

# Reporting Form ARF 113.2

## IRB – Specialised Lending Supervisory Slotting

### Instruction Guide

This instruction guide is designed to assist in the completion of the *IRB – Specialised Lending Supervisory Slotting* form. This form captures the credit risk-weighted assets (**RWA**) relating to an authorised deposit-taking institution's (**ADI's**) specialised lending (**SL**) exposures for which the ADI is using the supervisory slotting approach under the internal ratings-based (**IRB**) approach to credit risk. In completing this form, ADIs should refer to *Prudential Standard APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk (APS 113)*.

### General directions and notes

#### Reporting entity

This form is to be completed at Level 1 and Level 2<sup>1</sup> by each ADI (subject to the following paragraph) that has APRA's approval or is seeking APRA's approval to use the IRB approach to credit risk, and uses or intends to use the supervisory slotting approach for one or more of its SL sub-asset classes, 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.<sup>2</sup>

#### 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;

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

<sup>2</sup> Refer to paragraph 4 of *Reporting Standard ARS 113.2 Internal Ratings-based (IRB) Approach to Credit Risk – Specialised Lending Supervisory Slotting*.

- (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**<sup>3</sup> 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**

The form is 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 form**

The following particular requirements apply to certain ADIs:

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<sup>3</sup> Securitisation exposures are defined in accordance with APS 120.

Description of ADI	Reporting requirement	Timeframe for lodgement
ADI is operating under Basel II <sup>4</sup> APS 112 standardised approach, but has applied to adopt (or APRA has indicated that it proposes to approve it for) the IRB approach for <u>most or all</u> of its operations	Report under ARF 113.2 (the <b>form</b> ) in respect of any operations to be covered by the supervisory slotting approach (for purposes of assessing prospective credit risk component of regulatory capital calculation after IRB approval (i.e. “parallel run” of data)	Within 30 business days of end of reporting period
ADI has IRB approval, but some operations remain under Basel II standardised approach	Report under the form in respect of any operations that are under the supervisory slotting 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

This form is to be completed in millions of Australian dollars (**AUD**) rounded to one decimal place.

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 this form (ARF 113.2):

1. all on-balance sheet and off-balance sheet SL exposures in its banking book that are subject to the supervisory slotting 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

<sup>4</sup> 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 SL exposures (subject to the supervisory slotting approach) that expose the ADI to counterparty credit risk (refer to APS 113).

## Definitions

In this instruction guide and its corresponding reporting form (ARF 113.2), the following expressions have the defined meanings as set out below:

### Specialised lending exposures

Refer to APS 113 and *Prudential Practice Guide APG 113 Internal Ratings-based Approach to Credit Risk (APG 113)* for details on the characteristics of the four sub-asset classes of SL - project finance, object finance, commodities finance and income-producing real estate (**IPRE**).

## Specific instructions

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

For both on-balance sheet and off-balance sheet exposures, where an ADI's IRB approval provides for the supervisory slotting approach to apply to one or more of the SL sub-asset classes, the ADI must map its internal obligor grades for those exposures to the five supervisory slotting categories (refer to Attachments B and F to APS 113).

### Section A: On-balance sheet exposures

The on-balance sheet component is the book value of the exposure gross of any specific provisions.

#### Columns 3.1 to 3.4. Exposures after CRM

All exposures are to be reported after eligible credit risk mitigation (**CRM**) (refer to Attachment B to APS 113 for details on recognition of CRM). Allocate SL exposures after CRM to the relevant sub-asset classes in columns 3.1 – 3.4 (refer to APG 113):

- (a) Column 3.1 Project finance;
- (b) Column 3.2 Object finance;
- (c) Column 3.3 Commodity finance; and
- (d) Column 3.4 Income producing real estate.

#### Column 4. Total exposures

Derived field that totals *exposures after CRM* in columns 3.1 to 3.4 for each supervisory category.

#### Column 5. RWA

Derived field that multiplies the *total exposures* (column 4) for each supervisory category by the *unexpected loss (UL) risk-weights* (column 1) corresponding to the relevant supervisory category.

#### Column 6. EL amount

Derived field that calculates eight per cent of the *total exposures* (column 4) in each supervisory category and multiplies it by the *expected loss (EL) risk-weights* (column 2) corresponding to the relevant supervisory category.

### **Section B: Off-balance sheet exposures**

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

#### Columns 3.1 to 3.4. Exposures after CRM

Off-balance sheet exposures are to be converted to on-balance sheet equivalents using the FIRB credit conversion factors (CCFs) detailed in Attachment B to APS 113.

Allocate on-balance sheet equivalent amounts of SL exposures after CRM to the relevant sub-asset classes in columns 3.1 – 3.4 (refer to APG 113).

- (a) Column 3.1 Project finance;
- (b) Column 3.2 Object finance;
- (c) Column 3.3 Commodity finance; and
- (d) Column 3.4 Income producing real estate.

#### Columns 4 to 6. Total exposures, RWA and EL amount

Refer to the instructions in section A of this instruction guide for the following items:

- (a) Column 4. Total exposures;
- (b) Column 5. RWA; and
- (c) Column 6. EL amount.