

Reporting Form ARF 731.3a: International Banking Statistics - Immediate and Ultimate Risk Exposures - Domestic Entity

Instructions

These instructions assist in the completion of the *Reporting Form ARF 731.3a International Banking Statistics- Immediate and Ultimate Risk Exposures -Domestic Entity* (ARF 731.3a) and is based on the Bank for International Settlements (BIS) *Guidelines for reporting the BIS international banking statistics March 2013* (BIS Guide). Reporting entities are encouraged to consult the BIS Guide for a detailed discussion of the rationale for, and uses of, the international banking statistics:

<http://www.bis.org/statistics/bankstatsguide.htm>

ARF 731.3a has two purposes:

- to provide information on the international exposures of Australian-owned banks; and
- to satisfy Australia's obligation to the BIS in providing aggregate international banking statistics for Australia. These are available, along with statistics from other countries, on its website (<http://www.bis.org/statistics/index.htm>).

ARF 731.3a is part of the international exposures forms. The four forms (listed below) make up the suite of international exposures forms.

- *Reporting Form ARF 731.1 International Banking Statistics - Locational Data* (ARF 731.1) collects data on claims and liabilities broken down by currency, counterparty sector, and counterparty country, on a domestic books basis.
- ARF 731.3a collects data on claims broken down by **counterparty country**, **maturity** and **counterparty sector** on the greater of a Level 1 or Level 2 basis.
- *Reporting Form ARF 731.3b International Banking Statistics - Immediate and Ultimate Risk Exposures – Foreign Entity* (ARF 731.3b) collects data on claims broken down by **counterparty country**, **maturity** and **counterparty sector** on a domestic book basis.
- *Reporting Form ARF 731.4 International Banking Statistics - Balance Sheet Items* (ARF 731.4) collects a small number of balance sheet items for Australian-owned banks on the greater of Level 1 or Level 2 basis.

Australian-owned banks complete ARF 731.1, ARF 731.3a and ARF 731.4.

Foreign subsidiary banks and branches of foreign banks complete ARF 731.1 and ARF 731.3b.

Reporting level

ARF 731.3a is to be completed by all Australian-owned banks. Data are to be reported on a Level 2 consolidated basis (or Level 1 where there is no Level 2 entity).

Australian-owned banks should report consolidated data on cross-border claims of their offices worldwide, and the claims of their foreign affiliates on residents of the countries where the affiliates are located. Australian-owned banks should also report positions vis-à-vis residents of Australia i.e. total domestic claims.

Reporting entities should also include claims in all currencies including AUD vis-à-vis residents of Australia.

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; and
 - (b) the assets and liabilities of the relevant SPVs may be excluded from the bank's reported amounts in ARF 731.3a.
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*, such exposures are to be reported as on-balance sheet assets in ARF 731.3a.

Reporting basis and unit of measurement

ARF 731.3a should be completed as at the last day of the stated quarter (i.e. March, June, September and December). Australian-owned banks should submit the completed return to APRA within 28 calendar days after the end of the reporting quarter.

Australian-owned banks are to complete the return in AUD millions to three (3) decimal places (with the data formatted to the nearest million).

Amounts denominated in foreign currency are to be converted to AUD in accordance with *AASB 121 The Effects of Changes in Foreign Exchange Rates* (AASB 121).

Report all items on ARF 731.3b in accordance with Australian Accounting Standards

unless otherwise specified.

Resident and non-resident

The criterion for residency is whether an entity is permanently located, physically and/or by way of law or registration, inside or outside a country's borders.

Foreign branches or subsidiaries of Australian institutions are classified as *non-residents* (making them residents of the country in which they operate), while branches or subsidiaries of foreign institutions operating in Australia are classified as *residents*.

Netting of assets and liabilities

Positions should generally be reported on a gross basis. However, reporting entities that are head offices exclude their claims on affiliates in any other country (as the data is reported on a consolidated basis).

This does not apply to *derivative contracts*.

Valuation

Assets and liabilities should be measured in accordance with Australian accounting standards.

Note: International financial claims should be reported gross of specific provisions and General Reserve for Credit Losses as defined by *Prudential Standard APS 220 Credit Quality*. Provisions and reserves are not to be included in ARF 731.1, ARF 731.3a or ARF 731.3b.

When reporting the data, reporting entities should also ensure that all figures be prepared in accordance with applicable Australian accounting principles.

As a general rule, it is recommended that financial claims belonging to the banking book be valued at face values or cost prices and financial claims belonging to the trading book be valued at market or fair values which is largely consistent with *AASB 139 Financial Instruments: Recognition and Measurement*.

Financial claims resulting from derivative contracts should be valued at fair values (i.e. current credit exposure calculated as the sum of all positive fair values of derivative contracts outstanding after taking account of legally enforceable bilateral netting agreements) as this ensures consistency not only with the BIS OTC derivatives statistics but also with the valuation principles for all other on- and off-balance sheet items in the BIS international financial statistics. Negative fair values of derivative contracts are considered to represent financial liabilities and are therefore by definition excluded from the reporting of financial claims.

Contingent liabilities resulting from guarantees and credit commitments should be valued at face values or the maximum possible exposure.

Background to the international exposures forms

There are two main sets of international banking data: the locational and consolidated banking statistics.

The *locational statistics* (collected on ARF 731.1) collect data on the domestic book international financial claims (assets) and liabilities of resident banks .

The *consolidated statistics* (collected on ARF 731.3a, ARF 731.3b and ARF 731.4) collects data on international on-balance sheet (and selected off-balance sheet) financial claims (i.e. contractual lending) of banks vis-à-vis the rest of the world and provides a measure of the risk exposure of lender's national banking systems. The data mainly cover contractual lending by the head office and all its branches and subsidiaries on a global consolidated basis, net of inter-office accounts. These statistics also provide information on the maturity (i.e. liquidity) and sector risk distribution of reporting entities' contractual lending.

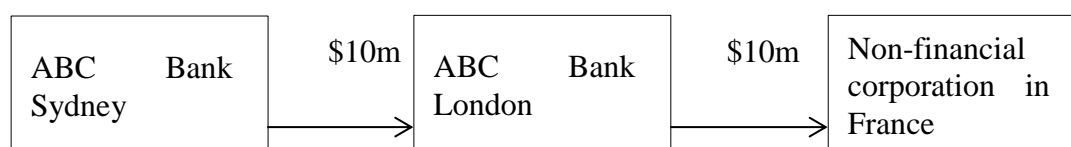
As reporting entities' country risk exposures can differ substantially from that of contractual lending, information on claims on an ultimate risk basis is also collected. Claims on an ultimate risk factor in risk transfers such as guarantees and collateral.

The key difference between the two sets of BIS banking data is based upon the concept of residency. Locational data show the claims and liabilities of banks located in Australia vis-à-vis entities located in other countries, including inter-office positions, and domestic entities.

The *consolidated data* show the total claims of a reporting entity groups' global offices, including the claims of their domestic and foreign affiliates. Claims between offices of the same entity group are netted out.

The differences between locational and consolidated are highlighted in an example in Figure 1. ABC Bank (headquartered in Sydney) has lent \$10 million to a non-financial corporation located in France routed via its branch office in London.

Figure 1: Flow of funds and BIS locational and consolidated banking data



The implications of this transaction for the BIS data are as follows:

Locational data:

Australian resident bank (i.e. ABC Bank Sydney) will report to APRA a \$10 million increase in locational claims on UK resident banks (ABC Bank London).

The UK resident bank will report to the UK regulator a \$10 million increase in locational claims on a non-financial corporation resident in France.

Consolidated data:

Australian resident reporting entities (i.e. ABC Bank, Sydney) will report a \$10 million increase in consolidated claims on a non-bank financial corporation resident in France.

Specific instructions

Terms highlighted in ***bold italics*** indicate that the definition is provided in these instructions.

Part A: Claims on an immediate borrower basis: by remaining maturity and country

<p>Item 1</p>	<p>In item 1 column 1, report the <i>country</i> of the <i>immediate borrower claims</i>.</p> <p>In item 1 column 2, report the <i>immediate borrower claims</i> for the selected <i>country</i> with a residual <i>maturity</i> of less than or equal to three months.</p> <p>In item 1 column 3, report the <i>immediate borrower claims</i> for the selected <i>country</i> with a residual <i>maturity</i> of greater than three months and less than or equal to 12 months.</p> <p>In item 1 column 4, report the <i>immediate borrower claims</i> for the selected <i>country</i> with a residual <i>maturity</i> of greater than 1 year and less than or equal to 2 years.</p> <p>In item 1 column 5, report the <i>immediate borrower claims</i> for the selected <i>country</i> with a residual <i>maturity</i> of greater than 2 years and less than or equal to 5 years in.</p> <p>In in item 1 column 6report the <i>immediate borrower claims</i> for the selected <i>country</i> with a residual <i>maturity</i> of greater than 5 years.</p> <p>Column 7 is derived as:</p> <ul style="list-style-type: none"> • column 8 total <i>immediate borrower claims</i>; less • the sum of columns 1-6. <p>In item 1 column 8, report the total <i>immediate borrower claims</i> for the selected <i>country</i>.</p>
	<p>Item 1.1 column 2 is derived as the total <i>immediate borrower claims</i> with a residual <i>maturity</i> of less than or equal to three months for all <i>countries</i>.</p> <p>Item 1.1 column 3 is derived as the total <i>immediate borrower claims</i> with a residual <i>maturity</i> of greater than three months and less than or equal to 12 months for all <i>countries</i>.</p> <p>Item 1.1 column 4 is derived as the total <i>immediate borrower claims</i> with a residual <i>maturity</i> of greater than 12 months and less than or equal to 2 years for all <i>countries</i>.</p> <p>Item 1.1 column 5 is derived as the total <i>immediate borrower claims</i> with a residual <i>maturity</i> of greater than 2 years and less than or equal to 5 years for all <i>countries</i>.</p>

	<p>Item 1.1 column 6 is derived as the total <i>immediate borrower claims</i> with a residual <i>maturity</i> of greater than 5 years for all <i>countries</i>.</p> <p>Item 1.1 column 7 is derived as the total <i>immediate borrower claims</i> with an unallocated residual <i>maturity</i> for all <i>countries</i>. Avoid reporting large amounts as unallocated.</p> <p>Item 1.1 column 8 is derived as the total <i>immediate borrower claims</i> for all <i>countries</i>.</p>
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Part 2: Claims on an immediate borrower basis: by sector of borrower and country

Item 2	<p>In item 2 column 1, report the <i>country</i> of the <i>immediate borrower claims</i>.</p> <p>In item 2 column 2, report the <i>immediate borrower claims</i> on <i>banks</i> for the selected <i>country</i>.</p> <p>In item 2 column 3, report the <i>immediate borrower claims</i> on <i>central banks</i> for the selected <i>country</i>.</p> <p>In item 2 column 4, report the <i>immediate borrower claims</i> on <i>general government</i> counterparties for the selected <i>country</i>.</p> <p>In item 2 column 5, report the <i>immediate borrower claims</i> on <i>non-bank financial institutions</i> for the selected <i>country</i>.</p> <p>In item 2 column 6, report the <i>immediate borrower claims</i> on <i>non-financial corporations</i> for the selected <i>country</i>.</p> <p>In item 2 column 7, report the <i>immediate borrower claims</i> on <i>households and NPISHs</i> for the selected <i>country</i>.</p> <p>Column 8 is derived as:</p> <ul style="list-style-type: none"> • column 9 total <i>immediate borrower claims</i>; less • the sum of columns 1-7. <p>In item 2, column 9, Report the total <i>immediate borrower claims</i> for the selected <i>country</i>.</p> <p>In item 2 column 10, report the <i>local claims</i> on the <i>immediate borrower</i> in foreign currencies for the selected <i>countries</i>. For example, report the claims of a New Zealand subsidiary which are not in New Zealand dollars.</p>
	Item 2.1 column 2 is derived as the total <i>immediate borrower claims</i> on <i>banks</i> for all <i>countries</i> .

	<p>Item 2.1 column 3 is derived as the total <i>immediate borrower claims</i> on <i>central banks</i> for all <i>countries</i>.</p> <p>Item 2.1 column 4 is derived as the total <i>immediate borrower claims</i> on <i>general government</i> counterparties for all <i>countries</i>.</p> <p>Item 2.1 column 5 is derived as the total <i>immediate borrower</i> on <i>non-bank financial institutions</i> for all <i>countries</i>.</p> <p>Item 2.1 column 6 is derived as the total <i>immediate borrower claims</i> on <i>non-financial corporations</i> for all <i>countries</i>.</p> <p>Item 2.1 column 7 is derived as the total <i>immediate borrower claims</i> on <i>households and NPISHs</i> for all <i>countries</i>.</p> <p>Item 2.1 column 8 is derived as the total <i>immediate borrower claims</i> with an unallocated counterparty <i>sector</i> for all <i>countries</i>.. Avoid reporting large amounts as unallocated.</p> <p>Item 2.1 column 9 is derived as the total <i>immediate borrower claims</i> for all <i>countries</i>.</p> <p>Item 2.1 column 10 is derived as the total <i>local claims</i> in foreign currencies for all <i>countries</i>..</p>
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Part C: Claims and liabilities on an immediate borrower basis: local currency positions by sector of borrower and country

Item 3	<p>In item 3 column 1, report the <i>country</i> of the <i>local currency</i> position on an <i>immediate borrower</i> basis.</p> <p>In item 3 column 2, report the <i>immediate borrower, local claims</i> in <i>local currency</i> on <i>banks</i> in for the selected <i>country</i>.</p> <p>In item 3 column 3, report the <i>immediate borrower, local claims</i> in <i>local currency</i> on <i>central banks</i> for the selected <i>country</i>.</p> <p>In item 3 column 4, report the <i>immediate borrower, local claims</i> in <i>local currency</i> on <i>general government</i> counterparties for the selected <i>country</i>.</p> <p>In item 3 column 5, report the <i>immediate borrower, local claims</i> in <i>local currency</i> on <i>non-bank financial institutions</i> for the selected <i>country</i>.</p> <p>In item 3 column 6, report the <i>immediate borrower, local claims</i> in <i>local currency</i> on <i>non-financial corporations</i> for the selected <i>country</i>.</p>
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	<p>In item 3 column 7, report the <i>immediate borrower, local claims</i> in <i>local currency</i> on <i>households and NPISHs</i> for the selected <i>country</i>.</p> <p>Column 8 is derived as:</p> <ul style="list-style-type: none"> • column 9 total <i>immediate borrower, local claims</i> in <i>local currency</i>; less • the sum of columns 1-7. <p>In item 3 column 9, report the total <i>immediate borrower, local claims</i> in <i>local currency</i> for the selected <i>country</i>.</p> <p>In item 3 column 10, report the <i>local liabilities</i> in <i>local currencies</i> for the selected <i>countries</i>.</p>
	<p>Item 3.1 column 2 is derived as the total <i>immediate borrower, local claims</i> in <i>local currency</i> on <i>banks</i> for all <i>countries</i>.</p> <p>Item 3.1 column 3 is derived as the total <i>immediate borrower, local claims</i> in <i>local currency</i> on <i>central banks</i> for all <i>countries</i>.</p> <p>Item 3.1 column 4 is derived as the total <i>immediate borrower, local claims</i> in <i>local currency</i> on <i>general government</i> counterparties for all <i>countries</i>.</p> <p>Item 3.1 column 5 is derived as the total <i>immediate borrower, local claims</i> in <i>local currency</i> on <i>non-bank financial institutions</i> for all <i>countries</i>.</p> <p>Item 3.1 column 6 is derived as the total <i>immediate borrower, local claims</i> in <i>local currency</i> on <i>non-financial corporations</i> for all <i>countries</i>.</p> <p>Item 3.1 column 7 is derived as the total <i>immediate borrower, local claims</i> in <i>local currency</i> on <i>households and NPISHs</i> for all <i>countries</i>.</p> <p>Item 3.1 column 8 is derived as the total <i>immediate borrower, local claims</i> in <i>local currency</i> with an unallocated counterparty <i>sector</i> for all <i>countries</i>.</p> <p>Item 3.1 column 9 is derived as the total <i>immediate borrower, local claims</i> in <i>local currency</i> for all <i>countries</i>.</p> <p>Item 3.1 column 10 is derived as the total <i>local liabilities</i> in <i>local currencies</i> for all <i>countries</i>.</p>

Part D: Risk transfers

Item 4	<p>In item 4 column 1, report the <i>country</i> of the <i>risk transfer</i>.</p> <p>In item 4 column 2, report the <i>outward risk transfers</i> for the selected <i>country</i>.</p> <p>In item 4 column 3, report the <i>inward risk transfers</i> for the selected <i>country</i>.</p> <p>In item 4 column 4 is derived as the net of <i>outward risk transfer</i> and <i>inwards risk transfer</i> for the selected <i>country</i>.</p>
	<p>Item 4.1 column 2 is derived as the total <i>outward risk transfers</i>.</p> <p>Item 4.1 column 3 is derived as the total <i>inward risk transfers</i>.</p> <p>Item 4.1 column 4 is derived as the total <i>net transfer of risk</i>.</p>

Part E: Claims on an ultimate risk basis

Item 5	<p>In item 5 column 1, report the <i>country</i> of the <i>ultimate risk claims</i>.</p> <p>In item 5 column 2, report the <i>ultimate risk claims</i> on <i>banks</i> for the selected <i>country</i>.</p> <p>In item 5 column 3, report the <i>ultimate risk claims</i> on <i>central banks</i> for the selected <i>country</i>.</p> <p>In item 5 column 4, report the <i>ultimate risk claims</i> on <i>general government</i> counterparties for the selected <i>country</i>.</p> <p>In item 5 column 5, report the <i>ultimate risk claims</i> on <i>non-bank financial institutions</i> for the selected <i>country</i>.</p> <p>In item 5 column 6, report the <i>ultimate risk claims</i> on <i>non-financial corporations</i> for the selected <i>country</i>.</p> <p>In item 5 column 7, report the <i>ultimate risk claims</i> on <i>households and NPISHs</i> for the selected <i>country</i>.</p> <p>Item 5 column 8 is derived as:</p> <ul style="list-style-type: none"> • column 9 total <i>ultimate risk claims</i>; less • the sum of columns 1-7. <p>In item 5 column 9, report the total <i>ultimate risk claims</i> for the selected <i>country</i>.</p> <p>In item 5 column 10, report the <i>cross-border claims</i> on an <i>ultimate risk</i> basis for the selected <i>countries</i>.</p>
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	In item 5 column 11, report the <i>local claims</i> on an <i>ultimate risk</i> basis for the selected <i>countries</i> .
	<p>Item 5.1 column 2 is derived as the total <i>ultimate risk claims</i> on <i>banks</i> for all <i>countries</i>.</p> <p>Item 5.1 column 3 is derived as the total <i>ultimate risk claims</i> on <i>central banks</i> for all <i>countries</i>.</p> <p>Item 5.1 column 4 is derived as the total <i>ultimate risk claims</i> on <i>general government</i> counterparties for all <i>countries</i>.</p> <p>Item 5.1 column 5 is derived as the total <i>ultimate risk claims</i> on <i>non-bank financial institutions</i> for all <i>countries</i>.</p> <p>Item 5.1 column 6 is derived as the total <i>ultimate risk claims</i> on <i>non-financial corporations</i> for all <i>countries</i>.</p> <p>Item 5.1 column 7 is derived as the total <i>ultimate risk claims</i> on <i>households and NPISHs</i>.</p> <p>Item 5.1 column 8 is derived as the total <i>ultimate risk claims</i> with an unallocated counterparty <i>sector</i> for all <i>countries</i>. Avoid reporting large amounts as unallocated.</p> <p>Item 5.1 column 9 is derived as the total <i>ultimate risk claims</i> for all <i>countries</i>.</p> <p>Item 5.1 column 10 is derived as the total <i>cross-border claims</i> on an <i>ultimate risk</i> basis for all <i>countries</i>.</p> <p>Item 5.1 column 11 is derived as the total <i>local claims</i> on an <i>ultimate risk</i> basis for all <i>countries</i>.</p>

Part F: Derivative contracts, guarantees and credit commitments

Item 6	<p>In item 6 column 1, report the <i>country</i> of the <i>derivative contracts</i>, <i>guarantees</i> and/or <i>credit commitments</i>.</p> <p>.</p> <p>In item 6 column 2, report the <i>derivative contracts</i> in a net asset position vis-à-vis the selected <i>country</i>.</p> <p>In item 6 column 3, report the <i>guarantees</i> vis-à-vis the selected <i>country</i>.</p> <p>In item 6 column 4, report the <i>credit commitments</i> vis-à-vis the selected <i>country</i>.</p>
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	<p>Item 6.1 column 2 is derived as the total <i>derivative contracts</i> in a net asset position for all <i>countries</i>.</p> <p>Item 6.1 column 3 is derived as total <i>guarantees</i> for all <i>countries</i>.</p> <p>Item 6.1 column 4 is derived as total <i>credit commitments</i> for all <i>countries</i>.</p>
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Definitions

Banks refers to banks excluding central banks. For the purposes of ARF 731.3a, central banks and multilateral development banks are included in the *official sector*.

Claims refers to:

1. Australian offices' local claims on Australian residents. For example, any local claim of the Sydney office of an Australian-owned bank on a borrower resident in Australia;
2. Australian offices' cross-border claims on non-residents. For example, any claim of the Sydney office of an Australian-owned bank on a borrower resident in New Zealand;
3. Foreign offices of Australian-owned banks' local claims on non-residents. For example, any claim of the New Zealand branch of an Australian-owned bank on a borrower resident in New Zealand; and
4. Foreign offices of Australian-owned banks' cross-border claims on non-residents - for example, any claim of the New Zealand branch of an Australian-owned bank on a borrower resident in the United States.)

The data on financial claims should comprise all those balance sheet items, which represent claims on residents in other individual countries or economies. As in the *locational statistics*, the principal items are deposits and balances placed with banks, loans and advances to banks and non-banks, holdings of securities (including credit linked notes and other collateral debt obligations and asset-backed securities) and participations. If derivatives are booked as on-balance sheet items, they should not be reported as part of the item 'On-balance sheet financial claims', but separately under the *derivative contracts* item.

Central banks refer to central banks, including the RBA, BIS, the European Central Bank, and other official monetary authorities. A complete list of central banks is maintained on the BIS website at <http://www.bis.org/statistics/bankstatsguide.htm>

Counterparty sector refers to the economic sector of the counterparty of the financial instrument. There are six counterparty sectors to be reported:

- **Banks;**
- **Central banks**
- **General government;**
- **Non-bank financial institution;**
- **Non-financial corporations;**
- **Households and non-profit institutions serving households (NPISHs);** and
- **Unallocated sector.**

Country refers to where the counterparty of the financial instrument is domiciled.

Also listed are several regional residual entries (e.g. 'Residual Asia', 'Residual Europe')

etc.). If a reporting entity has an exposure or liability to a country not already listed, allocate the data to the relevant 'Residual' entry. If this is not possible either, the data should be assigned to the unallocated country.

Countries are as per ISO 3166, available at http://www.iso.org/iso/country_codes

Credit commitments represent arrangements that irrevocably obligate an institution, at a client's request, to extend credit in the form of loans, participation in loans, lease financing receivables, mortgages, overdrafts, other loan substitutes, commitments to extend credit in the form of the purchase of loans, securities or other assets, such as back-up facilities including those under note issuance facilities and revolving underwriting facilities.

Cross-border claims refers to **claims** of an Australian office on non-residents, and offshore offices on counterparties which are not residents of the host country (for example, the claims of a New Zealand domiciled subsidiary on both Australian residents and residents of any other country).

Derivative contracts includes all derivatives instruments with a positive fair value, independent of whether the derivative contracts are booked as off- or on-balance sheet items. The data should be reported on a level 2 consolidated and **ultimate risk** basis i.e. inter-office positions should be netted out and the positions should be allocated to the country where the final risk lies.

However, credit derivatives, such as credit default swaps and total return swaps, should only be reported under the derivative contracts item if they belong to the trading book of a protection buying reporting entity. Credit derivatives which belong to the banking book should be reported as **risk transfers** by the protection buyer and, all credit derivatives should be reported as **guarantees** by the protection seller.

Financial claims resulting from derivative contracts should be valued at fair values (i.e. current credit exposure calculated as the sum of all positive fair values of derivative contracts outstanding after taking account of legally enforceable bilateral netting agreements) as this ensures consistency not only with the BIS OTC derivatives statistics but also with the valuation principles for all other on- and off-balance sheet items in the BIS international financial statistics. Negative fair values of derivative contracts are considered to represent financial liabilities and are therefore by definition excluded from the reporting of **claims**.

Note this definition of derivative contracts differs to that used in ARF 731.1.

Foreign currency refers to **claims** or liabilities of an Australian office not in AUD, and claims of offshore offices not in the currency of the host country (for example, claims of a New Zealand domiciled subsidiary that are denominated in AUD or USD).

General government refers to federal, state and local government and social security funds both in Australia and overseas (the general government sector), and non-profit institutions financed by general government. Exclude public **non-bank financial institutions** and public **non-financial corporations**. These should be classified as non-bank financial institutions or non-financial private sector, respectively. Exclude central banks and international organisations (including multilateral development banks).

These should be classified as *central banks*.

Guarantees represent contingent liabilities arising from an irrevocable obligation to pay to a third party beneficiary when a client fails to perform some contractual obligations. They include secured, bid and performance bonds, warranties and indemnities, confirmed documentary credits, irrevocable and stand-by letters of credits, acceptances and endorsements. Guarantees also include the contingent liabilities of the protection seller of credit derivative contracts.

Guarantees should be reported to the extent that they represent the unutilised portions of both binding contractual obligations and any other irrevocable commitments. Performance bonds and other forms of guarantee should only be reported if, in the event of the contingency occurring, the resulting claim would have an impact on total cross-border claims and local claims in any currency.

Immediate borrower claims refers to all on-balance sheet financial *claims* of the Level 2 consolidated group, excluding derivative contracts and lending of securities, gold and other precious metals without cash collateral.

Inwards risk transfer is a *risk transfer* that reallocates the claim into the country being reported. Examples of risk transfers are shown in the attachment.

Local claims refers to *claims* of an Australian office on Australian residents, and claims of offshore offices on residents of the host country (for example, the claims on New Zealand residents of a New Zealand domiciled subsidiary).

Local currency refers to *claims* or liabilities of an Australian office in AUD, and claims of offshore offices in the currency of the host country (for example, of a New Zealand domiciled subsidiary denominated in NZD).

Local liabilities refers to the liabilities of an Australian office on Australian residents, and liabilities of offshore offices on residents of the host country (for example, the liabilities on New Zealand residents of a New Zealand domiciled subsidiary).

Maturity refers to the residual maturity of on-balance *claims*.

- Claims are to be entered according to their remaining maturity.
- Deposits that are repayable on demand should be allocated to the shortest maturity bracket.
- Overdue items should be allocated to the shortest maturity bracket (i.e. '< 3 months').
- Claims that cannot be classified by maturity, such as equity and participations, should be assigned to a residual category 'unallocated'.
- Remaining maturities should be defined on the basis of the time to final payment of the relevant claim.
- The maturity classification of revolving credit facilities should be based on the

term to loan rollover, which would typically be in the '< 3 months' maturity bracket.

- Overdrafts should be allocated to the shortest maturity bracket (i.e. '< 3 months').

Net transfer of risk is the net of *outwards risk transfer* and *inwards risk transfer* for a given country.

Non-financial corporations refers to both public and private non-financial corporations and unincorporated enterprise, such as partnerships and branches of foreign corporations.

Non-bank financial institutions refers to private or public financial institutions which are not banks, engaged primarily in the provision of financial services and activities auxiliary to financial intermediation, such as fund management. Include special purpose vehicles, hedge funds, securities brokers, money market funds, pension funds, insurance companies, financial leasing corporations, central clearing counterparties, unit trusts, other financial auxiliaries and other captive financial institutions. Also include any public financial institutions such as development banks and export credit agencies.

Outwards risk transfer is a *risk transfer* that reallocates the claim from the country being reported. Examples of risk transfers are shown in the attachment.

Risk transfers refers to where *claims* that has been reallocated from the country of the *immediate borrower* to the country of *ultimate risk* as a result of *guarantees*, collateral, and credit derivatives which are part of the banking book. This includes risk-transfers between different economic sectors in the same country.

The information on the reallocation of claims should be reported as net risk transfers, i.e. the difference of reallocated claims that increase the exposure (inward risk transfers) and those, which reduce the exposure (outward risk transfers) vis-à-vis a given country. All outward and inward risk transfers should add up to the same total.

The risk reallocation should also cover loans to domestic borrowers that are guaranteed by foreign entities that therefore represent inward risk transfers and increase the exposure to the country of the guarantor. Equally foreign lending that is guaranteed by Australian entities (e.g. a domestic export credit agency such as the Export Finance and Insurance Corporation) should be reported as an outward risk transfer, which reduces the exposure to the country of the foreign borrower.

In summary, there are four potential forms of risk reallocation:

- i. Lending to a non-resident that is guaranteed by a non-resident third party.

In this case both the outward risk transfer from the original borrower and the risk transfer to the guarantor have to be reported.

- ii. Lending to a non-resident that is guaranteed by an Australian resident third party.

In this case both the outward risk transfer from the original non-resident borrower has to be reported as well as the inward risk transfer to Australia.

- iii. Lending to a resident that is guaranteed by a non-resident third party.

In this case, report the outward risk transfer from Australia as well as the inward risk transfer to the non-resident guarantor.

- iv. Lending to a non-resident where the exposure is extinguished by receiving a cash collateral.

In this case only the outward risk transfer from the original non-resident borrower has to be reported (but no inward risk transfer to Australia).

Examples of risk transfers are shown in the attachment.

Ultimate risk claims refers to **claims** allocated to country where the final risk lies, that is the country in which the guarantor of a financial claim resides and/or the country in which the head office of a legally dependent branch is located. Collateral may be considered as an indicator of where the final risk lies to the extent that is recognised as a risk mitigant under the Basel Committee on Banking Supervision's capital framework.

Similarly, if credit derivatives are used to cover the counterparty risk of financial claims in the banking book, the country of ultimate risk of these positions is defined as the country in which the counterparty to the credit derivative contract resides.

In case of holdings of credit linked notes, collateral debt obligations and asset-backed securities a 'look-through' approach should be adopted. The country of ultimate risk is defined as the country where the debtor of the underlying credit, security or derivative contract resides.

It is recognised that this 'look-through' approach might not always be possible for practical reasons. Accordingly, reporting entities might only be able to provide estimates for the allocation of claims to the country where the debtor of the underlying risk resides or to allocate the claims to the country of the immediate borrower that is the country where the issuer of the securities resides.

The issuer (or protection buyer) of credit linked notes, collateral debt obligations and asset backed securities should regard the issuance of a security backed by financial claims, and sale to investors, as a cash collateral which extinguishes the exposure of the issuer to the underlying claim.

Claims on separately capitalised subsidiaries can only be considered as being guaranteed by the head office if the parent has provided an explicit guarantee. In contrast, any claims on non-incorporated branches should for the purposes of the consolidated banking statistics always be considered as guaranteed by the respective head office, even if there is no legal guarantee.

Unallocated sector refers to where the counterparty sector is unknown.

Attachment: Examples of reporting of *risk transfers*

Example 1

An Australian resident has granted a loan of AUD 10 million to a manufacturer in Hong Kong, which is guaranteed by a bank in Japan. The Australian resident bank should report the claim as *an outward risk transfer* from Hong Kong and an *inward risk transfer* to Japan. In ARF 731.3a, this example will look as follows:

	Immediate risk	Outward risk transfers	Inwards risk transfers	Net risk transfers
Hong Kong	10	10		-10
Japan			10	10

Example 2

If in example 1, an Australian resident bank guarantees the claim instead, the claim should be reported as an *outward risk transfer* from Hong Kong and an *inward risk transfer* to Australia.

	Immediate risk	Outward risk transfers	Inwards risk transfers	Net risk transfers
Australia			10	10
Hong Kong	10	10		-10

Example 3

If in example 1, the manufacturer were resident in Australia, the claim would have to be reported as an *outward risk transfer* from Australia and an *inward risk transfer* to Japan.

	Immediate risk	Outward risk transfers	Inwards risk transfers	Net risk transfers
Australia	10	10		-10
Japan			10	10

Example 4

If in example 1, the manufacturer were resident in Japan, the claim would have to be reported as an *outward risk transfer* from the *non-bank private sector* in Japan and an *inward risk transfer* to the *bank* sector in Japan.

	Immediate risk	Outward risk transfers	Inwards risk transfers	Net risk transfers
Japan		10	10	0

As a result, the data in item 5.1 column 2 *Claims* on an *ultimate risk* basis should be \$10 million higher than the amount in item 2 column 8 *Claims* on an *immediate risk* basis by *sector*. Item 5 column 8 *Claims* on an *ultimate risk* basis worksheet should be \$10 million lower than the amount in item 2 column 8 for Japan.

Example 5

If in example 4, the loan were granted by a subsidiary of an Australian-owned bank in Hong Kong, the claim would have to be reported as an *outward risk transfer* from Hong Kong and an *inward risk transfer* to Japan (loan guaranteed by a bank in Japan).

	Immediate risk	Outward risk transfers	Inwards risk transfers	Net risk transfers
Hong Kong		10		-10
Japan			10	10

As a result, the data in item 5 columns 2 and 7 *Claims* on an *ultimate risk* basis for Japan will be \$10 million higher than in item 2 columns 2 or 9 *Claims* on an *immediate risk* basis by *sector*, depending on whether the claim was denominated in Hong Kong dollars or any other currency. In addition, the data in item 5 columns 6 and 9 *Claims* on an *ultimate risk* basis for Hong Kong would be \$10 million lower than in item 2 columns 6 or 9 *Claims* on an *immediate risk* basis by *sector*, depending on whether the claim was denominated in Hong Kong dollars or any other foreign currency.

Example 6

An Australian resident bank makes an AUD 10 million loan to the Wellington branch of a US bank. The loan should be reported as a claim against New Zealand in items 1 and 2 (*Claims* on an *immediate borrower* basis), as an *outward risk transfer* from New Zealand, and as an *inward risk transfer* to USA.

	Immediate risk	Outward risk transfers	Inwards risk transfers	Net risk transfers
New Zealand	10	10		-10
Australia			10	10

Example 7

An AUD 10 million claim on the Wellington branch of another Australian-incorporated bank should be included against New Zealand in items 1 and 2 (*Claims* on an *immediate borrower* basis) and as an *inward risk transfer* for Australia.

	Immediate risk	Outward risk transfers	Inwards risk transfers	Net risk transfers
Australia			10	10
New Zealand	10	10		-10

Example 8

A claim in AUD or any other currency on the Sydney office of a US bank (or on an Australian company with a US guarantor), is included in items 1 and 2 (*Claims* on an *immediate borrower* basis). An *outward risk transfer* in respect of such a claim should be reported against Australia and an *inward risk transfer* to USA.

	Immediate risk	Outward risk transfers	Inwards risk transfers	Net risk transfers
Australia	10	10		-10
USA			10	10