



# Response to Submissions

## Implementation of the Basel II Capital Framework

### 6. Basel II Reporting Requirements

6 February 2008

## Copyright

The material in this publication is copyright. You may download, display, print or reproduce material in this publication in unaltered form for your personal non-commercial use or within your organisation, with proper attribution given to the Australian Prudential Regulation Authority (APRA). Other than for any use permitted under the *Copyright Act 1968*, all other rights are reserved.

Requests for other uses of the information in this publication should be directed to APRA Public Affairs Unit, GPO Box 9836, Sydney NSW 2001.

© Australian Prudential Regulation Authority (2007)

## Disclaimer

While APRA endeavours to ensure the quality of this publication, APRA does not accept any responsibility for the accuracy, completeness or currency of the material included in this publication, and will not be liable for any loss or damage arising out of any use of, or reliance on, this publication.

## Preamble

The Basel II Capital Framework (the Framework) came into effect in Australia on 1 January 2008 through APRA's prudential standards and applies to all authorised deposit-taking institutions (ADIs). In conjunction with the Framework, APRA is implementing new reporting requirements. This paper discusses responses to submissions on the draft reporting requirements that were released in September 2007. The final reporting requirements are similar to those previously released, with some minor amendments to reflect relevant changes to prudential standards and feedback received during public consultation. This response to submissions addresses significant comments received and changes that have been made to the reporting forms.

The full suite of final Basel II reporting standards, forms and instructions comes into effect for the first reporting period of 2008, i.e. the quarter ending 31 March 2008. The suite is available from the APRA website at <http://www.apra.gov.au>.

# Contents

<b>Chapter 1 – Review of submissions</b>	<b>5</b>
<b>Chapter 2 – Issues for Advanced ADIs</b>	<b>6</b>
2.1 Credit margin	6
2.2 Timeframes for submission of data	6
2.3 Scaling factor	7
2.4 Repricing analysis	7
<b>Chapter 3 – Issues for all ADIs</b>	<b>8</b>
3.1 Securitisation supplementary data	8
3.2 Derivatives and liquidity data	8
3.3 Standardised approach to operational risk	8
<b>Attachment – List of Basel II Reporting Forms</b>	<b>10</b>

# Chapter 1 – Review of submissions

APRA received seven submissions on the draft Basel II reporting requirements released in September 2007. A number of the issues raised affect all ADIs; however, most submissions related to reporting issues for ADIs using or intending to use the internal ratings-based (IRB) approach to credit risk and the advanced measurement approaches (AMA) to operational risk (advanced ADIs). This paper examines the main issues raised and APRA's response in each area. It also addresses issues raised through other channels.

## Chapter 2 – Issues for Advanced ADIs

### 2.1 Credit margin

#### 2.1.1 The issues

As a component of the draft reporting requirements for advanced ADIs, APRA proposed collecting credit margin data for the IRB asset classes. Credit margin was defined for reporting purposes as the actual credit spread that is charged on assets (including any fees associated with the lending facilities) above the internal transfer pricing cost of funding these assets.

For the corporate (including specialised lending and small- and medium-sized enterprise (SME) exposures), sovereign and bank asset classes, APRA proposed collecting credit margin data at the assigned probability of default (PD) level. For the retail IRB sub-asset classes, APRA proposed collecting credit margin data at the portfolio level only.

#### 2.1.2 Comments received

Submissions received indicated that:

- significant systems changes would be required to meet the reporting requirements and ADIs would not be able to meet these in time for the first reporting period in 2008;
- the proposed method of collection did not necessarily reflect ADIs' practices for pricing loans;
- the inclusion of fees and charges associated with lending facilities was likely to raise definitional issues and lead to a lack of consistency in reporting by different ADIs; and
- the granularity of the data requirements could raise materiality issues in relation to audit requirements.

ADIs suggested that APRA consider alternative methods to collect information on the risk-return trade-off.

#### 2.1.3 APRA's prudential approach

APRA has taken into consideration the concerns raised by ADIs and, at this stage, the requirement to report credit margin data has been omitted. During the next 12 months, APRA will be seeking to gain a better understanding of ADIs' pricing practices and the positioning of the risk-return trade-off, with a view to implementing reporting requirements in this area.

### 2.2 Timeframes for submission of data

#### 2.2.1 The issues

APRA proposed that submission timeframes for the new Basel II forms remain in line with existing requirements, which for advanced ADIs would have been 20 business days.

#### 2.2.2 Comments received

Submissions claimed that a 20 business day timeframe was not achievable for many of the Basel II forms. A number of submissions argued that while some data could potentially be provided within that timeframe, it was unlikely that the data would have been through the appropriate management review processes prior to being submitted to APRA. Others highlighted that internal reconciliation processes for certain types of data occurred 20 business days after the quarter so it was not possible to provide the data to APRA within the same timeframe. Several submissions requested extensions on timeframes for specific types of data (e.g. in relation to securitisation).

#### 2.2.3 APRA's prudential approach

APRA acknowledges that the capital reporting requirements for advanced ADIs are significantly more extensive under Basel II and has decided to extend the timeframe for submission of Basel II data by advanced ADIs to 30 business days after the end of the reporting period. Nonetheless, APRA's preference remains for a shorter reporting timeframe. The timeframe will be kept under review and reassessed during 2009 as part of the broader review of the Basel II transitional arrangements for advanced ADIs. APRA will at that time consider whether the submission timeframe can be brought into alignment with the 20 business day period for other quarterly reporting.

ADIs that, under *Reporting Standard ARS 150 Capital Adequacy: Basel II Transition (Advanced ADIs)*, are required to continue reporting Basel I data must do so within the existing 20 day submission timeframe.

All other ADIs will be required to report Basel II data within the existing timeframes for capital reporting. The attachment to this paper provides a list of the Basel II reporting forms and submission timeframes.

As with current arrangements under the *Financial Sector (Collection of Data) Act 2001*, an ADI may where necessary apply to APRA for an extension of the due date for submission of data.

## 2.3 Scaling factor

### 2.3.1 The issues

Under the Basel II Framework, a scaling factor of 1.06 is to be applied to the risk-weighted asset amounts for credit risk under the IRB approach. In the draft reporting forms released by APRA, it was indicated that this scaling factor would apply to all of the credit risk exposures of an IRB-approved ADI, including the other assets, claims and exposures of the ADI that are reported on form *ARF 113.4 Other Assets, Claims and Exposures*.

### 2.3.2 Comments received

A number of submissions argued that the scaling factor should not be applied to exposures for which APRA has already determined a minimum risk-weight. In addition, ADIs expressed concern that the application of the scaling factor to the “other assets, claims and exposures” category would lead to inconsistency in the treatment of this category between the standardised and IRB approaches to credit risk, since these risk-weighted asset amounts are not scaled under the standardised approach.

One submission queried whether the scaling factor should be applied to specialised lending exposures subject to the supervisory slotting approach. Other submissions queried whether APRA has a preference for exposures to be reported pre- or post-scaling.

### 2.3.3 APRA's prudential approach

In accordance with the changes made to the final *Prudential Standard APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk*, APRA has amended the relevant reporting forms and instruction guides such that the scaling factor applies only to risk-weighted asset amounts that are derived from the IRB risk-weight functions. The scaling factor will not be applied to risk-weighted asset amounts that are derived from specific (defined) risk-weights.

For clarification, the reporting forms have been designed to accommodate reporting of exposure amounts either before or after application of the scaling factor. An ADI may determine the manner in which it wishes to report exposure amounts in the *ARF 113 Internal Ratings-based Approach to Credit Risk* (ARF 113) series of forms. Where an ADI reports the exposures prior to scaling in the ARF 113 series of forms, the ADI must then apply the scaling factor in the *ARF 110.0 Capital Adequacy* forms that summarise an ADI's capital adequacy levels.

## 2.4 Repricing analysis

### 2.4.1 The issues

APRA proposed that all ADIs begin reporting on the suite of *ARF 117.0 Repricing Analysis* (ARF 117.0) forms from the first reporting period of 2008.

### 2.4.2 Comments received

The capital-related reporting requirements for interest rate risk in the banking book do not come into effect until the reporting period beginning 1 July 2008. It was suggested that the ARF 117.0 forms should not be required by advanced ADIs until this reporting period.

### 2.4.3 APRA's prudential approach

The ARF 117.0 forms are not directly related to the capital calculation and the equivalent reporting forms in the existing ADI series (*ARF 113.1 Repricing Analysis*) form part of the current reporting requirements for all ADIs other than banks (banks until now have only been required to report on these forms where determined by APRA). APRA is of the view that all ADIs should complete this form from the first reporting period in 2008.

## Chapter 3 – Issues for all ADIs

### 3.1 Securitisation supplementary data

#### 3.1.1 The issues

As part of the proposed data collection, APRA has developed a reporting form to collect supplementary information relating to an ADI's involvement in securitisation activities. The information collected in this form is not used to calculate the regulatory capital related to an ADI's securitisation exposures. The proposed form (*ARF 120.2 Securitisation – Supplementary Items* (ARF 120.2)) includes, in section D, the requirement to provide data on income from securitisation.

#### 3.1.2 Comments received

Some submissions argued that significant systems development would be required to create a capability to report securitisation income data. In addition, submissions queried the level of detail required by the form given the data were not used for purposes of regulatory capital calculation.

#### 3.1.3 APRA's prudential approach

APRA is of the view that an ADI should have the capacity to measure its income from securitisation by type as a part of routine management reporting on the risk and return of the business. From a prudential perspective, the income items that have been retained in the form provide an indication of whether an ADI is providing support to a securitisation, the extent to which an ADI is reliant on securitisation to generate profit and coverage of its costs.

APRA, however, acknowledges the concerns raised and will not require section D of ARF 120.2 to be completed for the March 2008 quarter. The first reporting period for which ADIs will be required to provide these data will be the quarter ending 30 June 2008.

### 3.2 Derivatives and liquidity data

#### 3.2.1 The issues

In September 2007, APRA indicated that it would not continue to collect the non-capital related data items currently located in sections A and D of the existing form *ARF 112.2 Capital Adequacy: Off-Balance Sheet Business*. These sections covered data items in relation to derivatives and liquidity.

#### 3.2.2 Comments received

Submissions indicated that these data are valuable for market and industry understanding of ADIs' positions with regard to stand-by facilities, derivatives and off-balance sheet positions.

#### 3.2.3 APRA's prudential approach

In the light of recent market developments and feedback received during the consultation period, APRA considers it of value to retain this information within the data collection. Consequently, ADIs will be required to continue reporting these data items in line with current reporting requirements. APRA will, however, shift the specific data items to a new form, *ARF 118.0 Off-balance Sheet Business*.

### 3.3 Standardised approach to operational risk

#### 3.3.1 The issues

Consistent with the July 2007 draft of *Prudential Standard APS 114 Capital Adequacy: Standardised Approach to Operational Risk* (APS 114), APRA had proposed including in form *ARF 114.0 Standardised – Operational Risk* (ARF 114.0) a detailed calculation of adjusted gross income (showing certain exclusions) for the "all other activity" area of business.

#### 3.3.2 Comments received

Comments on the draft reporting form and on the final draft of APS 114 argued for the list of exclusions to be extended to include various items with similar characteristics to those already proposed for exclusion from the calculation of adjusted gross income.

### **3.3.3 APRA's prudential approach**

As detailed in *Response to Submissions: Implementation of the Basel II Capital Framework 5. Basel II Prudential Standards*, APRA indicated that it does not believe it is possible to have an exhaustive list of items that may be excluded from the calculation of adjusted gross income. APRA has included guidance on items that may be excluded from this calculation in *Prudential Practice Guide APG 114 Standardised Approach to Operational Risk*. The final ARF 114.0 has been amended to reflect this approach and does not require exclusions to be specifically identified (although APRA would expect an ADI to be able to substantiate the calculation during any prudential review).

## Attachment – List of Basel II Reporting Forms

Form number	Form name	Common, standardised or advanced	New or amendment to existing	Advanced ADIs		Standardised ADIs						
				FIRB approval	AIRB approval	Australian-owned bank	Foreign subsidiary bank	Branch of a foreign bank	Building society	Credit union	SCCI	Other ADI
				Timeframe for lodgement (business days after end of reporting quarter)								
ARF_110_0_1	Capital Adequacy (Level 1)	C	Amended	30	30	20	20	-	15	15	15	20
ARF_110_0_2	Capital Adequacy (Level 2)	C	Amended	30	30	20	20	-	15	15	15	20
ARF_112_1A	Standardised Credit Risk – On-balance Sheet Assets	S	Amended	30	30	20	20	-	15	15	15	20
ARF_112_2A	Standardised Credit Risk – Off-balance Sheet Exposures	S	Amended	30	30	20	20	20	15	15	15	20
ARF_113_0A	FIRB – Corporate	A	New	30	-	-	-	-	-	-	-	-
ARF_113_0B	FIRB – Sovereign	A	New	30	-	-	-	-	-	-	-	-
ARF_113_0C	FIRB – Bank	A	New	30	-	-	-	-	-	-	-	-
ARF_113_0D	FIRB – SME Corporate	A	New	30	-	-	-	-	-	-	-	-
ARF_113_0E	FIRB – Specialised Lending	A	New	30	-	-	-	-	-	-	-	-
ARF_113_1A	AIRB – Corporate	A	New	-	30	-	-	-	-	-	-	-
ARF_113_1B	AIRB – Sovereign	A	New	-	30	-	-	-	-	-	-	-
ARF_113_1C	AIRB – Bank	A	New	-	30	-	-	-	-	-	-	-
ARF_113_1D	AIRB – SME Corporate	A	New	-	30	-	-	-	-	-	-	-
ARF_113_1E	AIRB – Specialised Lending	A	New	-	30	-	-	-	-	-	-	-
ARF_113_2	IRB – Specialised Lending Supervisory Slotting	A	New	30	30	-	-	-	-	-	-	-
ARF_113_3A	IRB Retail – Residential Mortgages	A	New	30	30	-	-	-	-	-	-	-
ARF_113_3B	IRB Retail – Qualifying Revolving	A	New	30	30	-	-	-	-	-	-	-
ARF_113_3C	IRB Retail – Other	A	New	30	30	-	-	-	-	-	-	-
ARF_113_3D	IRB Retail – SME	A	New	30	30	-	-	-	-	-	-	-
ARF_113_4	IRB – Other Assets, Claims and Exposures	A	New	30	30	-	-	-	-	-	-	-
ARF_114_0	Standardised – Operational Risk	S	New	30	30	20	20	-	15	15	15	20
ARF_115_0A	AMA – Regulatory Capital	A	New	30	30	-	-	-	-	-	-	-

## Attachment – List of Basel II Reporting Forms

Form number	Form name	Common, standardised or advanced	New or amendment to existing	Advanced ADIs		Standardised ADIs							
				FIRB approval	AIRB approval	Foreign subsidiary bank	Branch of a foreign bank	Building society	Credit union	SCCI	Other ADI		
				Timeframe for lodgement (business days after end of reporting quarter)									
ARF_115_0B	AMA – Operational Risk Losses – Current Six Months	A	New	30	30	-	-	-	-	-	-	-	-
ARF_115_0C	AMA – Operational Risk Losses – Previous Six Months	A	New	30	30	-	-	-	-	-	-	-	-
ARF_116_0	Market Risk	C	Amended	30	30	20	20	15	15	15	15	20	20
ARF_117_0A	Repricing Analysis – Denominated in AUD	C	Amended	30	30	20	20	20	15	15	15	15	20
ARF_117_0B_1 to ARF_117_0B_9	Repricing Analysis – Denominated in FX	C	Amended	30	30	20	20	20	15	15	15	15	20
ARF_117_1	Interest Rate Risk in the Banking Book	A	New	30	30	-	-	-	-	-	-	-	-
ARF_118_0	Off-balance Sheet Business	C	New	30	30	20	20	20	15	15	15	15	20
ARF_120_0	Standardised – Securitisation	S	New	30	30	20	20	-	15	15	15	15	20
ARF_120_1A	IRB – Securitisation – Exposures subject to RBA, IAA or SF	A	New	30	30	-	-	-	-	-	-	-	-
ARF_120_1B	IRB – Securitisation – Other Securitisation Exposures	A	New	30	30	-	-	-	-	-	-	-	-
ARF_120_1C	IRB – Securitisation – Summary	A	New	30	30	-	-	-	-	-	-	-	-
ARF_120_2	Securitisation – Supplementary Items	C	New	30	30	-	-	20	15	15	15	15	20

### Notes:

1. With the exception of ARF 110.0.1 and ARF 110.0.2 where separate forms are provided for Level 1 and Level 2, all forms must be completed at both Level 1 and Level 2.
2. Advanced ADIs have more detailed reporting requirements under ARF 110.0.1 and ARF 110.0.2 (i.e. certain data items within the forms need to be completed by advanced ADIs only).
3. ADIs seeking APRA's approval to use the advanced approaches will have additional "parallel run" reporting requirements.

■ Where an ADI has approval for partial use, the ADI will have to complete the standardised forms for those portfolios or business units that are subject to the standardised approaches.

■ This form is required in relation to the Australian branch only.

■ Where an SCCI operates through a branch in Australia, this form is required in relation to the Australian branch only.



Telephone  
1300 13 10 60

Email  
[contactapra@apra.gov.au](mailto:contactapra@apra.gov.au)

Website  
[www.apra.gov.au](http://www.apra.gov.au)

Mail  
GPO Box 9836  
in all capital cities  
(except Hobart and Darwin)