant CCF.

Generally, the CEA is a derived field in the form. In some cases, however, the CEA must be entered by the ADI. The CEA for some off-balance sheet exposure types may consist of several discrete exposures, each potentially attracting different CCFs. The ADI must, by reference to Attachment B to APS 112, determine the appropriate CCF(s) to be applied to the exposure(s) to calculate the CEA for that off-balance sheet exposure type and report the total as a single CEA.

Credit derivative transactions in the banking book are classified as non-market-related off-balance sheet transactions.

Market-related off-balance sheet transactions

These include all market-related transactions held in the banking and trading books that give rise to off-balance sheet credit risk. The CEA of these transactions, whether held in the banking or trading book, must be determined by using the current exposure method. Refer to Attachment B to APS 112 for details of how to calculate CEAs for various types of transactions under the current exposure method.

Credit derivative transactions in the trading book are classified as market-related off-balance sheet transactions.

Column 4. RWA (Column 6 in Section B)

The RWA amount of a given off-balance sheet transaction that gives rise to credit exposure is calculated by multiplying the CEA of a transaction by the risk-weight applicable to the counterparty or type of assets (refer to Attachment A to APS 112). Where a transaction is secured by eligible collateral or there is an eligible guarantee, credit derivative or netting arrangement in place, the ADI may use the credit risk mitigation (**CRM**) techniques, detailed in Attachments F, G, H and I to APS 112, to reduce the capital requirement of that exposure.

Generally, the RWA is a derived field in the form. In some cases, however, the amount must be entered by the ADI. The RWA amount for some off-balance sheet exposure types may consist of several discrete exposures, each potentially attracting different risk-weights. The ADI must, by reference to Attachment A to APS 112, determine the appropriate risk-weight(s) to be applied to the exposure(s) to calculate the RWA for that off-balance sheet exposure type and report the total as a single RWA amount.

Section A: Non-market-related off-balance sheet credit exposures

Refer to Attachment B to APS 112 and *Prudential Practice Guide APG 112 Standardised Approach to Credit Risk (APG 112)* for further details of the definitions of the following non-market related transactions.

1.1 Direct credit substitutes

Include:

- (a) potential credit exposures arising from the issue of guarantees and credit derivatives;
- (b) confirmation of letters of credit;
- (c) issue of standby letters of credit serving as financial guarantees for loans, securities and any other financial liabilities;
- (d) bills endorsed under bill endorsement lines; and
- (e) any other direct credit substitutes.

1.2 Performance-related contingencies

Include:

- (a) issue of performance bonds;
- (b) bid bonds;
- (c) warranties;
- (d) indemnities; and
- (e) standby letters of credit in relation to a non-monetary obligation of a counterparty under a particular transaction.

1.3 Trade-related contingencies

Include:

- (a) documentary letters of credit issued;
- (b) acceptances on trade bills;
- (c) shipping guarantees issued; and
- (d) any other trade-related contingencies.

1.4 Lending of securities or posting of securities as collateral

Include:

- (a) repurchase/reverse repurchase agreements; and
- (b) securities lending/borrowing transactions.

1.5 Assets sold with recourse

Include any asset sales (to the extent that such assets are not included on-balance sheet) by an ADI where the holder of the asset is entitled to “put” the asset back to the ADI within an agreed period or under certain prescribed circumstances, e.g. deterioration in the value or credit quality of the asset concerned.

These transactions are risk-weighted according to the type of assets or the issuer of securities (as appropriate) and not according to the counterparty with whom the transaction is made, where the credit risk associated with the underlying asset which has been sold (temporarily with recourse) or purchased, remains with the ADI.

1.6 Forward asset purchases

Include:

- (a) commitments to purchase at a specified future date and on pre-arranged terms; and
- (b) a loan, security or other asset from another party, including written put options on specified assets with the character of a credit enhancement.

Exclude written put options expressed in terms of market rates for currencies or financial instruments bearing no credit risk.

1.7 Partly paid shares and securities

Include:

- (a) any amounts owing on the uncalled portion of partly paid shares; and
- (b) securities held by an ADI that represent commitments with certain drawdown by the issuer at a future date.

1.8 Placements of forward deposits

Include any amounts relating to placements of forward deposits. Placements of forward deposits include any agreement between an ADI and another party whereby the ADI will place a deposit at an agreed rate of interest with that party at a predetermined future date.

1.9 Note issuance and underwriting facilities

Include any note issuance and underwriting facilities. These involve arrangements whereby a borrower may drawdown funds up to a prescribed limit over a predefined period by making repeated note issues to the market and where, should the issue prove unable to be placed in the market, the unplaced amount is to be taken up or funds made available by an ADI being committed as an underwriter of the facility.

1.10 Credit derivatives used for acquiring credit risk exposure

Include any other credit derivatives used by the ADI for acquiring credit risk exposure that are not already included in item 1.1.2 *Credit derivatives – sold protection in the banking book*.

1.11 Other commitments

The guidance in this section is applicable to the following items:

- (a) *1.11.1 Commitments with certain drawdown;*
- (b) *1.11.2 Commitments with an original maturity of one year or less;*
- (c) *1.11.3 Commitments with an original maturity of over one year;*
- (d) *1.11.4 Commitments that can be unconditionally cancelled at any time without notice; and*
- (e) *1.11.5 Irrevocable standby commitments provided under APRA approved industry support arrangements.*

Where the non-market-related off-balance sheet transaction is an undrawn or partially undrawn facility, the ADI is to include the maximum unused portion of the commitment that could be drawn during the remaining period to maturity for the calculation of the CEA. Any drawn portion of a commitment forms part of an ADI's on-balance sheet credit exposure.

With regard to irrevocable commitments to provide off-balance sheet facilities, the original maturity will be measured from the commencement of the commitment up until the time the associated facility expires. For example, an irrevocable commitment, with an original maturity of six months, to provide finance with a nine-month term, is deemed to have an original maturity of 15 months.

Irrevocable commitments to provide off-balance sheet facilities are to be assigned the lower of the two applicable CCFs. For example, an irrevocable commitment with an original maturity of six months to provide a guarantee in support of a counterparty for a period of nine months attracts the 50 per cent CCF applicable to the commitment, as opposed to the 100 per cent CCF applicable to the guarantee.

Undrawn balances of revolving facilities (e.g. credit cards, overdrafts) are to be reported in item 1.11.4 *Commitments that can be unconditionally cancelled at any time without notice*.

All commitments are to be included in the capital calculation regardless of whether or not they contain “material adverse change” clauses or any other provisions that are intended to relieve an ADI of its obligations under certain conditions.

1.12 All other non-market-related off-balance sheet transactions

Include any other non-market related off-balance sheet transactions that give rise to credit risk but are not specifically identified in Attachment B to APS 112. For any

such transaction, an ADI must consult APRA on the appropriate CCF to be used for calculating the CEA of that particular transaction for capital adequacy purposes (refer to Attachment B to APS 112).

1.13 Total non-market-related off-balance sheet risk-weighted credit exposures

Derived field calculated as the sum of the RWA for all of the different transaction types in section A of this form.

Section B: Market-related off-balance sheet credit exposures

The CEA of an off-balance sheet market-related transaction, whether held in the banking or trading book, must be determined using the current exposure method, in accordance with the requirements of Attachment B to APS 112.

An ADI may net off-balance sheet claims and obligations arising from market-related contracts across both the banking and trading books, arising from contracts with a single counterparty, where the relevant obligations are covered by eligible bilateral netting arrangements (refer to Attachment I to APS 112).

Refer to APG 112 for definitions of the following types of market-related off-balance sheet transactions:

- (a) interest rate contracts;
- (b) foreign exchange and gold contracts;
- (c) equity contracts;
- (d) precious metal contracts (other than gold);
- (e) other commodity contracts (other than precious metals); and
- (f) other market-related contracts.

2.1.4 Contracts with residual maturity > 1 year that are subject to a CCF floor

For contracts that are structured to settle outstanding exposures following specified payment dates and where the terms are reset such that the mark-to-market value of the contract is zero on these specified dates, the residual maturity should be set equal to the time until the next reset date. In the case of interest rate contracts with these features with a remaining maturity of more than one year, the CCF to be applied is subject to a floor of 0.5 per cent even if there are reset dates of a shorter maturity. Such interest rate contracts are to be reported in this item.

2.1.5, 2.2.4, 2.3.4, 2.4.4, 2.5.4 & 2.6.4 Contracts with multiple exchanges of principal

For contracts with multiple exchanges of principal, the CCFs are to be multiplied by the number of remaining payments (i.e. exchanges of principal) still to be made under the contract.

2.1.6, 2.2.5, 2.3.5, 2.4.5, 2.5.5 & 2.6.5 Counterparty credit risk

An ADI must use the potential future exposure add-on factors in the calculation of the counterparty credit risk charge for single name credit default swaps and single name total-rate-of-return swaps in the trading book, as detailed in Attachment B to APS 112.

2.7 Total market-related off-balance sheet risk-weighted credit exposures

Derived field calculated as the sum of the RWA for all of the different transaction types in section B of this form.

Section C: Total off-balance sheet risk-weighted credit exposures (non-market-related and market-related)

3. Total off-balance sheet risk-weighted credit exposures

Derived field calculated as the sum of the RWA for all of the different transaction types in sections A and B of this form.