9. Reporting requirements

5 September 2007
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APRA will be introducing new reporting requirements for authorised deposit-taking institutions (ADIs) with the implementation of the Basel II Capital Framework (the Framework) in Australia on 1 January 2008. This discussion paper provides an overview of the proposed reporting requirements in relation to Pillar 1 of the Framework.

Pillar 1 sets out the calculation of minimum capital requirements for credit risk, market risk and operational risk. The Framework provides for two broad approaches to the calculation of capital for each of these risk categories: relatively simple methodologies (standardised approaches) and more sophisticated approaches that rely on an ADI’s own quantitative estimates (advanced approaches).

A consultation package addressing the reporting requirements for the standardised and advanced approaches has been released in conjunction with this discussion paper. The consultation package consists of:

- draft reporting standards, setting out prudential requirements relating to the data collection;
- draft reporting forms (the Basel II forms), to be used by ADIs for submitting data; and
- draft instruction guides for the Basel II forms.

The proposed Basel II forms reflect the requirements set out in the most recent drafts (released during the period from June to August 2007) of the following prudential standards:

- **Prudential Standard APS 110 Capital Adequacy (APS 110);**
- **Prudential Standard APS 111 Capital Adequacy: Measurement of Capital (APS 111);**
- **Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk (APS 112);**
- **Prudential Standard APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk (APS 113);**
- **Prudential Standard APS 114 Capital Adequacy: Standardised Approach to Operational Risk (APS 114);**
- **Prudential Standard APS 115 Capital Adequacy: Advanced Measurement Approaches to Operational Risk (APS 115);**
- **Prudential Standard APS 116 Capital Adequacy: Market Risk (APS 116);**
- **Prudential Standard APS 117 Capital Adequacy: Interest Rate Risk in the Banking Book (Advanced ADIs) (APS 117);** and
- **Prudential Standard APS 120 Capital Adequacy: Securitisation (APS 120).**


The Basel II forms come into effect from 1 January 2008. The first submission of quarterly data required from ADIs will relate to the reporting period ending 31 March 2008. The proposed timeframes for reporting are in line with current submission dates for existing capital-related regulatory reporting. Attachment A to this discussion paper lists each of the Basel II forms, its application to the different classes of ADI and the proposed timeframes for submission of data.

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1 The exception is the reporting standard, forms and instructions relating to calculation of the capital charge for interest rate risk in the banking book (Reporting Form ARF 117.1 Interest Rate Risk in the Banking Book), which will come into effect on 1 July 2008.

Written submissions on the proposed reporting requirements should be forwarded by 5 October 2007 to:

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**Important**  
Submissions will be treated as public unless clearly marked as confidential and the confidential information contained in the submission is identified.

Submissions may be the subject of a request for access made under the Freedom of Information Act 1982 (FOIA). APRA will determine such requests, if any, in accordance with the provisions of the FOIA.
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Chapter 1 – Introduction

The Basel II Capital Framework, to be implemented in Australia from 1 January 2008, was developed to replace the existing 1988 Basel Capital Accord. It introduces regulatory capital requirements that are more comprehensive and more risk-sensitive, and therefore able to be more closely aligned with an ADI’s risk profile. The Framework is based on three mutually reinforcing pillars:

- new and considerably more sophisticated minimum capital requirements (Pillar 1);
- institutions’ own assessments of their capital adequacy and enhanced supervisory review of capital management (Pillar 2); and
- materially increased disclosure requirements (Pillar 3).

The reporting requirements set out in this discussion paper relate to Pillar 1 only. Pillar 1 sets out a hierarchy of approaches for determining the minimum capital requirements of an ADI in relation to credit risk, market risk and operational risk. These approaches can be broadly grouped into two categories: the standardised approaches and the advanced approaches. The majority of Australian ADIs will adopt the standardised approaches (standardised ADIs) while a small number of ADIs have applied to APRA for accreditation to use the advanced approaches (advanced ADIs).

The Basel II forms discussed in this paper relate to the requirements for both standardised and advanced ADIs. The proposed reporting requirements consist of a combination of amendments to existing reporting forms and the development of new reporting forms. When compared with the existing forms, the Basel II forms will, as a natural consequence of the increased risk-sensitivity of the Framework, generally require more detailed reporting.

For standardised ADIs, the reporting requirements will mainly consist of amendments to existing reporting forms. However, a number of new reporting requirements for operational risk and securitisation are proposed. For advanced ADIs, the majority of reporting requirements are new. Unlike the forms for the standardised ADIs, however, these forms are not designed to replicate an ADI’s entire regulatory capital calculation and will thus represent only a subset of that calculation.

The consultation package comprises a number of forms that are common to all ADIs and others that are specific to either the standardised or advanced ADIs. Accordingly, this paper contains separate chapters addressing the common and specific reporting requirements. The final chapter outlines other general reporting issues and some outstanding policy issues. Some particular reporting issues have also been highlighted within the relevant sections of this paper.

2 Where an ADI has approval to use a combination of the advanced approaches and standardised approaches (partial use) to credit and/or operational risk, the ADI will be required to complete the forms for the standardised approaches in relation to the portfolios or business units that are subject to the standardised approaches.
A number of Basel II forms will apply to all ADIs, irrespective of the approaches an individual ADI may be adopting to the calculation of its minimum capital requirements. This chapter provides an overview of the common reporting forms.

2.1 Capital adequacy
The proposed Reporting Forms ARF 110.0.1 Capital Adequacy (Level 1) and ARF 110.0.2 Capital Adequacy (Level 2) set out the calculation of an ADI’s capital adequacy ratio at Level 1 and Level 2. These forms will replace the existing Reporting Forms ARF 110.0 Capital Adequacy (Licensed) and ARF 110.0 Capital Adequacy (Consolidated). To maintain consistency across the industry, these forms will apply to both the standardised and advanced ADIs. However, certain data items within the forms will only be applicable to ADIs adopting particular approaches to credit risk, market risk and operational risk. This is clarified in the instructions to the proposed forms.

Key differences between the existing and proposed capital adequacy reporting requirements are:

- all deductions currently made from the total capital base will be deducted 50 per cent from Tier 1 capital and 50 per cent from Tier 2 capital;
- the inclusion of a number of additional deductions from capital;
- the inclusion of risk-weighted assets (RWA) for operational risk; and
- RWA will be summarised by the category of risk (i.e. credit, operational and market) and the approaches to each that an ADI is adopting.

Other changes to the forms, of relevance to ADIs adopting the internal-ratings based (IRB) approach to credit risk, are as follows:

- the inclusion of the treatment of any shortfall or excess in provisions over expected losses; and
- allowance for the application of the 1.06 scaling factor to the IRB credit RWA of an ADI.

2.2 Market risk
The proposed Reporting Form ARF 116.0 Market Risk (ARF 116.0) will replace the existing Reporting Form ARF 113.0 Market Risk. ARF 116.0 sets out the calculation of an ADI’s minimum capital requirement for exposures to market risk arising from positions held in the trading book, and all foreign exchange and commodity risks.

Key differences between the existing and the proposed market risk form are:

- the inclusion of additional risk categories, based on external credit assessments, for the calculation of specific risk under the standard method;
- the inclusion of an incremental default risk charge, where the value-at-risk (VaR) measure includes an estimation of the specific risk charge under the internal model approach; and
- the removal of the tables relating to the internal limits method, as the use of internal limits to measure market risk capital is not permitted under draft APS 116.

2.3 Repricing analysis
In its discussion paper on interest rate risk in the banking book (IRRBB), released on 30 March 2006, APRA highlighted its intention to implement a common reporting form for all ADIs to measure exposure to repricing risk. The existing Reporting Form ARF 113.1 Repricing Analysis (ARF 113.1) is currently completed by ADIs other than banks. Under Basel II, the proposed Reporting Forms ARF 117.0A Repricing Analysis – Denominated in AUD and ARF 117.0B Repricing Analysis – Denominated in Foreign Currency will replace the existing ARF 113.1 and the requirement to report will be extended to all ADIs.

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3 Branches of foreign banks and specialist credit card institutions operating through branches in Australia are not required to complete these forms, except as otherwise specified in this paper and the instructions to the Basel II forms.

4 Level 1 and Level 2 are defined in accordance with draft APS 110.

5 Branches of foreign banks and specialist credit card institutions operating through branches in Australia will need to complete this form for the Australian branch only.

6 Refer to footnote 5.
Key changes in the proposed repricing analysis forms are:

- the exclusion of trading securities, as any securities held for trading purposes will be required to be reported as part of the proposed ARF 116.0;
- the disclosure within the forms of the calculation of the interest rate sensitivity of the banking book;
- the provision of nine forms for the reporting of exposures in foreign currencies (currently only one foreign currency form is provided); and
- the alignment of the names of certain data items with the terminology used in draft APS 110.

2.4 Securitisation - supplementary items

APRA is proposing to introduce a new form to collect supplementary prudential information relating to an ADI’s involvement in securitisation activities. The information collected in this form will not be used in calculating the regulatory capital requirement for an ADI’s securitisation exposures. Separate forms have been proposed for the calculation of securitisation-related regulatory capital requirements for ADIs using both the standardised and IRB approaches to credit risk (refer to sections 3.2 and 4.2 of this discussion paper respectively).

The proposed Reporting Form ARF 120.2 Securitisation - Supplementary Items is designed to collect data on the following:

- total securitised assets of the ADI, irrespective of whether or not a securitisation meets the operational requirements for regulatory capital relief detailed in draft APS 120;
- securities issued by securitisation programs that are held by the ADI;
- facilities provided to securitisation programs;
- securitisation-related income; and
- transactional details of any new securitisation arrangements that the ADI enters into during the reporting quarter.

Securitisation exposures are defined in accordance with draft APS 120.
Chapter 3 – Standardised approaches to credit risk and operational risk

An ADI adopting the standardised approaches to credit risk and operational risk will be required to meet the reporting requirements discussed in this chapter. These requirements will also apply to an advanced ADI that has APRA’s approval to use a combination of the standardised and advanced approaches (partial use) to credit and/or operational risk. An ADI with partial use will be required to complete the forms for the standardised approaches in relation to the portfolios or business units that are subject to these approaches.

3.1. Standardised approach to credit risk (excluding securitisation)

Under the Framework, the standardised approach to credit risk is the simplest approach available for determining an ADI’s credit risk capital charge. Risk-weights are based on external rating grades, where available, or are defined in accordance with draft APS 112. The proposed Reporting Forms ARF 112.1 Standardised Credit Risk – On-balance Sheet Exposures (ARF 112.1) and ARF 112.2 Standardised Credit Risk - Off-balance Sheet Exposures (ARF 112.2) set out the calculation of an ADI’s credit RWA under the standardised approach. These forms will supersede the existing Reporting Forms ARF 112.1 Capital Adequacy – On-balance Sheet Business Risk-weighting Schedule and ARF 112.2 Capital Adequacy – Off-balance Sheet Business Risk-weighting Schedule, respectively.

Key changes in the proposed on-balance sheet form are:

- the increased granularity in the categories of claims, reflecting the use of risk-weights based on external rating grades;
- the classification and risk-weighting of the eligible residential mortgage portfolio on the basis of the characteristics of a loan (i.e. whether a loan is standard or non-standard, has acceptable lenders mortgage insurance and the level of the loan-to-valuation ratio); and
- the inclusion of the treatment of unsettled and failed transactions.

For the off-balance sheet form, key changes include:

- the removal of the requirement to provide supplementary information on derivative activity and liquidity support facilities; and
- the exclusion of derivative activity in the trading book. Trading book activity will be reported on the proposed ARF 116.0.

3.2. Standardised approach to credit risk - securitisation

Currently, APRA does not impose a direct capital charge for securitisation exposures. With the implementation of the Framework, ADIs will be required to hold regulatory capital specifically against securitisation exposures. The proposed Reporting Form ARF 120.0 Standardised - Securitisation (ARF 120.0) is a new form setting out the calculation of the RWA and deductions from capital relating to an ADI’s securitisation exposures under the standardised approach. Consistent with the treatment of other exposures under this approach, risk-weights are based on an exposure’s external rating grade, where available.

The form includes a risk-weighting schedule for securitisation exposures, exceptions to the general treatment of unrated securitisation exposures, the treatment of revolving exposures with early amortisation provisions and all securitisation-related deductions.

3.3. Standardised approach to operational risk

The Framework introduces a specific regulatory capital charge for an ADI’s operational risk. The proposed new Reporting Form ARF 114.0 Standardised – Operational Risk (ARF 114.0) sets out the calculation of an ADI’s operational risk regulatory capital requirement (ORRRCR) under the standardised approach.

The form consists of three sections that align with the areas of business – retail banking, commercial banking and all other activity - for which ORRRCRs are separately calculated. An ADI’s total ORRRCR is the sum of the ORRRCR for each area of business. ARF 114.0 converts the total ORRRCR to a RWA equivalent amount for use in the ADI’s capital adequacy calculation.
3.3.1 Reporting of the operational risk regulatory capital requirement at Level 2

Draft APS 114 defines the term ‘loans and advances’ for the retail and commercial banking areas of business by reference to APRA’s regulatory reporting returns. Comments received during consultation on the first release of draft APS 114 in July 2005 highlighted two main issues for ADIs with Level 2 reporting obligations. Firstly, the relevant regulatory reporting returns use an accounting rather than a prudential basis of consolidation. Secondly, the relevant returns do not provide the level of detail required to complete reporting in relation to the retail and commercial banking areas of business.

In response to this feedback, APRA is proposing that for the purposes of reporting at Level 2, an ADI map the total gross outstanding loans and advances for the retail and commercial banking areas of business to the relevant amounts reported as part of an ADI’s on-balance sheet assets at Level 2, under draft ARF 112.1. The instructions to the proposed ARF 114.0 provide further guidance on the reporting of these data items at Level 2.
Chapter 4 – Advanced approaches to credit risk, operational risk and interest rate risk in the banking book

The proposed reporting requirements addressed in this chapter are relevant only to ADIs that have been accredited by APRA to use the advanced approaches to credit risk and operational risk, and are required to hold IRRBB regulatory capital.

4.1. IRB approach to credit risk (excluding securitisation)

For the IRB approach to credit risk, APRA is proposing to collect data on the key credit risk components of each IRB asset and sub-asset class. The proposed suite of Reporting Forms ARF 113 IRB (ARF 113) is designed to collect data on measures of the probability of default (PD), loss given default (LGD), exposure at default (EAD) and effective maturity (M) (as relevant, depending on whether the ADI has adopted the Advanced IRB or Foundation IRB approach). APRA is also proposing to collect information on credit margin as part of the draft IRB forms (refer to item 4.1.1 below for further detail).

ADIs seeking accreditation to use the advanced approaches have by now been exposed to various Basel II reporting requirements in the form of quantitative impact studies (QIS) and, currently, the requirement to provide a ‘parallel run’ of data as part of the accreditation process. Unlike these reporting requirements, which reflect the regulatory capital calculation in its entirety, the proposed ARF 113 forms will collect only summary level data for some of the credit risk components. The data collected will not be sufficiently granular for calculation of the RWA and expected loss (EL) amounts within the forms. ADIs will be required to disclose these data items based on their own regulatory capital calculations.

The proposed ARF 113 suite includes the forms listed in Table 1.

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<th>Form number</th>
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4.1.1. Credit margin

For reporting purposes, credit margin is defined 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 is proposing to collect credit margin data at the assigned PD level. For retail IRB exposures, ADIs have indicated that, generally, scorecard cut-offs are used at the portfolio level, as opposed to a process of pricing for risk at the exposure level. Consequently, APRA is proposing at this stage to collect credit margin data at the portfolio level only for the retail IRB sub-asset classes.

The proposed IRB suite of forms is primarily focused on the key credit risk components. However, APRA considers it of significant prudential importance to gain an understanding of the positioning of the risk-return trade-off both for individual ADIs and across the industry more broadly. The collection of credit margin data is integral to gaining this insight.

4.2. IRB approach to credit risk - securitisation

The IRB approach to securitisation includes a hierarchy of approaches for the calculation of the regulatory capital requirement relating to an ADI’s securitisation exposures. The proposed new suite of Reporting Forms ARF 120.1 IRB – Securitisation (ARF 120.1) sets out the RWA and deductions from capital required under the different approaches.

There are three forms within the ARF 120.1 suite:

- ARF 120.1A sets out the treatment of securitisation exposures subject to the ratings-based approach (RBA), the internal assessment approach (IAA) and the supervisory formula (SF);
- ARF 120.1B includes those securitisation exposures that are not subject to the RBA, IAA or SF, revolving exposures with early amortisation provisions, and additional securitisation-related deductions; and
- ARF 120.1C summarises the RWA and deductions from capital relating to an ADI’s securitisation exposures.

4.3. Advanced measurement approaches to operational risk

Where an ADI has been accredited by APRA to adopt an advanced measurement approach (AMA) to operational risk, the ADI may determine its ORRCR based on the output of its own quantitative model. The proposed suite of Reporting Forms ARF 115.0 Advanced Measurement Approaches (ARF 115.0) collects details of an ADI’s ORRCR and requires an ADI to map its ORRCR to the business lines and operational risk loss event types (event types) defined under the Framework.

As part of the ongoing assessment of the adequacy of an ADI’s AMA model, APRA is also proposing to collect actual operational risk loss data by business lines and event types. At each submission date, ADIs will be required to provide operational risk loss data for a 12-month period in two separate forms, each relating to a six-month period.

4.3.1. Mapping of AMA regulatory capital to operational risk loss event types

Based on initial discussions, APRA is aware that some ADIs may have difficulty mapping the AMA ORRCR to the event types based on their operational risk measurement systems. As a result of this feedback, APRA has undertaken the following:

- retained in draft ARF 115.0 the requirement to map the AMA ORRCR to event types. However, where an ADI cannot complete these requirements based on its operational risk measurement systems, APRA proposes that the ORRCR be allocated proportionally based on the ADI’s total net loss amounts by event type; and
- omitted from ARF 115.0 the additional requirement that ADIs map the ORRCR to event types within each business line.
4.4. Interest rate risk in the banking book

Under draft APS 117, an ADI that is required to hold specific regulatory capital against its exposure to interest rate risk in the banking book (non-traded interest rate risk) must have APRA’s approval to adopt a non-traded interest rate risk measurement model (internal model). The proposed Reporting Form ARF 117.1 Interest Rate Risk in the Banking Book (ARF 117.1) comes into effect on 1 July 2008 and will collect data on the following:

- based on an ADI’s internal model, the components of the non-traded interest rate risk capital requirement including repricing and yield curve risks, basis risk, optionality risk, diversification benefit amount (between risks), embedded loss/gain amount and diversification benefit amount (between currencies);
- the RWA equivalent amount of the non-traded interest rate risk capital requirement, where APRA has specified an alternative approach to the calculation of an ADI’s capital requirement; and
- the impact of a standard interest rate shock on the economic value of the banking book of the ADI.
This chapter sets out APRA’s proposed requirements on the frequency of reporting and timeframes for submission of the Basel II forms. These requirements will apply to both the standardised and advanced ADIs. The chapter also addresses three outstanding policy issues: the treatment of margin lending, the treatment of exposures to related entities and capital floor transitional arrangements. The latter two issues are relevant only to advanced ADIs.

5.1. Frequency of reporting and timeframes for submission
Consistent with the existing requirements for reporting on capital adequacy, APRA is proposing to collect the Basel II forms, at both Level 1 and Level 2, on a quarterly basis for the quarters ending 31 March, 30 June, 30 September and 31 December.

Proposed timeframes for submission are as follows:

• 15 business days after the end of the relevant reporting quarter for building societies, credit unions, specialist credit card institutions and certain other ADIs; and
• 20 business days after the end of the relevant reporting quarter for all other ADIs.

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.

5.2. Outstanding policy issues

5.2.1. Margin lending
APRA has recently announced its approach to the treatment of margin lending under both the standardised and IRB approaches to credit risk. The Basel II forms included in this package do not currently reflect this proposed treatment. The relevant Basel II forms and instructions will be amended later in 2007 to incorporate the related changes to draft APS 112 and draft APS 113.

5.2.2. Exposures to related entities – advanced ADIs only
APRA is finalising its approach to the treatment of exposures to related entities under the IRB approach to credit risk. Details of the proposed approach will be released later in 2007. The Basel II forms will be updated to reflect any relevant changes to draft APS 113.

5.2.3. Capital floor transitional arrangements – advanced ADIs only
Following the implementation of the Framework on 1 January 2008, ADIs adopting the advanced approaches will be subject to a transitional floor that limits the extent to which capital levels are allowed to fall relative to what would have applied had the current Basel Capital Accord continued in force. APRA will be releasing a draft prudential standard on transitional arrangements later in 2007. The proposed reporting requirements included in this package will be updated to reflect APRA’s approach to the implementation of the capital floor.
## Attachment A – List of Basel II reporting forms

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<th>Building society</th>
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**Note:** 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.

- 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.
- By individual agreement with APRA.
- For the Australian branch only.
- Where an SCCI operates through a branch in Australia, this form is required in relation to the Australian branch only.