

Reporting Forms ARF 115.0A, ARF 115.0B and ARF 115.0C

Advanced Measurement Approaches (AMA) to Operational Risk

Instruction Guide

This instruction guide is designed to assist in the completion of the *Advanced Measurement Approaches (AMA) to Operational Risk* suite of forms. This suite of forms consists of the following:

- (a) *Form ARF 115.0A AMA – Regulatory Capital (ARF 115.0A)*;
- (b) *Form ARF 115.0B AMA – Operational Risk Losses – Current Six Months (ARF 115.0B)*; and
- (c) *Form ARF 115.0C AMA – Operational Risk Losses – Previous Six Months (ARF 115.0C)*.

These forms capture details of the regulatory capital required to be held by authorised deposit-taking institutions (ADIs) using the advanced measurement approaches (AMA) to operational risk. In addition, they collect information in relation to losses attributable to business lines and event types. In completing these forms, ADIs should refer to *Prudential Standard APS 115 Capital Adequacy: Advanced Measurement Approaches to Operational Risk (APS 115)*.

General directions and notes

Reporting entity

These forms are to be completed at both Level 1 and Level 2¹ by each ADI that has APRA's approval or is seeking APRA's approval to use an AMA to operational risk for capital adequacy purposes, in accordance with APS 115.

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

Securitisation deconsolidation principle

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

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 115.0 Advanced Measurement Approaches (AMA) to Operational Risk*.

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 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 risk-weighted assets 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 *Prudential Standard APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk* (as appropriate), 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 (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 114 standardised approach, but has applied to adopt (or APRA has indicated that it proposes to approve it for) the AMA for <u>most or all</u> of its operations	Report under ARF 115.0A, ARF 115.0B and ARF 115.0C (the forms) in respect of operations to be covered by the AMA (for purposes of assessing prospective operational risk component of regulatory capital calculation after AMA approval (i.e. “parallel run” of data))	Within 30 business days of end of reporting period.
ADI has AMA approval, but some operations remain under Basel II standardised approach	Report under the forms in respect of operations that are under the AMA (for purposes of calculating operational 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 114.0 Standardised – Operational Risk*.

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*.

ARF 115.0A AMA – Regulatory capital

Specific instructions

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

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 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)*.

Section A: Summary of AMA regulatory capital

1.1 AMA regulatory capital

Report the amount of AMA regulatory capital net of any insurance offsets, diversification benefits and expected loss offset amounts, in accordance with APS 115.

1.2 AMA regulatory capital before insurance offsets

An ADI may recognise the risk-mitigating effect of insurance in determining its AMA regulatory capital (refer to paragraphs 45-49 of Attachment B to APS 115).

Report the amount of AMA regulatory capital, as specified in item 1.1, after taking into account any diversification benefits and expected loss offset amounts but prior to the recognition of the insurance offset amount.

1.3 Insurance offset amount

Derived field that subtracts item 1.1 *AMA regulatory capital* from item 1.2 *AMA regulatory capital before insurance offsets*.

1.4 Insurance offsets as a percentage of AMA regulatory capital before insurance offsets

Derived field that calculates item 1.3 *Insurance offset amount* as a percentage of item 1.2 *AMA regulatory capital before insurance offsets*.

1.5 AMA regulatory capital before expected loss offsets

An ADI may recognise expected loss offsets in determining the amount of AMA regulatory capital (refer to paragraph 26 of APS 115).

Report the amount of AMA regulatory capital, as specified in item 1.1, after taking into account any insurance offset and diversification benefits but prior to the recognition of any expected loss offsets.

1.6 Expected loss offset amount

Derived field that subtracts item 1.1 *AMA regulatory capital* from item 1.5 *AMA regulatory capital before expected loss offsets*.

1.7 AMA risk-weighted asset equivalent amount

Derived field that multiplies item 1.1 *AMA regulatory capital* by 12.5.

Section B: AMA regulatory capital mapped to business line

An ADI is required to map its AMA regulatory capital (as specified in section A: item 1.1) to the following business lines:

- (a) 2.1 Corporate finance;

- (b) 2.2 Trading and sales;
- (c) 2.3 Retail banking;
- (d) 2.4 Commercial banking;
- (e) 2.5 Payment and settlement;
- (f) 2.6 Agency services;
- (g) 2.7 Asset management;
- (h) 2.8 Retail brokerage; and
- (i) 2.9 Not otherwise allocated.

Refer to Attachment D of APS 115 for further details on mapping of the AMA regulatory capital to these business lines.

Report these items net of insurance and expected loss offsets and diversification benefits, as permitted under APS 115.

The *not otherwise allocated* category is only to be used for those losses that are not able to be mapped to the business lines detailed in Attachment D to APS 115. In accordance with paragraph 25 of Attachment B to APS 115, the ADI must develop specific criteria for allocating any such losses.

Section C: AMA regulatory capital mapped to event type

An ADI is required to map its AMA regulatory capital (as specified in section A: item 1.1) to the following loss event types:

- (a) 3.1 Internal fraud;
- (b) 3.2 External fraud;
- (c) 3.3 Employment practices and workplace safety;
- (d) 3.4 Clients, products and business practices;
- (e) 3.5 Damage to physical assets;
- (f) 3.6 Business disruption; and
- (g) 3.7 Execution, delivery and process management.

Refer to Attachment E of APS 115 for further details on mapping of the AMA regulatory capital to these loss event types.

Where an ADI is unable to complete this section based on its operational risk measurement system, regulatory capital should be allocated proportionally based on the total net loss amounts by event type over the last 12 months.

ARF 115.0B AMA – Operational risk losses - Current six months and ARF 115.0C AMA – Operational risk losses – Previous six months

General guidance

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

ADIs are asked to complete the operational risk loss amounts in ARF 115.0B and ARF 115.0C in thousands of Australian dollars rounded to one decimal place.

Global reporting threshold

Unless otherwise stated in this instruction guide, the data to be reported in these forms are to be based on only those loss events which exceed an ADI's global reporting threshold. For an ADI with foreign operations, only loss events exceeding the equivalent of the global reporting threshold after currency conversion are to be reported.

Open and closed loss events

For reporting purposes, the date of the loss event is the date that the loss was discovered (**discovery date**). Both open and closed loss events are to be reported in the forms. Open events are those loss events that have been identified but may not yet have been finalised. For open loss events, the amount to be reported is the best estimate of the loss, as at the time of reporting.

Net loss amount

Net loss amount represents the gross loss amount after subtracting any non-insurance recoveries or expected recoveries. Recoveries associated with insurance should not be subtracted from the gross loss amount.

Business lines and event types

Refer to Attachments D and E to APS 115 for guidance on the business lines and event types, respectively, to which an ADI is required to map its internal loss data.

The *not otherwise allocated* category is only to be used for those losses that are not able to be mapped to the business lines detailed in Attachment D to APS 115. In accordance with paragraph 25 of Attachment B to APS 115, the ADI must develop specific criteria for allocating any such losses.

Operational risk-related credit losses

Refer to paragraphs 27-29 of Attachment B to APS 115 for guidance on operational risk-related credit losses and clarification of the treatment for capital purposes of operational risk losses related to market risk and operational risk-related credit losses.

Absence of losses

Where there has not been a loss corresponding to a specific event type within the applicable business lines, enter zero.

Specific instructions

ARF 115.0B AMA – Operational risk losses – Current six months

The current six month loss events to be reported in this form are those which have discovery dates during the current reporting quarter and the quarter prior to the current quarter.

For column 1 of sections A to F of ARF 115.0B, an ADI is required to select the applicable business lines based on its loss experience, from the dropdown lists in each section.

Section A: Number of loss events by business line and event type

Report the number of loss events according to the relevant business line and event type. Include in this section only those operational risk losses that are treated as operational risk for the purpose of calculating an ADI's regulatory capital.

Section B: Maximum single net loss amount by business line and event type

Report the largest single net loss amount for each business line and event type by dollar value. Include in this section only those operational risk losses that are treated as operational risk for the purpose of calculating an ADI's regulatory capital.

Section C: Total net loss amounts by business line and event type

Report the total net loss amount by business line and event type. Include in this section only those operational risk losses that are treated as operational risk for the purpose of calculating an ADI's regulatory capital.

Section D: Total gross loss amounts by business line and event type

Report the total gross loss amount by business line and event type prior to any recoveries. Include in this section only those operational risk losses that are treated as operational risk for the purpose of calculating an ADI's regulatory capital.

Section E: Number of operational risk-related credit loss events by business line and event type

Report the number of operational risk-related credit loss events by business line and event type. Include only those losses which exceed the threshold that the ADI has

established for operational risk-related credit losses (refer to item 7 *Memorandum item: Loss thresholds* below) and that are treated as credit risk for the purpose of calculating an ADI's regulatory capital (refer to paragraph 28 of Attachment B to APS 115).

Section F: Total net operational risk-related credit loss amounts by business line and event type

Report the total net loss amount for operational risk-related credit losses by business line and event type. Include only those losses which exceed the threshold that the ADI has established for operational risk-related credit losses (refer to item 7 *Memorandum item: Loss thresholds* below) and that are treated as credit risk for the purpose of calculating an ADI's regulatory capital (refer to paragraph 28 of Attachment B to APS 115).

7. Memorandum items: Loss thresholds

7.1 Threshold for collection of internal loss data

Report the global threshold for collection of data on internal operational risk loss events (including operational risk losses related to market risk) and the currency in which it is denominated. To report the currency, use the relevant three-letter alphabetic International Organization for Standardization (**ISO**) code⁵ (e.g. AUD, New Zealand dollar (**NZD**) and United States dollar (**USD**)).

7.2 Threshold for collection of operational risk-related credit loss data

Report the threshold for collection of data on operational risk-related credit losses and the currency in which it is denominated. To report the currency, use the relevant three-letter alphabetic ISO code.

In the event that there are multiple regional thresholds, the ADI is to report the threshold applied at the head office level of the ADI.

ARF 115.0C AMA – Operational risk losses - Previous six months

The loss events to be reported in this form are those which have discovery dates in the six months prior to those events captured in ARF 115.0B.

For column 1 of sections A to F of ARF 115.0C, an ADI is required to select the applicable business lines based on its loss experience, from the dropdown lists in each section.

For the following sections of this form, refer to the instructions for ARF 115.0B included in this instruction guide:

- (a) Section A: Number of loss events by business line and event type;

⁵ Refer to *ISO 4217 Currency names and code elements*.

- (b) Section B: Maximum single net loss amount by business line and event type;
- (c) Section C: Total net loss amounts by business line and event type;
- (d) Section D: Total gross loss amounts by business line and event type;
- (e) Section E: Number of operational risk-related credit loss events by business line and event type;
- (f) Section F: Total net operational risk-related credit loss amounts by business line and event type; and
- (g) 7. Memorandum items: Loss thresholds.