

Reporting Forms ARF 113.0A, ARF 113.0B, ARF 113.0C and ARF 113.0D

FIRB – Corporate (including SME Corporate), Sovereign and Bank

Instruction Guide

This instruction guide is designed to assist in the completion of the *FIRB – Corporate, Sovereign, Bank and SME Corporate* suite of forms. This suite of forms consists of the following:

- (a) *Form ARF 113.0A FIRB – Corporate (ARF 113.0A)*;
- (b) *Form ARF 113.0B FIRB – Sovereign (ARF 113.0B)*;
- (c) *Form ARF 113.0C FIRB – Bank (ARF 113.0C)*; and
- (d) *Form ARF 113.0D FIRB – SME Corporate (ARF 113.0D)*.

These forms capture the credit risk-weighted assets (**RWA**) and risk components of corporate (excluding specialised lending), sovereign, bank, and small- and medium-sized enterprise (**SME**) corporate exposures under the foundation internal ratings-based (**FIRB**) approach to credit risk. In completing these forms, authorised deposit-taking institutions (**ADIs**) should refer to *Prudential Standard APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk (APS 113)*. There is a separate instruction guide for *Form ARF 113.0E FIRB - Specialised Lending*.

General directions and notes

Reporting entity

These forms are to be completed at Level 1 and Level 2¹ by each ADI (subject to the following paragraph) that has APRA's approval or is seeking APRA's approval to use the FIRB approach to credit risk for its corporate (including SME corporate), sovereign and/or bank IRB asset classes, or to certain exposures within such an asset class, for capital adequacy purposes, in accordance with APS 113.

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.²

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

² Refer to paragraph 4 of *Reporting Standard ARS 113.0 Foundation Internal Ratings-based (FIRB) Approach to Credit Risk*.

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**³ 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 *Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk* or APS 113, 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 the ADI's total securitised assets within *Form ARF 120.2 Securitisation – Supplementary Items*.

Reporting period and timeframe for lodgement

These forms are to be completed as at the last day of the stated reporting period (i.e. the relevant quarter) and submitted to APRA within 30 business days after the end of the relevant reporting period.

Requirements applying to certain ADIs reporting under the forms

The following particular requirements apply to certain ADIs:

³ Securitisation exposures are defined in accordance with APS 120.

Description of ADI	Reporting requirement	Timeframe for lodgement
ADI is operating under Basel II ⁴ APS 112 standardised approach, but has applied to adopt (or APRA has indicated that it proposes to approve it for) the FIRB approach for <u>most or all</u> of its operations	Report under ARF 113.0A, ARF 113.0B, ARF 113.0C and ARF 113.0D (the forms) in respect of any relevant operations to be covered by the FIRB approach (for purposes of assessing prospective credit risk component of regulatory capital calculation after FIRB approval (i.e. “parallel run” of data))	Within 30 business days of end of reporting period
ADI has FIRB approval, but some operations remain under Basel II standardised approach	Report under the forms in respect of any relevant operations that are under the FIRB approach (for purposes of calculating credit risk component of regulatory capital)	Within 30 business days of end of reporting period

These ADIs will also have certain reporting obligations under *Form ARF 112.1A Standardised Credit Risk – On-balance Sheet Assets* and *Form ARF 112.2A Standardised Credit Risk – Off-balance Sheet Exposures*.

Unit of measurement

These forms are to be completed in millions of Australian dollars (**AUD**) rounded to one decimal place, unless otherwise specified in this instruction guide.

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

An ADI is to report in ARF 113.0A, ARF 113.0B, ARF 113.0C, ARF 113.0D:

1. all on-balance sheet and off-balance sheet corporate (excluding specialised lending), sovereign, bank and SME corporate exposures in its banking book that are subject to the FIRB approach, including those that expose the ADI to counterparty credit risk, except the following specifically excluded items (refer to APS 113):
 - (a) assets or investments that are required to be deducted from Tier 1 or Tier 2 capital under *Prudential Standard APS 111 Capital Adequacy: Measurement of Capital*; and

⁴ 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 the 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)*.

- (b) securitisation exposures, which are subject to the requirements of APS 120; and
- 2. all trading book exposures (for the relevant asset/sub-asset classes) that expose the ADI to counterparty credit risk (refer to APS 113).

Definitions

In this instruction guide and its corresponding reporting forms (ARF 113.0A, ARF 113.0B, ARF 113.0C and ARF 113.0D), the following expressions have the defined meanings as set out below:

Corporate, sovereign and bank exposures

Refer to APS 113 for the definitions of corporate, sovereign and bank exposures.

SME corporate exposures

An SME corporate exposure is defined as a credit obligation of a corporation, partnership or proprietorship that forms a part of a corporate group that has reported consolidated annual sales of less than AUD 50 million (refer to Attachment B to APS 113 for the treatment of SME corporate exposures).

Specific instructions

The following instructions are applicable at Level 1 and (where relevant) Level 2.

These forms do not calculate the RWA and expected loss (**EL**) amounts. An ADI completing these forms is required to disclose these data items based on its own regulatory capital calculations.

Section A: On-balance sheet risk-weighted assets and expected loss amount

Table 1.

Column 1. PD

Report the assigned probability of default (**PD**) as a percentage rounded to two decimal places, of each obligor grade. Where PDs are bucketed and there are multiple assigned PDs within a bucket, ADIs are to report the exposure weighted average PD of the bucket.

A PD of 100 per cent is to be assigned to all defaulted exposures.

Column 2. Exposures before CRM

Exposure at default (**EAD**) estimates are to be calculated in accordance with the FIRB approach detailed in Attachment B to APS 113.

Report exposures before credit risk mitigation (**CRM**) for each assigned PD in the relevant rows.

Column 3. Exposures after CRM

Derived field that sums up the *Exposures after CRM by LGD categories* (columns 4.1 to 4.5) for an assigned PD.

Columns 4.1 to 4.5. Exposures after CRM by LGD categories

Refer to Attachment B to APS 113 for details of the FIRB approach to the recognition of CRM.

Allocate exposures after CRM according to the following loss given default (**LGD**) categories for each assigned PD:

1. Column 4.1: Subordinated claims;
2. Column 4.2: CRE and/or RRE;
3. Column 4.3: Eligible financial receivables;
4. Column 4.4: Eligible financial collateral; and
5. Column 4.5: Senior unsecured claims.

For reporting under these five categories, the following applies:

- (a) if a claim is a subordinated claim, report the full amount of EAD after CRM in column 4.1;
- (b) if a senior claim is secured by commercial and/or residential real estate (**CRE** and/or **RRE**), the exposure should be allocated to the LGD categories as follows (refer to Attachment B to APS 113):
 - (i) where the level of collateralisation exceeds 140 per cent, report the full amount of EAD after CRM in column 4.2;
 - (ii) where the level of collateralisation is between 140 per cent and 30 per cent, the exposure is divided into fully collateralised and uncollateralised portions as detailed in Attachment B to APS 113. Report the fully collateralised portion in column 4.2 and the uncollateralised portion in column 4.5; and
 - (iii) where the level of collateralisation is below 30 per cent, the collateral is not recognised. Report the full amount of EAD after CRM in column 4.5;
- (c) if a senior claim is secured by eligible financial receivables, the exposure should be allocated to the relevant LGD categories as follows:

- (i) where the level of collateralisation exceeds 125 per cent, report the full amount of EAD after CRM in column 4.3;
- (ii) where the level of collateralisation is between 125 per cent and 0 per cent, the exposure is divided into fully collateralised and uncollateralised portions as detailed in Attachment B to APS 113. Report the fully collateralised portion in column 4.3 and the uncollateralised portion in column 4.5;
- (d) if a senior claim is secured by eligible financial collateral, report the exposure value after CRM as detailed in Attachment B to APS 113 in column 4.4. Report the uncollateralised portion in column 4.5;
- (e) for claims secured by pools of eligible collateral, the portions fully covered by eligible financial collateral and eligible financial receivables are to be reported in the respective LGD categories. In the case of a residual portion covered by CRE and/or RRE, report the exposure in column 4.5 if the ratio of the sum of the value of CRE and RRE to the residual exposure is below 30 per cent;
- (f) if a senior claim is not secured by eligible collateral, report the full amount of EAD after CRM in column 4.5.

Table 2.**Column 1. PD**

Refer to the instructions for Table 1 in section A of this instruction guide.

Column 2. Weighted average LGD

Report the exposure weighted average LGD, as a percentage rounded to two decimal places, for exposures allocated to each assigned PD in the relevant rows.

$$\text{Weighted average LGD} = \frac{\sum_i \text{LGD}_i \times \text{EAD}_i}{\sum_i \text{EAD}_i}$$

Where:

LGD_i = the LGD associated with the i^{th} exposure allocated to the assigned PD.

EAD_i = the EAD associated with the i^{th} exposure allocated to the assigned PD.

Column 3: Weighted average maturity

Report the exposure weighted average effective maturity (M), in years rounded to one decimal place, for exposures allocated to each assigned PD in the relevant rows.

$$\text{Weighted average maturity} = \frac{\sum_i M_i \times \text{EAD}_i}{\sum_i \text{EAD}_i}$$

Where:

M_i = the maturity associated with the i^{th} exposure allocated to the assigned PD.

EAD_i = the EAD associated with the i^{th} exposure allocated to the assigned PD.

Column 4: Weighted average firm size (ARF 113.0D only)

This section is relevant only to ARF 113.0D.

Report the exposure weighted average firm size for exposures allocated to each assigned PD in the relevant rows.

$$\text{Weighted average firm size} = \frac{\sum_i \text{Sales}_i \times EAD_i}{\sum_i EAD_i}$$

Where:

Sales_i = the level of annual sales associated with the i^{th} exposure allocated to the assigned PD.

EAD_i = the EAD associated with the i^{th} exposure allocated to the assigned PD.

Column 4. (Column 5 in ARF 113.0D) RWA

RWA are to be calculated in accordance with Attachment B to APS 113. Report the sum of RWA for exposures allocated to each assigned PD in the relevant rows.

Column 5. (Column 6 in ARF 113.0D) EL amount

EL amounts are to be calculated in accordance with APS 113. Report the sum of the EL amounts for exposures allocated to each assigned PD in the relevant rows.

Section B: Off-balance sheet risk-weighted assets and expected loss amount

Off-balance sheet exposures include both non-market-related (including undrawn commitments) and market-related off-balance sheet transactions.

Table 1.

Refer to the instructions for Table 1 in section A of this instruction guide for the following columns:

- (a) Column 1. PD;
- (b) Column 2. Exposures before CRM;
- (c) Column 3. Exposures after CRM; and
- (d) Columns 4.1 to 4.5 Exposures after CRM by LGD categories.

Refer to Attachment B to APS 113 for further details on the calculation of EAD for off-balance sheet exposures.

Table 2.

Refer to the instructions for Table 2 in section A of this instruction guide for the following columns:

- (a) Column 1. PD;
- (b) Column 2. Weighted average LGD;
- (c) Column 3. Weighted average maturity;
- (d) Column 4. Weighted average firm size (ARF 113.0D only);
- (e) Column 4. (Column 5. in ARF 113.0D) RWA; and
- (f) Column 5. (Column 6. in ARF 113.0D) EL amount.

Table 3. Memorandum items: breakdown of non-market-related off-balance sheet exposures

Report the breakdown of non-market-related off-balance sheet exposures, for which a credit conversion factor (CCF) other than 100 per cent is applicable under the FIRB approach (refer to Attachment B to APS 113).

Column 1. Nature of transaction

Report the nature of the non-market-related off-balance sheet transactions (e.g. commitments, direct credit substitutes, performance-related contingencies (refer to Attachment B to APS 113 for further details)). This field is limited to 80 characters.

Column 2. Notional amount

Report the notional amount (or the undrawn amount in the case of undrawn commitments) of off-balance sheet exposures after CRM in the relevant row for each transaction type listed in column 1.

Column 3. Credit equivalent amount

The credit equivalent amount is calculated by multiplying the notional amount/undrawn amount of off-balance sheet exposures for a transaction type by the appropriate CCF (refer to Attachment B to APS 113). Report the credit equivalent amounts in the relevant row for each transaction type.

Section C: Summary**Column 1. Weighted average PD**

Report the exposure weighted average PD, as a percentage rounded to two decimal places, for the non-defaulted on-balance sheet and off-balance sheet exposures in the relevant rows.

Total

Report the exposure weighted average PD, as a percentage rounded to two decimal places, for the total non-defaulted exposures within the asset/sub-asset class to which the form relates.

Column 2. Weighted average LGD

Report the exposure weighted average LGD, as a percentage rounded to two decimal places, for the non-defaulted on-balance sheet and off-balance sheet exposures in the relevant rows.

Total

Report the exposure weighted average LGD, as a percentage rounded to two decimal places, for the total non-defaulted exposures within the asset/sub-asset class to which the form relates.

Column 3. Weighted average maturity

Report the exposure weighted average maturity, in years rounded to one decimal place, for the non-defaulted on-balance sheet and off-balance sheet exposures in the relevant rows.

Total

Report the exposure weighted average maturity, in years rounded to one decimal place, for the total non-defaulted exposures within the asset/sub-asset class to which the form relates.

Column 4. Weighted average firm size (ARF 113.0D only)

Report the exposure weighted average firm size, in millions of dollars rounded to one decimal place, for the non-defaulted on-balance sheet and off-balance sheet SME corporate exposures in the relevant rows.

Total

Report the exposure weighted average firm size, in millions of dollars rounded to one decimal place, for the total non-defaulted SME corporate exposures.

Column 4. RWA (Column 5 in ARF 113.0D)

Derived fields that sum up the RWA for the on-balance sheet and off-balance sheet exposures reported in Tables 2 of sections A and B respectively.

Total

Derived field that sums up the RWA for the total on-balance sheet and off-balance sheet exposures within the asset/sub-asset class to which the form relates.

Column 5. EL amount (Column 6 in ARF 113.0D)

Derived fields that sum up the EL amounts for the on-balance sheet and off-balance sheet exposures reported in Tables 2 of sections A and B respectively.

Total

Derived field that sums up the EL amounts for the total on-balance sheet and off-balance sheet exposures within the asset/sub-asset class to which the form relates.

Section D: Memorandum items: purchased receivables (ARF 113.0A and ARF 113.0D only)

Report the breakdown of RWA and EL amount for default risk and dilution risk for all pools of purchased receivables, which are included in the calculation of RWA and EL amounts for corporate and SME corporate exposures in sections A and B of ARF 113.0A and ARF 113.0D respectively.