Australian Bureau of Statistics

RESERVE BANK OF AUSTRALIA

APRA

REPORTING PRACTICE GUIDE

RPG 701.0 ABS/RBA Reporting Concepts for the EFS Collection

November 2020 (released November 2020)

Contents

About this guide **5**

1. General guidance **6**

1.1 General guide to reporting by counterparty 6

1.2 Residency 6

1.3 Related parties 12

1.4 Domestic books consolidation 12

1.5 Standard Economic Sector Classifications of Australia 14

1.6 Australian and New Zealand Standard Industry Classification 24

1.7 Business size 27

1.8 Identifying (predominant) purpose class and sub-class 29

1.9 Residential property purpose - owner-occupied and investment housing 35

1.10 Secured finance 38

1.11 Location of property 39

1.12 Types of financial assets and liabilities 40

1.13 Borrower-accepted commitments 44

1.14 Identifying facilities 44

1.15 Interest rates 46

1.16 Treatment of fixed interest rate products once the fixed period ends 50

1.17 Residual maturity 50

1.18 Funds held on behalf of/in trust for clients 51

1.19 Treatment of short-sold positions 51

2. Form-specific Guidance **52**

2.1 ARF 720.0A/B: ABS/RBA Statement of Financial Position (Standard) / (Reduced) 52

2.2 ARF 720.1A/B: ABS/RBA Loans and Finance Leases (Standard) / (Reduced) 67

2.3 ARF 720.2A/B: ABS/RBA Deposits (Standard) / (Reduced) 69

2.4 ARF 720.3: ABS/RBA Intra-group Assets and Liabilities 71

2.5 ARF 720.4: ABS/RBA Debt Securities Held 73

2.6 ARF 720.5: ABS/RBA Equity Securities Held 75

2.7 ARF 720.6: ABS/RBA Securities Issued 77

2.8 ARF 720.7: ABS/RBA Bill Acceptances and Endorsements 79

2.9 ARF 721.0A/B: ABS/RBA Repurchase Agreements and Securities Lending (Option A) / (Option B) 80

2.10 ARF 722.0: ABS/RBA Derivatives 81

2.11 ARF 723.0: ABS/RBA Margin Lending 107

2.12 ARF 730.0: ABS/RBA Statement of Financial Performance 112

2.13 ARF 730.1: ABS/RBA Fees Charged 123

2.14 ARF 741.0: ABS/RBA Business Finance 125

2.15 ARF 742.0A/B: ABS/RBA Business Credit Stocks, Flows and Interest Rates (Standard) / (Reduced) 129

2.16 ARF 743.0: ABS/RBA Housing Finance 136

2.17 ARF 744.0A/B: ABS/RBA Housing Credit Stocks, Flows and Interest Rates (Standard) / (Reduced) 142

2.18 ARF 745.0: ABS/RBA Personal Finance 146

2.19 ARF 746.0A/B: ABS/RBA Personal Credit Stocks, Flows and Interest Rates (Standard) / (Reduced) 147

2.20 ARF 747.0A/B: ABS/RBA Deposit Stocks, Flows and Interest Rates (Standard) / (Reduced) 148

2.21 ARF 748.0A/B: ABS/RBA Wholesale Funding Stocks, Flows and Interest Rates (Standard) / (Reduced) 149

Glossary **155**

About this guide

Reporting practice guides (RPGs) provide guidance on ***APRA***'s view of sound practice in particular areas. RPGs frequently discuss legal requirements from legislation, regulations or ***APRA***'s prudential and reporting standards, but do not themselves create enforceable requirements.

This RPG provides guidance to support the Economic and Financial Statistics (EFS) collection applicable to authorised deposit-taking institutions (***ADIs***) and registered financial corporations (***RFCs***) and contains:

- general guidance relating to reporting concepts applicable to more than one reporting form; and
- form-specific guidance relating to reporting concepts or variations in requirements specific to individual forms.

This guide should be read in conjunction with:

- the ***EFS collection***, including *Reporting Standard ARS 701.0 ABS/RBA Definitions* (ARS 701.0), which contains definitions of the ***reporting concepts*** underlying the data to be reported; and
- *Reporting Practice Guide RPG 702.0 ABS RBA Data Quality for the EFS Collection* (RPG 702.0).

Through this guide, ***APRA***, the ***ABS*** and the ***RBA*** (the agencies) seek to provide:

- a centralised source of information on the concepts contained in the reporting instructions and ARS 701.0;
- information on how key concepts may be accurately reported, including practical implementation guidance and examples; and
- guidance on verifying and keeping reporting categorisations accurate over time.

For selected reporting concepts this guide also specifies acceptable proxy data items or methodologies. These are denoted throughout as follows:

- **PROXY**: this indicates a proxy data item or methodology that is acceptable on an on-going basis; and
- **TRANSITIONAL PROXY**: this indicates a proxy data item or methodology that is acceptable on a transitional basis and includes a description of when the use of the transitional proxy is no longer appropriate.

This guide does not seek to provide an all-encompassing framework, or to replace or endorse existing industry standards and guidelines.

Subject to reporting requirements set out in the ***EFS reporting standards***, an EFS reporting entity has the flexibility to manage its reporting for the ***EFS collection*** in a manner that is best suited to its business. Not all of the practices outlined in this RPG will be relevant for every EFS reporting entity and some aspects may vary depending upon the size, complexity and systems configuration of the EFS reporting entity.

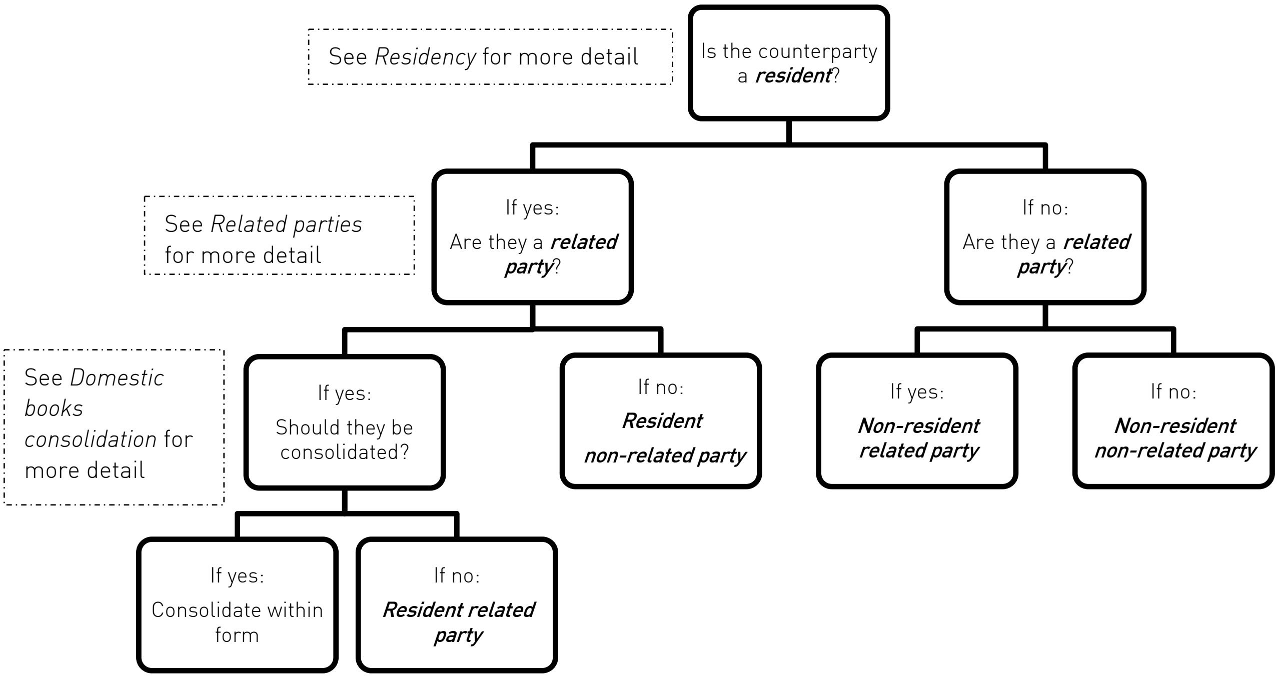
1. General guidance

1.1 General guide to reporting by counterparty

When reporting by counterparty, reporting institutions should first consider three main elements: residency; ***related party*** status; and consolidation (Figure 1).

Figure 1: Reporting by counterparty

Elements to consider



Where relevant, reporting institutions may also be required to classify the counterparty in accordance with the *Standard Economic Sector Classifications of Australia (SESCA)* and/or the *Australian and New Zealand Standard Industrial Classification (ANZSIC)* frameworks. The following sections provide further guidance on how to determine counterparty status.

1.2 Residency

This Reporting Guidance assists in classifying counterparties by residency by explaining key concepts and definitions, as well as how residency should be updated over time. It includes practical examples to assist in classifying ***resident*** and ***non-resident*** businesses, ***households*** and financial instruments.

1.2.1 General principle of residency

The definition of residency used in the ***EFS collection*** is that defined in the Australian System of National Accounts.[1]

Institutional units form the basis of the residency concept. An ***institutional unit*** is ***resident*** in one and only one economic territory; however, a business may have more than one ***institutional unit***. For example foreign branches or foreign 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***.

The concept of an ***institutional unit*** differs from the legal entity. For example, overseas branches or ***parent entities*** may be considered part of the legal entity, but should be considered as a separate ***institutional unit*** for the purposes of reporting on ***EFS reporting standards***.

In general, the residence of each ***institutional unit*** is the economic territory with which it has the strongest connection, expressed as its centre of predominant economic interest. In most cases, it is reasonable to assume that an ***institutional unit*** has a centre of economic interest in a country if the unit has already engaged in economic activity and transactions on a significant scale in that country for 12 months or more, or if they intend to do so.

Where an ***institutional unit*** has a centre of economic activity in only one country, ownership of land and structures located within an economic territory is sufficient qualification for the owner to have a centre of economic interest in the country. However, where an ***institutional unit*** has a centre of economic interest in more than one country further information will be required to ascertain the predominant centre of economic activity of the ***institutional unit***. Instances where an ***institutional unit*** has a central of economic interest in more than one country include:

- owning ***property*** in multiple countries; and
- ***households*** living in one country but owning ***property*** in another.

The specific treatment of residency for ***household*** and business counterparties and for financial instruments is covered in more detail below.

1.2.2 Residency of businesses

Residency Principle

As a general principle, a business is ***resident*** in an economic territory when it engages in a significant amount of production of goods and /or services from a location in the territory.

A single legal entity with substantial operations in two or more economic territories (for example, for branches, land ownership and multi-territory businesses) is considered to have a separate ***institutional unit*** in each economic territory in which it has substantial operations. In practice, taxation and other legal requirements tend to result in the use of a separate legal entity for operations in each economic territory and, as a result, the residence of each of the subsequently

[1] See: http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/5216.0Glossary12014?OpenDocument

identified businesses is usually clear. The ***ADI/RFC*** should record the transaction as ***resident*** or ***non-resident*** based on the country of residence of the legal entity they are transacting with.

Businesses may be ***resident*** in economies different from their shareholders, and branches and subsidiaries may be ***resident*** in different economies from their parent corporations.

Practical implementation

In determining residency of a business, the legal entity that you are transacting with is generally the relevant consideration. The exception to this is the case of bank branches that are located in a different jurisdiction from their head office – these should be treated as separate ***institutional units*** from their head office entities.

PROXY (note exception below): A business may be classified as a ***resident*** for the purposes of reporting on ***EFS reporting standards*** if it satisfies these criteria:

- it has a current registered business address in Australia; and
- it has a current Australian Business Number (ABN) or Australian Company Number (ACN).

If only one of these indicators is available, then the business may be classified according to that indicator only.

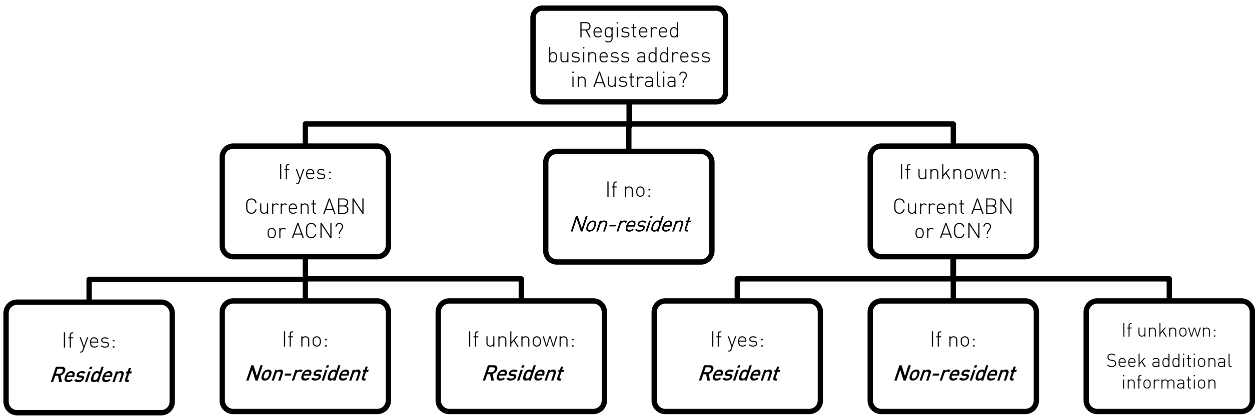
PROXY (note exception below): A business may be classified as a ***non-resident*** for the purposes of reporting on ***EFS reporting standards*** if it satisfies either of these criteria:

- its current registered business address is overseas; or
- it is currently registered as a business overseas.

The **exception** to this is that bank branches located in a different jurisdiction to their head office are to be classified according to their location.

Figure 2: Business residency

Elements to consider



1.2.3 Residency of households

Residency Principle

A ***household*** has a centre of economic interest when ***household*** members maintain, within the country, a ***dwelling*** or succession of ***dwellings*** treated and used by members of the ***household*** as their principal residence (for further information see *Section 1.9.2 Principal place of residence*). If there is uncertainty about which ***dwelling*** is the principal residence, it can be identified from the length of time spent there. Being present for 12 months or more or intending to do so is usually sufficient to qualify as having a principal residence and therefore the predominant centre of economic interest.

Individual members of ***households*** who leave the economic territory of a country and return or intend to return after a limited period (less than 12 months) continue to be regarded as ***residents*** of the original country. For example, a member of a ***resident*** Australian ***household*** who travels abroad for recreation, business, health or other purposes and returns within 12 months is treated while abroad as a ***resident*** of Australia.

Practical implementation

PROXY: In practice, a ***household*** may be classified as a ***resident*** for the purposes of reporting on ***EFS reporting standards*** if it satisfies these criteria:

- has a current residential address in Australia; and
- is considered an Australian ***resident*** for tax purposes.

If only one of these indicators is available, then the ***household*** may be classified according to that indicator only.

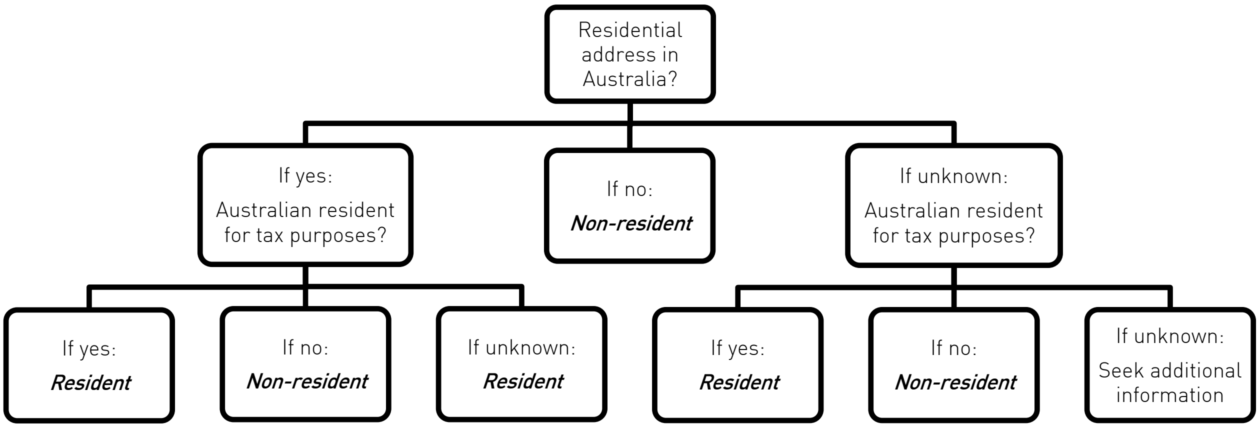
PROXY: In practice, a ***household*** may be classified as a ***non-resident*** for the purposes of reporting on ***EFS reporting standards*** if it satisfies either of these criteria:

- has a current residential address overseas; and
- is not considered an Australian ***resident*** for tax purposes.

Note, however, that reporting institutions are expected to maintain information on the ***household*** customer's residential address over time. See *Section 1.2.5 Updating of residency status over time* for more information.

Figure 3: Household Residency

Elements to consider



Joint applications

Where multiple individuals are party to a single transaction, the residency of each individual should be classified based on the criteria above. The entire transaction should be classified as:

- ***resident*** for the purposes of reporting on ***EFS reporting standards*** if at least one of the individuals is a ***resident***; or
- ***non-resident*** for the purposes of reporting on ***EFS reporting standards*** if all of the individuals are ***non-resident***.

Where the residency of each individual to a single transaction is not known, the residency of the primary customer may be used to classify the entire transaction.

1.2.4 Residency of financial instruments

Principle

The residency of a financial instrument is determined by the residence of the issuer rather than the country of issuance of the financial instrument itself. ***Non-resident*** assets/liabilities are the ***ADI*** or ***RFC*****s** asset/liability positions with ***non-resident*** counterparties. Similarly, ***resident*** assets/liabilities are the ***ADI*** or ***RFC*****s** asset/liability positions with ***resident*** counterparties.

Practical implementation

All financial instruments should be classified according to the residency of the issuer as indicated in the table below. Neither the place nor the currency of issuance should be used to determine residency of a financial instrument, except as allowed for below (for ***debt securities*** issued).

For ***equity securities*** held, the residency of the business issuing the equity should be recorded and not the residency of the exchange.

For ***debt securities*** held, the residency of the issuer may be determined by:

- counterparty identification and address of the issuer; and/or

- sourcing information from a third-party data provider, potentially using the International Securities Identification Number (ISIN) code as an identifier.

For ***derivatives*** the residency of the counterparty should be recorded.

Determining Residency of Financial Instruments		
	Issued into the Australian market	Issued into an overseas market
Issued by a resident unit	*Resident*	*Resident*
Issued by a non-resident unit	*Non-resident*	*Non-resident*

Residency of the holder of a debt security

PROXY: For ***debt securities*** issued, ***ADIs*** and ***RFCs*** are able to use the place of issuance as proxy for the residency of the counterparty holding the debt securities if information on the location of the holder is unavailable.

1.2.5 Updating of residency status over time

To ensure the data remain accurate over time, institutions are expected to make reasonable efforts to verify that classifications of the residency of customers, counterparties and/or financial instruments remain appropriate.

Instances of businesses and/or financial instruments changing residency are not expected to occur frequently; however, a non-negligible proportion of ***households*** are expected to change residency over time.

A key piece of information for verifying ***household*** residency over time is the residential address of the customer. Reasonable efforts to verify the customer's residential address and, accordingly, residency, include (in order of preference):

1. communicating with customers from time to time to verify their addresses and cross-checking against residency categorisations;
2. sourcing third-party data to verify customers' addresses and cross-checking against residency categorisations; or
3. cross-checking any customer-updated postal or residential addresses (or similar) against residency categorisations.

The agencies note that, for deposits, there is an expectation that an effort will be made to ensure residential address details are correct over time, and this expectation aligns with requirements set out in *Prudential Standard APS 910 Financial Claims Scheme* (APS 910).

1.3 Related parties

In general, a ***related party*** is any ***institutional unit*** that is owned or partly owned by the ***parent entity*** of the reporting institution, or by the reporting institution itself.

As a guide, any entities that are consolidated in the statutory financial statements produced by your institution – or the ***parent entity*** of your institution – should be considered ***related parties***. In addition, any ***controlled entities***, ***associated entities***, or ***joint venture entities*** of the reporting institution or its ***parent entity*** should also be considered ***related parties***.

Related parties may be ***financial institutions***, ***non-financial businesses*** and/or ***community service organisations***. They may not be members of the ***household*** or ***general government*** sectors. See ARS 701.0 for the requirements on economic sector classifications.

1.4 Domestic books consolidation

1.4.1 Identification

Domestic books consolidation refers to the positions and transactions recorded on the Australian books of reporting entities.

For businesses that are headquartered in Australia, the set of ***domestic books*** may not include all positions and transactions recorded on Australian books; some of these activities may be excluded for reporting purposes to the extent that they take place in different legal entities or notional ***institutional units***, as detailed in *Section 1.4.2 Reporting consolidation*.

For businesses that are headquartered overseas, a set of ***domestic books*** for Australia are generally considered to exist if a separate (notional) ***institutional unit*** can be identified. This may involve identification of:

1. A separate legal entity formed in Australia; and/or
2. A complete set of accounts (including a balance sheet) maintained for Australia, or that it would be possible and meaningful from an economic and legal viewpoint to compile these reports if required.

It is likely a set of ***domestic books*** exist if the entity is recognised for income tax purposes in Australia, even if they have a tax exempt status. If a set of ***domestic books*** exists, then only the applicable entities listed below should be consolidated for reporting purposes.

1.4.2 Reporting consolidation

Reporting on a ***domestic books*** basis requires a different level of consolidation from statutory reporting. Any entities <u>not</u> consolidated for statutory reporting purposes should also <u>not</u> be consolidated for ***domestic books*** reporting. In addition, a number of entities that are consolidated for statutory reporting purposes should <u>not</u> be consolidated for ***domestic books*** reporting. Refer to the ***domestic books*** definition and the table below for details.

Guide to Domestic Books Consolidation	
Notional unit	**Consolidate within domestic books reporting?**
Australian-based branches of the *ADI* or *RFC*	Yes
Overseas-based branches of the *ADI* or *RFC*	No
Australian-based Offshore Banking Units of the *ADI* or *RFC*	Yes
Overseas-based Offshore Banking Units of the *ADI* or *RFC*	No
Extended Licensed Entities of the *ADI*	No
Subsidiaries of the *ADI* or *RFC*	No
Related *RFCs*	Reporting by ***ADIs***: No ***RFCs*** reporting individually: No ***RFCs*** reporting as a group: Yes See *Section 1.4.3 RFCs reporting on behalf of other RFCs* for more detail on ***RFCs*** reporting individually or as a group
Parent entities of the *ADI* or *RFC*	No
Bare trusts	If the beneficiary of the bare trust is the reporting institution: Yes If the beneficiary of the bare trust is not the reporting institution: No
Special Purpose Vehicles (SPV)	Reporting by ***ADIs*** and ***RFCs*** that are a ***related party*** of an ***ADI***: No Reporting by ***RFCs*** that are not a ***related party*** of an ***ADI***: Yes (see *Section 1.4.4 Consolidation of SPVs by RFCs* for more detail)
Overseas based representative offices of the *ADI* or *RFC*	No
Any other related parties not specifically mentioned above (such as stock brokers, insurance companies, funds management, non-financial operations)	No

1.4.3 RFCs reporting on behalf of other RFCs

Where there are multiple ***RFCs*** that are owned and/or controlled by the same ***parent entity***, these ***RFCs*** may choose to either report individually or report as a group (submit a single return). The reporting method should be consistent across all forms for a given period.

RFCs reporting individually

If these ***RFCs*** choose to report individually, all ***RFCs*** that meet the required thresholds should submit returns to ***APRA***. The reporting thresholds applied to forms will apply to the assets or liabilities of the individual ***RFC*** at the ***domestic books*** level.

When reporting individually, positions and transactions with other ***RFCs*** owned/controlled by the same ***parent entity*** should be treated as positions or transactions with ***related parties***.

RFCs reporting as a group

If these ***RFCs*** choose to report as a group, only one of these ***RFCs*** should submit returns to ***APRA***. The reporting thresholds applied to forms will apply to the (consolidated) *domestic books* assets or liabilities of all the ***RFCs***, not the individual ***RFC*** that is submitting the return.

Each of the ***RFCs*** should inform ***APRA*** via email either the name of the institutions that they are reporting on behalf of, or the name of the institution that is reporting on behalf of them. ***APRA*** should be informed at the time that the form is submitted if any of these reporting arrangements have changed. If no reporting arrangements have changed, ***APRA*** does not need to be informed.

When reporting as a group, the positions and transactions of each of the ***RFCs*** should be consolidated within the return. Any ***intra-group*** positions and transactions between these ***RFCs*** should not be reported. Report (but do not consolidate) positions and transactions with ***RFCs*** (and any other entities) that are not part of the ***RFC*** reporting group.

1.4.4 Consolidation of SPVs by RFCs

RFCs that are a ***related party*** of an ***ADI*** should not consolidate ***SPVs*** for ***domestic books*** reporting, even if the ***SPVs*** are owned and/or controlled by the ***RFC*** or the same ***parent entity***. All positions and transactions with ***SPVs*** owned and/or controlled by the ***RFC*** or the same ***parent entity*** should be treated as positions or transactions with ***related parties***. Note, this also applies to all ***ADIs***.

All other *RFCs* (i.e. ***RFCs*** that are not a ***related party*** of an ***ADI***) should consolidate the positions and transactions of all *resident SPVs* that are owned and/or controlled by the *RFC* within *domestic books*. Any *intra-group* positions and transactions between the *RFC* and its controlled *SPVs* should not be reported. The reporting thresholds applied to forms will apply to the consolidated assets or liabilities of the reporting entity (i.e. the *RFC* and its *SPVs*).

1.5 Standard Economic Sector Classifications of Australia

To compile Australia's National Accounts in accordance with the international standard – the 2008 System of National Accounts (~~2008~~ SNA08) – the ***ABS*** requires balance sheet information classified by financial instruments broken down into sectoral counterparties. Sectoral counterparties are required for the ***ADI*** or ***RFC***'s ***deposits***, ***loans*** and ***derivative*** assets or liabilities; and for the issuers of ***debt securities*** and ***equity securities*** held by the ***ADI*** or ***RFC***. The sectoral classification used in the National Accounts is SESCA 2008,[2] which in turn is based on the sectoral classification prescribed by ~~2008~~ SNA08. As such, the ***EFS collection*** requires counterparty sector information based on SESCA 2008.

Counterparty sectors have been updated since the previous ***domestic books*** collection, which was based on SESCA 2000. The most significant change between SESCA 2000 and 2008 is the separate sectoral classification for investment funds and ***securitisers***; the addition of these new sectors reflects the importance of these institutions in the Australian financial system.

Data on ***residents*** are disaggregated across a number of sectors. Data for ***non-residents*** are reported in aggregate in the ***non-resident*** sector, unless otherwise stated in the specific instructions. For example, a ***resident ADI*** will be reported in the ***ADI*** sector, while a ***non-resident bank*** will be reported in the ***non-resident*** sector. Similarly, a ***resident household*** will be reported in the ***household*** sector, while a ***non-resident household*** will be reported in the ***non-resident*** sector.

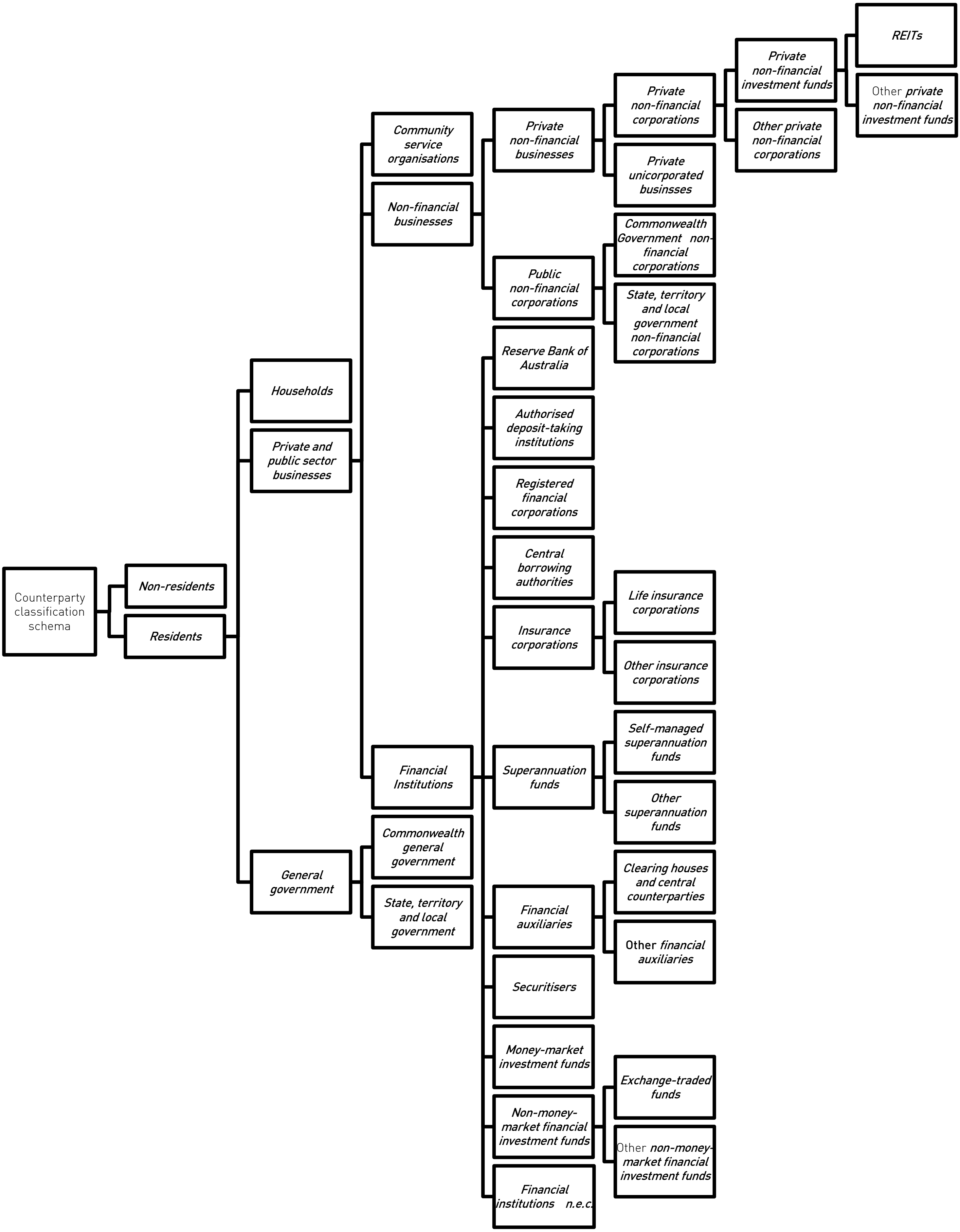
1.5.1 General sectoral classification schema

An entity is assigned to one and only one SESCA category.

- Groups of people are assigned to the ***household*** sector unless otherwise directed.
- Family trusts should be assigned to the ***private unincorporated businesses*** sector.
- ***SPVs*** do not have a unique reporting category, and should be reported in either ***non-financial businesses*** or ***financial institutions*** sectors as appropriate.

The general classification schema represented hierarchically is:

[2] See: http://www.abs.gov.au/AUSSTATS/abs@.nsf/allprimarymainfeatures/E1759367BE2FD4AACA2570AF003E058F?opendocument


Counterparty classification schema
Non-residents
Residents
Households
Private and public sector businesses
General government
Community service organisations
Non-financial businesses
Financial Institutions
Commonwealth general government
State, territory and local government
Private non-financial businesses
Public non-financial corporations
Reserve Bank of Australia
Authorised deposit-taking institutions
Registered financial corporations
Central borrowing authorities
Insurance corporations
Superannuation funds
Financial auxiliaries
Securitisers
Money-market investment funds
Non-money-market financial investment funds
Financial institutions n.e.c.
Private non-financial corporations
Private unicorporated businsses
Commonwealth Government non-financial corporations
State, territory and local government non-financial corporations
Life insurance corporations
Other insurance corporations
Self-managed superannuation funds
Other superannuation funds
Clearing houses and central counterparties
Other financial auxiliaries
Exchange-traded funds
Other non-money-market financial investment funds
Private non-financial investment funds
Other private non-financial corporations
REITs
Other private non-financial investment funds

1.5.2 Determining the economic sector of a counterparty

ADIs and ***RFCs*** can use a variety of ways to allocate counterparties to an economic sector, for example:

- obtain information directly from the business;
- use publicly available information about the business – for example, from the business website; or
- use other information held by the reporting institution along with ANZSIC codes to map to a SESCA category – note that industry codes will not always provide a one-to-one match to economic sectors and so other information and/or alternative methods will be required for these cases (see *Section 1.5.8 Mapping from ANZSIC to SESCA 2008*).

Further details on the types of information that can be used to classify counterparties to specific sectors follows.

Once a business entity is classified to its one and only ANZSIC category, this will map to one SESCA category in the majority of cases. However, in a handful of cases, the ANZSIC category assigned may map into multiple SESCA classifications. In such cases, further criteria, such as the business's legal structure and/or balance sheet composition may be used to assign a unique sectoral classification as described below.

1.5.3 Identifying investment fund sectors

There are three investment fund categories within the ***EFS collection. These have been adopted from SESCA 2008***:

- ***private non-financial investment funds***;
- ***money-market investment funds***; and
- ***non-money-market financial investment funds***.

Investment funds are collective investment schemes, such as corporations or trusts. The investment funds may be further categorised into listed and unlisted investment funds, where listed investments funds are those listed on the Australian Securities Exchange (ASX).

Investment funds in Australia which raise funds from the public operate legally as "Managed Investment Schemes" under the *Corporations Act 2001* which is administered by the Australian Securities and Investment Commission (ASIC). ASIC requires that any investment fund seeking funds from retail investors be registered with ASIC and obtain an Australian Financial Services License. Registration confers an Australian Registered Scheme Number (ARSN) number. In addition to the ASIC requirements, listed investment funds are required also to adhere to the regulations and bi-annual reporting requirements set out by the ASX, similarly to listed corporations.

Investment funds that are not registered with ASIC tend to be large wholesale funds, with units not listed on the ASX – examples include large master trusts. These investments funds are used by large institutional investors such as superannuation funds and life insurance corporations as investment vehicles.

In general, ***ADIs*** and ***RFCs*** do not acquire equity in investment funds; their predominant interaction with investment funds is in providing ***deposit*** accounts and ***loans***.

ADIs and ***RFCs*** may identify investment funds using the following methods:

- for funds that are listed on the ASX, entities may use an ASX concordance map, which will be made available on the ***ABS*** website[3]. -This concordance map categorises all listed entities (name and GICS code) on the ASX by sectoral classification;
- entities may use the ASIC ARSN number and the name and ABN of the investment fund. At the request of an ***ADI*** or ***RFC***, ***APRA*** can provide reporting entities with a register of investment funds that provides the name, ARSN and ABN of each fund.[4] ~~list of investment funds with ARSN numbers and names of investment funds.~~ It is expected that this list will be ~~APRA will obtain~~ updated ~~ARSN lists from ASIC~~ annually;
- at application and review, some simple questions may be asked once the business has been identified as one of the handful of 4-digit ANZSIC classes that may fall into an investment fund SESCA category;
- **PROXY:** it may be possible to identify types of investment funds by title word searches – for example an investment fund that has 'cash' in the title it likely to be a ***money-market investment fund***; or
- **PROXY:** alternatively, if none of these methodologies are able to be used then SESCA categories that are difficult to determine can be estimated using an apportionment methodology based on other available information – for example, a useful indicator may be derived from client profiles or product information from front-end systems.

Some names commonly used to refer to *private non-financial investment funds* and *non-money-market financial investment funds* are presented below:

Private non-financial investment funds	***Non-money mark financial investment funds***
• Real estate investment trusts (REITs) • Listed and unlisted property trusts • Property common funds • Infrastructure funds (e.g. investing in public assets such as toll roads, airports, and rail facilities)	• Exchange Traded Funds (ETFs) • Listed equity trusts (domestic and international) • Listed mortgage trusts • Listed investment companies • Unlisted equity trusts (domestic and international) • Unlisted mortgage trusts • Non-cash common funds • Funds with predominantly overseas property or infrastructure holdings

Below are some questions that might assist in identifying investment funds if there is an opportunity to do so at application or review.

[3] See: http://www.abs.gov.au/websitedbs/D3310114.nsf/home/Provider+Information+-+Survey+of+Financial+Information+(SFI)

[4] The list is based on the information in the ATO Australian Business Register and the ASIC MIS register. Investment funds for whom this information was not available have not been included in the register.

Example 1: Identifying money-market investment funds or non-money-market financial investment funds

A business customer has been categorised into financial asset investors, ANZSIC 2006 class 6420 (ANZSIC 1993 class 7340). During the application process, the following questions could be asked:

- is your entity set up as a trust or company to raise equity funding from the public for the purposes of investing in non-financial assets?
- If yes to (a), what are the predominant assets on your balance sheets (e.g., shares, bonds or short-term money-market instruments)?
- If answered short-term money-market instruments to (b), categorise as a ***money-market investment fund***; or
- If answered shares/bonds to (b), categorise as a ***non-money-market financial investment fund***.

Example 2: Identifying property/infrastructure funds

A business customer has been categorised into the ***construction*** industry. During the application process, the following questions could be asked:

- is your entity set up as a trust?
- If answered yes to (a), the entity would be classified as a ***private non-financial investment fund***; or
- If answered no to (a), the entity would be classified as an ***other private non-financial corporation***.

- 1.5.4 Identifying self-managed superannuation funds and other superannuation funds

To determine the classification between ***self-managed superannuation funds*** and ***other superannuation funds***, the following methods may be used:

- the 'Super Fund Look Up' site on the Australian Taxation Office (ATO) website provides information on the type of fund and can be searched by ABN (or the name of the ***superannuation fund***)[5]. The site includes publicly available information on ***superannuation funds*** regulated by ***APRA*** and the ATO. Classification types include ***self-managed superannuation funds***.
- a list of Registerable Superannuation Entities (RSEs) regulated by ***APRA*** is available on ***APRA***'s website[6]. Also available from ***APRA***'s website are lists of some of the Exempt Public Sector Superannuation Schemes (EPSSS) that are non-regulated.

1.5.5 Identifying central borrowing authorities (CBAs)

Central borrowing authorities include:

---

[5] See: http://superfundlookup.gov.au
[6] See 'List of RSEs' at: http://apra.gov.au/RSE/Pages/default.aspx

- New South Wales Treasury Corporation (NSW TCorp);
- Treasury Corporation of Victoria (TCV);
- Queensland Treasury Corporation (QTC);
- South Australian Government Financing Authority (SAFA);
- Western Australian Treasury Corporation (WATC);
- Tasmanian Public Finance Corporation (Tas Corp);
- Northern Territory Treasury Corporation (NT TCorp); and
- ACT Treasury.

1.5.6 Identifying Commonwealth general government and Commonwealth Government non-financial corporations

A list of Commonwealth Government entities by classification used for reporting in the EFS collection can be found in the 'List of GGS, PNFC and PFC entities under the PGPA Act' document on the Department of Finance website[7].

These entities can be classified according to the detail in the 'economic sector' column:

- 'General Govt Sector' should be classified as ***Commonwealth general government***;
- 'Public Non-financial Corporation' should be classified as ***Commonwealth Government non-financial corporations***; and
- 'Public Financial Corporation' should be classified as ***financial institutions***.

1.5.7 Miscellaneous classifications

Sovereign Wealth Funds

Sovereign wealth funds owned by the Commonwealth Government, such as the Future Fund Management Agency and ~~the~~ other Australian Government Investment Funds[8], should be classified in the ***Commonwealth general government*** sector.

Any state-owned ~~future~~ funds should be classified as ***State, territory and local general government***.

Issuers of covered bonds

As ***covered bonds*** can only be issued by ***ADIs***, ***resident*** issuers of ***covered bonds*** should be classified as ***ADIs***.

Holding companies

Holding companies should be classified in line with SESCA 2008 as follows:

- Holding companies with mainly financial corporations as their subsidiaries should be classified as ***financial auxiliaries***.

[7] See: http://www.finance.gov.au/resource-management/governance

[8] For a full list, see ~~https://www.finance.gov.au/investment-funds/~~https://www.finance.gov.au/government/australian-government-investment-funds

- Holding companies with mainly non-financial corporations as their subsidiaries should be reported in the ***other private non-financial corporations*** sector.

Individuals acting on behalf of businesses

Where the ***ADI*** or ***RFC*** has positions/***deposit*** accounts/lending ***facilities*** with a business that have been recorded under the name of an individual (such as a ***deposit*** account for a sole trader that is in the individual's name rather than the business name), the positions/transactions should be reported under the appropriate category according to the nature of the business. These positions/transactions should not be reported in the ***household*** sector.

This analysis should be applied to each individual position/***deposit*** account/lending ***facility***, and not all positions/***deposit*** accounts/lending ***facilities*** need to be allocated to the same sector. For example, an individual has two ***credit cards*** in their name. One is for ***personal*** use and should be allocated to the ***household*** sector, and the other ***credit card*** is for ***business*** use and should be allocated to the ***private unincorporated businesses*** sector.

Where there is a position/***deposit*** account/lending ***facility*** that combines elements of ***business*** and ***personal*** purposes, the predominant ***purpose class*** should apply. For more information, see *Section 1.8 Identifying (predominant) purpose class and sub-class*.

Where the institution has no information to suggest that the position/***deposit*** account/lending ***facility*** is for ***business*** purposes, it should be allocated to the ***household*** sector.

Client-clearing and agent-principal relationships

The general principle is that sectoral or counterparty classification should be made based on the counterparty with whom the reporting institution has a position on a flow of funds basis, not on an ultimate risk basis. Therefore when the reporting entity is a client of a broker, or a broker itself, or acting on its own behalf report the position as follows:

Where a reporting entity:	...report this position as a deposit (etc.)
has placed funds on deposit with a clearing house or central counterparty on its own behalf	...made by the reporting entity with the clearing house or central counterparty.
is a client that clears its trades through a broker I.e. the reporting entity is an indirect participant of a clearing house or central counterparty	...with the broker.
is a broker that has client-clearing arrangements in place with clients	...made by the client with the reporting entity. The reporting entity should also recognise the value of funds that the reporting entity then deposits with the clearing house or central counterparty as a deposit of the reporting entity with the clearing house or central counterparty.

An exception arises where the direct legal entity facing the reporting institution is a trustee, a responsible entity, or a custodian acting on behalf of a trust. In these situations, reporting entities should classify the counterparty according to the sectoral classification of the trust, and not e.g. a deposit by a financial auxiliary (i.e. trustee, a responsible entity, or custodian).

1.5.8 Mapping from ANZSIC to SESCA 2008

ADIs and ***RFCs*** should classify counterparties into the SESCA 2008 by using the definitions provided in ARS 701.0.

For those institutions that have yet to fully implement SESCA 2008, mapping of counterparties from ANZSIC classification would generally be acceptable, provided further information is sought where required to appropriately allocate counterparties in ANZSIC categories without a one-to-one mapping to SESCA 2008. ***ADIs*** and ***RFCs*** should make a reasonable effort during the application process and annual reviews with business customers to identify the appropriate sectoral classification.

A concordance map from ANZSIC 2006 to SESCA 2008 will be provided on the ***ABS*** website[9] to assist institutions with classifying counterparties. Guidance on classifying into industry code under ANZSIC 1993 or 2006 is also available on the ***ABS*** website[10].

The concordance map shows the derivation of the sectoral classification required in the ***EFS collection*** from ANZSIC 2006. It begins with the concordance of 4-digit ANZSIC 2006 to the counterparty sectors listed on the EFS forms.

The map illustrates that, for a majority of the 4-digit ANZSIC 2006 classifications, there is a one-to-one relationship into the sector counterparties listed on ***EFS reporting standards***. However, there are instances where this one-to-one relationship does not hold (i.e. one ANZSIC 2006 industry maps to more than one sector in the ***EFS collection***). These situations are listed in the table below.

One-to-multiple mapping between ANZSIC 2006 and EFS collection	
ANZSIC 2006 industry	**Sector in EFS collection (based on SESCA 2008)**
Construction	• private non-financial investment funds; • other private non-financial corporations; or • private unincorporated businesses.
Rental, hiring and real estate services	• private non-financial investment funds; • other private non-financial corporations; or • private unincorporated businesses.

[9] See: http://www.abs.gov.au/websitedbs/D3310114.nsf/home/Provider+Information+-+Survey+of+Financial+Information+(SFI)

[10] See: Australia New Zealand Standard Industry Classification

One-to-multiple mapping between ANZSIC 2006 and EFS collection	
Education and training	• other private non-financial corporations; • private unincorporated businesses; • commonwealth general government; or • state, territory and local general government.
Health care and social assistance	• other private non-financial corporations; • private unincorporated businesses; • commonwealth general government; or • state, territory and local general government.
Arts and recreation services	• other private non-financial corporations; • private unincorporated businesses; • commonwealth general government; or • state, territory and local general government.
Other services	• other private non-financial corporations; • private unincorporated businesses; or • community service organisations.
Non-depository financing (part of the ***Financial and insurance services*** industry)	• securitisers; • central borrowing authorities; or • financial institutions n.e.c.
Financial asset investing (part of the ***Financial and insurance services*** industry)	• money-market investment funds; • non-money-market financial investment funds; or • commonwealth general government.
Superannuation funds (part of the ***Financial and insurance services*** industry)	• self-managed superannuation funds; or • other superannuation funds.

For these industry categories, further information would be required to appropriately allocate the counterparty to the relevant economic sector.

1.5.9 Updating of SESCA classification over time

It is not expected that institutions will often change SESCA categories. However, if a reporting institution becomes aware that a business has changed industry or incorporation status (for example, at an annual review), then the SESCA category should be updated accordingly.

For example, if a business is originally classified as a ***private unincorporated business*** but then changes its business structure to a company, it should be re-classified from the point that the change occurred to the ***other private non-financial corporations*** category.

1.6 Australian and New Zealand Standard Industry Classification

For ***private and public sector businesses***, a breakdown of counterparties into industry sectors is required for some forms (ARF 741.0 and ARF 742.0). The ***EFS collection*** contains 21 industry classifications that are based on ANZSIC 2006, which has been updated since ANZSIC 1993 to capture emerging industries such as information technology, to better reflect the current economy and to align with international industry standards.[11]

A borrower is assigned to an industry based on its predominant activity, and each borrower can only be assigned to one industry.

1.6.1 Mapping ANZSIC 1993 to ANZISC 2006

For those entities that currently classify businesses to industries based on 4-digit ANZSIC 1993, it will generally be acceptable to map from ANZSIC 1993 to ANZSIC 2006 at the 4-digit level using the mapping available on the ***ABS'*** website,[12] in combination with a simple apportionment mechanism where there is a one-to-many split.

- A number of the one-to-many mapping instances occur where all options are within the same ANZSIC industry (at the 2-digit level). In these cases, reporting institutions may determine how to map to ANZSIC 2006. Reporting institutions could choose to either:
    - **PROXY (note exception below)**: allocate all to a single 4-digit code; or
    - **PROXY (note exception below)**: allocate across multiple codes.
- The other one-to-many mapping instances involve a series of options that cross ANZSIC industry (at the 2-digit level). In these cases, there are a few potential options:
    - **PROXY (note exception below)**: allocate evenly between the 4-digit codes;
    - **PROXY (note exception below)**: allocate randomly across the 4-digit codes; or
    - **PROXY (note exception below)**: where the bulk of the options are within the same division, map to a single 4-digit code in that division.

The **exception** to this is in relation to commercial property. For the ANZSIC 1993 code 7712 – Commercial Property Operators & Developers, ***ADIs*** and ***RFCs*** will be required to correctly allocate between 3211 – Land Development and Subdivision and 6712 – Non-Residential Property Operators. It is expected that institutions will need to obtain further information from their customers in order to allocate the correct ANZSIC in this instance (see *Section 1.6.2 Sub-industries* below).

1.6.2 Sub-industries

The industry sectors identified on ARF 741.0 and ARF 742.0 only require disaggregation at the Division level (i.e. a 1-digit code under ANZSIC 2006) with the exception of ***Construction*** and ***Financial and insurance services***.

[11] See: Australia New Zealand Standard Industry Classification

[12] For the 4-digit level mapping between ANZSIC 1993 to ANZSIC 2006, see: http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/1292.0.55.005Main+Features12008?OpenDocument

For ***Construction*** three further sub-sectors are identified, which require at most a 3-digit code under ANZSIC 2006. However, if reporting institutions intend to rely on a mapping from ANZSIC 1993 to ANZSIC 2006, information at the level of 4-digit ANZSIC 1993 codes may be required.

Construction Sub-sectors		
Form label	**ANZSIC 2006**	**ANZSIC 1993**
Residential building construction	301 – Residential Building Construction:	4111 – House Construction; and 4112 – Residential Building Construction n.e.c.
Non-residential building construction	302 – Non-Residential Building Construction:	4113 – Non-Residential Building Construction
Other construction	31 – Heavy and Civil Engineering Construction; and 32 – Construction Services	Refer to the mapping of ANZSIC 1993 to ANZSIC 2006 available on the ***ABS*** website for corresponding ANZSIC 1993 sub-divisions. Note that some of these correspondences are partial, requiring further information as described above.

For Financial and insurance services, the more specific disaggregation requested aligns with SESCA-based categories, rather than ANZSIC 2006 industries.

1.6.3 Use of International Industry codes

PROXY: In cases where only international based industry codes such as the North American Industry Classification System (NAICS) or the International Standard Industrial Classification (ISIC) are available, then it is acceptable to map these back to the related ANZSIC categories at the two-digit or one-digit level. Mapping to the four-digit ANZSIC codes is not recommended due to many one-to-multiple mappings. There is no direct mapping from NAICS to ANZSIC, but an ***ADI*** or ***RFC*** can use published mappings from NAICS to ISIC[13], ISIC to NAICS[14] and ANZSIC to ISIC[15]. These can be used either in isolation or in combination to map to the ANZSIC requirements for the ***EFS collection***.

1.6.4 ANZSIC captured at the point of origination

To assist in the determination of the correct ANZSIC for a business at the point of origination the following may assist:

- at the time of registering their Australian Business Number with the tax office, businesses are required to self-identify their own ANZSIC and therefore may be able to provide their ANZSIC upon request; or

---

[13] See: https://www.census.gov/eos/www/naics/concordances/concordances.html
[14] See: https://unstats.un.org/unsd/cr/registry/isic-4.asp
[15] See: http://abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/1292.0.55.0052008?OpenDocument

- an ANZSIC coder is available on the ABS website.[16] The web-based search function uses key word search functionality to return a list of possible ANZSIC codes with activity descriptions.

1.6.5 Updating of ANZSIC over time

It is not expected that institutions will often change ANZSIC categories. However, if a reporting institution becomes aware that a business has changed industry (for example, at an annual review), then the ANZSIC category should be updated accordingly from that point forward.

1.7 Business size

For ***private and public sector businesses***, a breakdown of counterparties by business size is required for some forms (ARF 741.0, ARF 742.0 and ARF 730.1). These business size categories are based on definitions similar to those used by the Basel Committee for Banking Supervision (BCBS)/***APRA*** in their standards for institutions following the internal-ratings based approach to credit risk; however, they are written such that they can be applied by all reporting institutions, regardless of whether they are required to meet BCBS/***APRA*** standards.

Counterparties in the ***private and public sector businesses*** category need to be assigned to one of: ***small***, ***medium***, or ***large*** business size categories.

If the reporting institution already classifies the counterparty as SME retail, SME corporate or Corporate in line with the BCBS/***APRA*** methodology, then a one-to-one mapping can be used with:

- SME retail corresponding to ***small***;
- SME corporate corresponding to ***medium;*** and
- Corporate corresponding to ***large***.

This means that, where the reporting institution's internal decisions lead to it deviating from the ***turnover*** and ***exposure size*** metrics detailed in ARS 701.0 – perhaps, for example, because a business is viewed as more complex or had previously had ***turnover*** in a higher bucket – that institution is able to report in line with its internal categorisations.

Where an institution does not categorise counterparties, or certain types of counterparties, according to this methodology, then they would be required to use the ***turnover*** and ***exposure size*** metrics to allocate the counterparties to the relevant business size category. Where a counterparty forms part of a larger corporate group, it is expected that the ***turnover*** and ***exposure size*** metrics will be calculated at the consolidated group level, rather than the individual entity or branch level. The reporting institution may nevertheless choose to classify a counterparty according to the ***turnover*** and ***exposure size*** of the individual legal entity if it determines that this is a more appropriate representation of the borrower.

Categorisations based on ***exposure size*** and ***turnover*** should be allocated at origination. The ***exposure size*** should be reviewed periodically (at least annually). There is no requirement to

[16] See the 'Search Facility' in 1292.0 – ANZSIC, 2006 (Revision 2.0), available at: http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/1292.0Search12006%20(Revision%202.0)?opendocument&tabname=Summary&prodno=1292.0&issue=2006%20(Revision%202.0)&num=&view

update ***turnover*** data during the life of a given ***facility*** unless the reporting institution becomes aware that the categorisation is no longer appropriate.

1.7.1 Exposure size

The measure of exposure to be used is total business-related exposure.

1.7.2 Turnover

Reliable measures of ***turnover*** include:

- tax returns submitted to the ATO;
- Business Activity Statements submitted to the ATO;
- financial reports of the business; and
- reports from the business's accountants or auditors.

PROXY: Where ***turnover*** data are not available because the business was recently formed, then the business should be classified as ***small*** or ***medium*** based on the ***exposure*** of the reporting institution to the business.

PROXY: Where a new business has been formed following a merger or demerger, then reporting institutions would be expected to use a sensible method to determine the appropriate category.

TRANSITIONAL PROXY: Where ***turnover*** information for an existing business customer (not recently formed) is not currently available, the reporting institution should use business-as-usual points of contact (e.g. annual reviews) prior to the commencement of reporting for the ***EFS collection*** in 2019 to allocate the counterparty to the appropriate category based on ***turnover*** information. Where no business-as-usual points of contact occur within this time period, the ***ADI*** or ***RFC*** may allocate based on an internal allocation methodology – for example, categorising based on the internal business segment that the counterparty interacts with. This would be updated based on ***turnover*** information at the next business-as-usual point of contact with the counterparty. Once allocated, there is no requirement to update ***turnover*** data during the life of a given ***facility*** unless the reporting institution becomes aware that the categorisation is no longer appropriate.

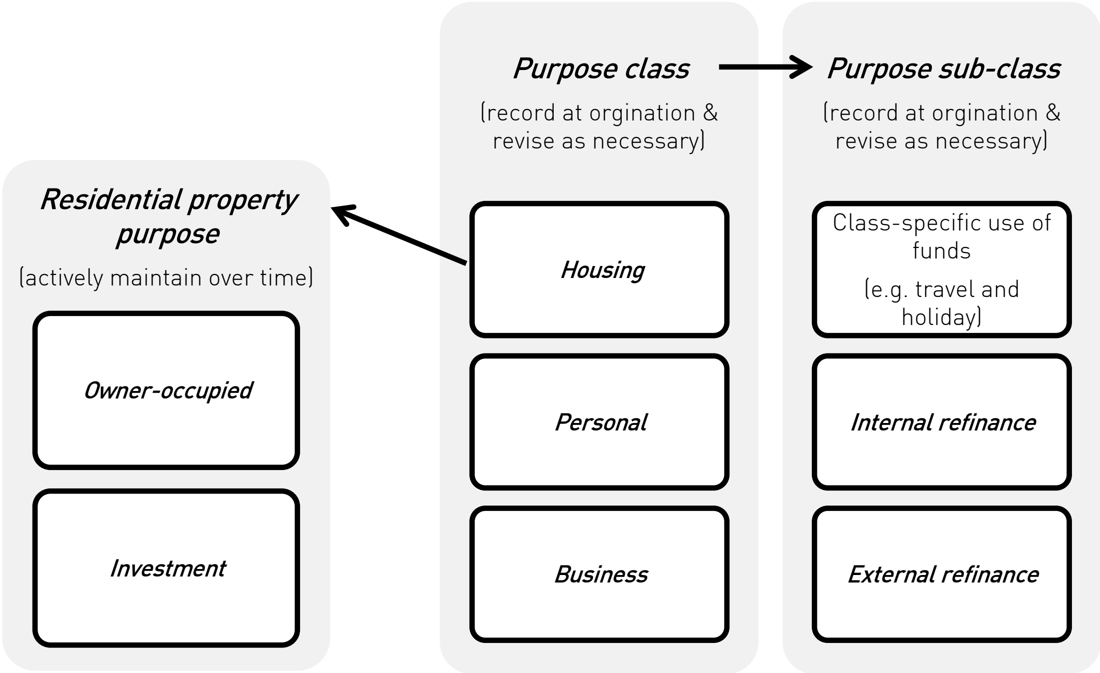
1.7.3 ARF 730.1

PROXY: When reporting ***fees charged*** on ARF 730.1, where the counterparty falls with the ***private and public sector businesses*** sector but the ***ADI*** or ***RFC*** <u>does not</u> provide finance to the counterparty, the counterparty may be classified as ***small***, ***medium*** or ***large*** based on a consistent application of an internal allocation methodology. Such an allocation methodology should be informed by information such as the internal business segment the counterparty interacts with, the size of any deposits they hold with the ***ADI*** or ***RFC***, or other known characteristics of the counterparty. This allocation methodology should be made available to ***APRA*** on request. Note that this allocation methodology may not be used where the ***ADI*** or ***RFC*** provides finance to the counterparty.

1.8 Identifying (predominant) purpose class and sub-class

Figure 4: Purpose Types

Purpose class, sub-class and property purpose



1.8.1 Identifying purpose class

The ***purpose class*** (i.e. ***housing***, ***business*** or ***personal***) that the funds will be used for determines how finance should be reported.

Purpose class is to be allocated based on information provided by the customer.

Product type may be used as an input to determine the ***purpose class***, but it is unlikely to be appropriate to rely on this data point exclusively in all situations. This is because alignment between product types and ***purpose classes*** may vary according to institution-specific policies and/or may change over time.

In general, there are a few rules of thumb when assigning ***purpose class*** that may be helpful to note:

1. All finance extended via business lending products may be classified as being for ***business*** purposes, but not all finance for ***business*** purposes need be provided under a business lending product.

   For example, an individual may seek finance via other types of products for use in their business. If the ***ADI*** or ***RFC*** is aware that the funds are being used for a business (for example, the customer makes a statement to this effect during the origination process) then this should be classified as ***business*** finance. Note, however, that if the customer does not disclose their intent to use the finance for this purpose, and the ***ADI*** or ***RFC*** has no other information to suggest this alternate use, then the ***ADI*** or ***RFC*** would correctly classify this finance to an individual as ***housing*** or ***personal*** based on the information provided by the customer).

2. Security type (e.g. a ***residential property***) is not directly relevant to the ***purpose class*** definitions, but may be a useful input depending on institution-specific lending policies.

   Specifically, not all ***housing*** finance need be secured by ***residential property***, and finance for ***personal*** or ***business*** purposes may be secured by ***residential property*** (e.g. a ***home equity loan***).

Practical implementation

PROXY: In practice, finance extended via business lending products may be classified as being for business purposes. Note, however, that not all finance for ***business*** purposes need be provided under a ***business*** lending product.

Example 1: Finance secured by a residential property

A ***household*** takes out a new ***loan*** for ***personal*** use, for example paying for a holiday and/or buying shares. The funds are secured against a ***residential property*** owned by the ***household***, perhaps via a ***home equity loan***.

This ***loan*** should be classified as ***personal*** not ***housing***. In making this determination, the following points should be recognised:

- the product type (e.g. a ***home equity loan***) is not an appropriate indicator of ***purpose class*** in this situation;
- the fact that the finance is secured by ***residential property*** is not relevant in identifying the ***purpose class*** of the finance; and
- because the use of the funds does not relate to the ***construction*** or purchase of ***residential property***, or to finance ***alterations, additions and repairs*** to ***residential property*** the finance ***purpose class*** cannot be ***housing***.

Example 2: Purchasing and/or constructing residential property

Consider the following cases:

a) A developer borrows funds to purchase ***residential land*** and construct an apartment block (i.e. ***dwellings***). The apartments will later be sold to ***households*** for their use.
b) A ***self-managed superannuation fund*** borrows funds to purchase a ***residential property*** that will be rented out.

In both instances, the finance should be classified as ***business*** not ***housing***. In making this determination, the following points should be recognised:

- the sector borrowing the funds is a business, not a ***household***; and
- whether or not the finance is secured against ***residential property*** is irrelevant.

1.8.2 Assessing the predominant purpose at origination

Where finance is to be used for more than one purpose, the entire amount of the finance should be classified according to the predominant purpose (i.e. the purpose for which the largest share of the funds will be used).

Practical implementation

In general, where it is known that the funds will be used for more than one purpose but: a) there is insufficient information to make a reasonable judgement about what the largest share of funds will be used for by a ***household***; or b) there is an even split between multiple purpose classes (e.g. 50/50), please classify the finance as follows:

- ***Housing*** and ***personal*** – classify as ***personal***;
- ***Housing*** and ***business*** – classify as ***business***; and
- ***Business*** and ***personal*** – classify as ***business***.

Note that, where finance is classified as predominantly for ***housing*** purposes, reasonable effort must be made to identify the ***property purpose*** in order for the finance to be further classified as ***owner-occupier*** or ***investor*** (e.g. ask the borrower for the nature of use of the property) – see *Section 1.9 Residential property purpose – owner-occupied and investor housing*. The following scenarios typically present some challenges for classification:

- ***revolving credit facilities*** that are ***secured by residential property*** (e.g. ***home equity loans***) or ***reverse mortgages***;
- ***alterations***, ***additions and repairs***; and
- refinances of existing ***fixed-term*** finance by ***households***.

Accordingly, further guidance on the treatment of these scenarios is provided below.

1.8.3 Revolving credit facilities secured by residential property and reverse mortgages

A ***revolving credit facility*** that is ***secured*** by ***residential property*** (e.g. a ***home equity loan***) can be taken to fund a range of activities, including the purchase of a ***residential property***, ***alterations***, ***additions and repairs*** to ***residential property***, investment purchases (e.g. shares), ***household*** consumption spending (e.g. holidays or motor vehicles), or working capital for a small business.

Revolving credit extended to a ***household*** would generally be expected to be for ***personal*** purposes unless there is any indication that the funds are to be used for ***housing*** or ***business*** purposes.

If the borrower indicates that the funds will predominantly be used for ***housing*** purposes, then classify accordingly. The agencies expect one of the main uses of a ***revolving credit facility*** that is ***secured*** by ***residential property*** for ***housing*** purposes would be for ***alterations***, ***additions and repairs*** (although use is of course not limited to this). Please note, where a ***housing*** purpose is nominated, reasonable effort must also be made to identify the nature of the ***property purpose*** (see *Section 1.9 Residential property purpose – owner-occupied and investor housing*).

Example 3: Finance for multiple purposes

Consider the case where a ***household*** takes out a ***revolving credit facility*** for ***housing*** and ***personal*** purposes (e.g. ***alterations, additions and repairs*** to a ***residential property*** and ***household*** consumption spending such as paying for a holiday or motor vehicle). The ***facility*** should be classified according to what the largest share of the funds will be used for.

If a majority of the funds are to be used for the ***alterations, additions and repairs***, then the finance should be classified as ***housing***. If a majority of the funds are to be used for ***household*** consumption spending, the finance should be classified as ***personal***.

If there is insufficient information to reasonably judge whether the share of funds for ***alterations, additions and repairs*** is larger than the share of funds for household consumption spending, then the entire amount should be classified as ***personal***.

1.8.4 Alterations, additions and repairs – housing or personal?

Any changes to a ***residential property*** that will remain part of that ***property*** in the event of the sale of the ***property*** should be classified as for ***housing*** (prior to the application of the predominant purpose principle, if relevant), provided the finance is taken out by a ***household***.

The following should be included as ***housing***:

- permanent swimming pools;
- sheds;
- permanent furnishings such as floor or window coverings;
- stoves, cooktops, range hoods and dishwashers;
- cupboards / shelves permanently attached to the property; and
- landscaping.

The ***loan purpose sub-class*** should be reported as ***alterations, additions and repairs*** where this use of funds is the predominant purpose.

Please note: the uses described above would not qualify as ***construction*** for ***housing*** purposes as this concept exclusively relates to the construction of new ***dwellings***.

Furnishings not attached to the property, such as furniture and removable electrical goods, should be included as ***personal***.

1.8.5 Refinances

Internal refinance

When additional finance is approved for an existing borrower and combined with existing finance provided by the ***ADI*** or ***RFC***, the predominant ***purpose class*** should be updated if:

a) the additional finance is for a different ***purpose class*** than that of the existing finance; and
b) the additional finance is greater than the outstanding amount of existing finance.

If the reporting institution also submits the relevant finance form (ARF 741.0, ARF 743.0 or ARF 745.0) and:

- the ***purpose class*** has changed, the ***purpose sub-class*** for reporting the new ***commitment*** should reflect the use of the additional funds (i.e. it should not be reported as an ***internal refinance***);

- the ***purpose class*** has not changed, ~~the~~ finance for fixed-term ***loans*** should be classified as an ***internal refinance*** at the ***purpose sub-class*** level for reporting the new ***commitment***. ~~That is, **internal refinance** includes agreements to increase the **credit limit** of an existing **loan** contract (sometimes referred to as a 'top up').~~ Finance for revolving credit should be classified as a new commitment for the existing purpose sub-class. That is, ***internal refinance*** includes agreements to increase the ***credit limit*** of an existing ***loan*** contract (sometimes referred to as a 'top up').

Should further additional finance subsequently be approved, the same process should apply. However, when reassessing predominant ***purpose class*** the most recent classification purpose assigned to the existing finance may be assumed to apply to the entire outstanding amount (i.e. the amount and purpose of additional finance approved does not need be tracked over time).

Changes in the value of an existing ***commitment*** due only to foreign currency fluctuations should not be reported as an ***internal refinance***.

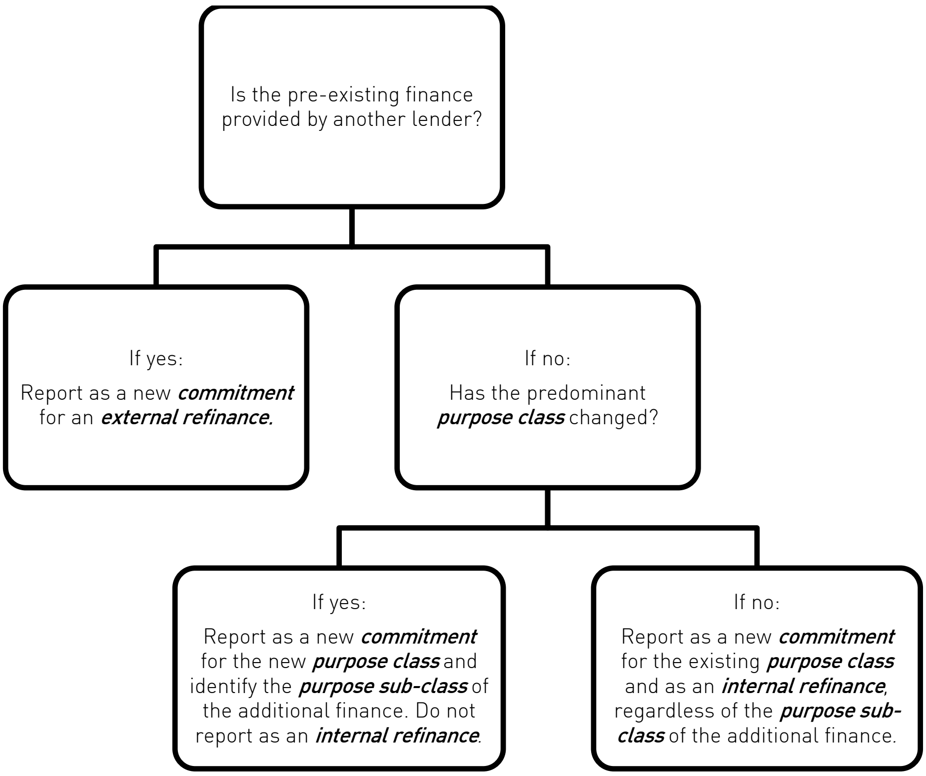
Changes in credit limits of existing margin ***loans*** arising as a result of fluctuations in the market value of the collateral should not be reported as an ***internal refinance***, as there has been no variation to the actual agreed ***loan*** conditions.

External refinance

Where a borrower refinances from another lender – an ***external refinance*** – reporting institutions should identify the predominant ***purpose class*** of the total amount of the new ***commitment*** (including any additional finance) and, if the reporting institution submits the relevant finance form (ARF 741.0, ARF 743.0 or ARF 745.0) to classify the finance as an ***external refinance*** at the ***purpose sub-class*** level for reporting of the new ***commitment***.

Figure 5: Refinances and Predominant Purpose Class

Elements to consider when reporting an internal or external refinance



Example 4: Additional finance for a different purpose

Consider a household approved for additional finance (by their current lender) for ***personal*** purposes, for example buying a car, on top of an existing ***housing loan***. The relevant test in applying the predominant purpose principle is whether the balance of the new finance for a ***personal*** purpose is greater than the outstanding balance on the original ***housing loan***.

- If the outstanding balance on the existing ***housing loan*** is larger than the amount of new finance at the time of approval, the whole ***loan*** should continue to be treated as predominantly for ***housing*** purposes. The total value of the ***loan*** should be reported as an ***internal refinance*** on the ARF 743.0 (if applicable) and the new total outstanding balance reported as ***housing*** credit.
- If the outstanding balance on the existing ***housing loan*** is smaller than the amount of new finance at the time of approval, the whole amount should then be treated as predominantly for ***personal*** purposes. The total value of the ***loan*** should be reported on the ARF 745.0 (if applicable) as a new ***commitment*** and the new total outstanding balance should be reported as ***personal*** credit (with the outstanding balance of the original ***loan*** removed from ***housing*** credit). The ***purpose sub-class*** of the new ***commitment*** should reflect the use of the additional finance (e.g. buying a car). Because the finance ***purpose class*** has changed it should not be reported as an ***internal refinance***.

Example 5: Multiple top-ups

Let the outstanding balance of an existing ***housing loan*** be $200,000 and a top-up for ***personal*** purposes be $40,000. Given the outstanding balance of the existing ***housing loan*** is greater than the top-up for ***personal*** purposes, the whole ***loan*** amount ($240,000) should be continue to be treated as predominantly for ***housing*** purposes and the new total outstanding balance should be reported as ***housing*** credit. Similarly, the total value of the ***loan*** ($240,000) should be reported as an ***internal refinance*** on the ARF 743.0 (if applicable).

Let the outstanding balance of the ***loan*** then be paid down to $100,000 and the ***household*** approved for an additional $60,000 for ***personal*** purposes (e.g. a wedding and honeymoon). The current classification (i.e. ***housing***) may be assumed to apply to the total outstanding balance when comparing it to the amount of new ***personal*** finance in determining predominant purpose. Thus, the total ***loan*** would continue to be classified as ***housing*** because the existing outstanding balance ($100,000) is larger than the additional finance for ***personal*** purposes ($60,000). There is no expectation that the amount and purpose of subsequent top-ups be recorded in a cumulative manner and used in determining predominant ***purpose class***.

1.8.6 Maintaining the predominant purpose-class classification over time

As noted above, the agencies expect that a reasonable effort should be made during the application process to identify the predominant ***purpose class*** (and ***purpose sub-class***) of the finance (e.g. asking the borrower). Unless the lender receives new information that would call into question the ***purpose class*** classification (e.g. through a refinance), the initial ***purpose class*** may be retained over time. Similarly, the ***purpose sub-class*** need only be recorded at origination or when refinanced.

However, the ***residential property purpose*** (i.e. ***owner-occupied*** or ***investment***) should be actively maintained over the course of the life of the loan (see *Section 1.9 Residential property purpose – owner-occupied and investor housing*).

1.8.7 Identifying purpose sub-class

Once a ***purpose class*** has been assigned, the predominant purpose principle should also be used to identify the ***purpose sub-class***. That is, when finance is taken out for multiple ***purpose sub-classes***, the finance should be classified according to the predominant ***purpose sub-class***. Note that, where the use of finance crosses multiple ***purpose sub-classes***, only those ***purpose sub-classes*** relevant to the predominant ***purpose class*** are options for the predominant ***purpose sub-class***.

The exception to this is where additional finance is approved and combined with existing finance (see *Section 1.8.5 Refinances*).

1.9 Residential property purpose - owner-occupied and investment housing

As for the determination of the ***purpose class***, product type may be used as an input to determine the property purpose (i.e. ***owner-occupied*** or ***investment***), but it is unlikely to be appropriate to rely on this data point exclusively. This is because reporting entities' lending policies may not align with the definition ***owner-occupied*** or ***investment*** and because the use of the property by the customer may change over time.

1.9.1 Loan purpose vs collateral

The ***loan*** should be classified as ***owner-occupied*** or ***investment*** based on the use of the ***property*** for which the funds have been borrowed (i.e. the ***property*** being purchased, constructed, improved, or having repairs or maintenance carried out). The use of the property serving as collateral, where this differs, should not be used to determine the ***residential property purpose***.

For example, a borrower owns the ***property*** they live in (***owner-occupied***) and has borrowed some funds to purchase an ***investment property***. The ***loan*** for the purchase of the ***investment property*** was ***partially secured*** or ***fully secured*** against the ***owner-occupied property***. The ***loan*** should be reported as ***investment***, irrespective of the ***loan*** being ***partially secured*** or ***fully secured*** against the ***owner-occupied property***.

1.9.2 Principal place of residence

In general, a borrower will have only one ***principal place of residence***, which will be the ***property*** that they live in the majority of the time.

In practice, the ***principal place of residence*** may be determined by:

- asking the borrower; or
- PROXY: using the borrower's residential address.

Example 1: vacation / holiday homes

A borrower owns two houses that are not rented out or used by any other persons. The borrower lives in one for eight months of the year, and the other for four months of the year. The borrower's ***principal place of residence*** will be the house that the borrower lives in for eight months, and the ***loan*** used to purchase that property would be classified as an ***owner-occupied***

loan. The house that the borrower lives in for four months is not the borrower's ***principal place of residence***, and the ***loan*** used to purchase that property would be classified as an ***investment loan***.

Example 2: house for family members

A borrower owns two houses – the borrower lives in one house during the week and their children live in the other house (and may or may not pay rent). The borrower stays in the house with the children on weekends. The borrower's ***principal place of residence*** will be the house that the borrower lives in during the week, and the ***loan*** used to purchase that property would be classified as an ***owner-occupied loan***. The house that the borrower's children live in is not the borrower's ***principal place of residence***, and the ***loan*** used to purchase that property would be classified as an ***investment loan***.

1.9.3 Multiple borrowers

If there are multiple borrowers, then classify the ***loan*** as ***owner occupied*** if at least one of the borrowers meets the relevant definition.

1.9.4 Construction and bridging loans

As defined in ARS 701.0, the criterion on which reporting institutions should seek to classify ***housing loans*** as ***owner-occupied*** or ***investment*** is whether the ***residential property*** is serving or will shortly serve as the ***principal place of residence*** for the person(s) taking out the ***loan*** (i.e. the customer has indicated that they plan to move into the ***residential property*** after ***construction*** has been completed and before the property is rented out).

As a result, a customer would, in most cases, be expected to have a maximum of one ***owner-occupied loan***. However, one exception involves the case in which a customer has a ***loan*** for a ***property*** that is their ***principal place of residence*** and has taken out a ***loan*** for a new ***property*** that will shortly be their ***principal place of residence***. Common examples are ***construction loans*** or bridging ***loans***, where the borrower currently has an ***owner-occupied loan*** and also intends to transfer their ***principal place of residence*** to their new ***property*** shortly. During the overlap period these borrowers may have more than one ***owner-occupied loan***.

1.9.5 Rental income and investor loans

The use of rental income from the property to be purchased in the serviceability assessment does not automatically classify the ***loan*** as an ***investment loan***. It is possible that the borrower is using or will shortly use the property as their ***principal place of residence***, but that the borrower also is or intends to sublet a room.

Example 3: renting out a room in an owner-occupied property

A borrower purchases a ***property*** that will be their ***principal place of residence***. In their ***loan application*** they indicated that they will be renting out one of the bedrooms and will receive rental income. This would be classified as an ***owner-occupied loan*** given that it will be the borrower's ***principal place of residence***. The rental income is irrelevant in this example.

1.9.6 Non-residents and owner-occupied loans

It is necessary to separately identify and report lending to ***non-resident households*** for ***housing*** as being either ***owner-occupied*** or ***investment***. The following is an assessment of whether such loans are ***owner-occupied*** or ***investment***. Loans to ***non-residents*** should be classified as ***owner-occupied*** in the following circumstances:

a) where the ***residential property*** for which the funds are borrowed is located overseas and this ***residential property*** will serve as the borrower's ***principal place of residence***; or
b) where the ***residential property*** for which the funds are borrowed is located in Australia and this ***residential property*** will serve as the borrower's ***principal place of residence*** (i.e. the ***non-resident*** borrower will become a ***resident***).

Loans to ***non-residents*** for the purchase of ***residential property*** located in Australia that will not serve as the borrower's ***principal place of residence*** should be classified as ***investor***. Whether the ***property*** will act as the ***principal place of residence*** for family members of the ***non-resident*** borrower is irrelevant.

1.9.7 Updating owner-occupied / investment status over time

Reasonable steps should be taken to ensure the ***property purpose*** is correct at origination and that it remains accurate over time in the values reported for ***credit outstanding***.

For example, if a borrower has an ***owner-occupied housing loan***, and the property location and the borrower's residential address are available, then their residential address should match the address of the ***property*** for which the finance was sought. If the borrower updates their residential address to be different from the address of the ***property*** for which the finance was sought, the ***loan*** should be reclassified as an ***investment loan*** from the date that the address was changes.

An ***ADI*** or ***RFC*** may use the location of the collateral securing a ***loan*** for ***housing*** purposes to proxy the address of the property (see *Section 1.11 – Location of Property*). This information will assist reporting institutions by providing a verifiable data point against which they can cross-check customers' residential address to assist in determining whether a ***housing loan*** is ***owner-occupied*** or ***investment***. Where the ***loan*** is collateralised against multiple properties, the ***ADI*** or ***RFC*** should use an appropriate methodology to determine the property location, such as reporting the location of the property with the highest collateral value..

~~Alternatively, r~~Reporting institutions ~~may~~ should also ~~elect to~~ re-confirm loans status at regular intervals (e.g. every three years). This might be done when borrowers initiate contact with the reporting institution for another reason or when customer-initiated contact has not occurred within an appropriate period (e.g. three years), the reporting institutions may initiate contact with the borrower directly.

Please note, this guidance is intended for statistical reporting purposes only and should not be interpreted as relevant to internal business decisions regarding what products or financing arrangements are available to a given customer.

1.10 Secured finance~~by residential property~~

Any lending for which some amount of ***collateral*** exists to support the ***loan*** exposure should be reported as ***secured*** finance. That is, there is no minimum ***collateral*** threshold for a ***loan*** to be classified as ***secured***. Only lending for which there is no ***collateral*** ~~or other arrangement~~ to secure the loan should be reported as ***unsecured***.

A ***loan*** is considered ***partially secured***, i.e. some amount of ***collateral*** exists to support the ***loan*** exposure but the LVR is greater than 100 per cent, then the entire ***loan*** balance should be reported as ***partially secured*** in Table 5 of ARF 742.0, regardless of the value of the ***collateral***.

Certain items in the ***EFS collection*** explicitly state the type of ***collateral*** e.g. 'secured by residential property'. For such items, only the named type of ***collateral*** would qualify for the ***loan*** to be considered ***secured***.

In cases where it is not made explicit, both tangible and intangible ***collateral*** would qualify the ***loan*** to be considered ***secured***. Guarantees and other contingent assets should not be considered when determining whether to report a ***loan*** as ***secured*** for the purposes of the ***EFS collection***.

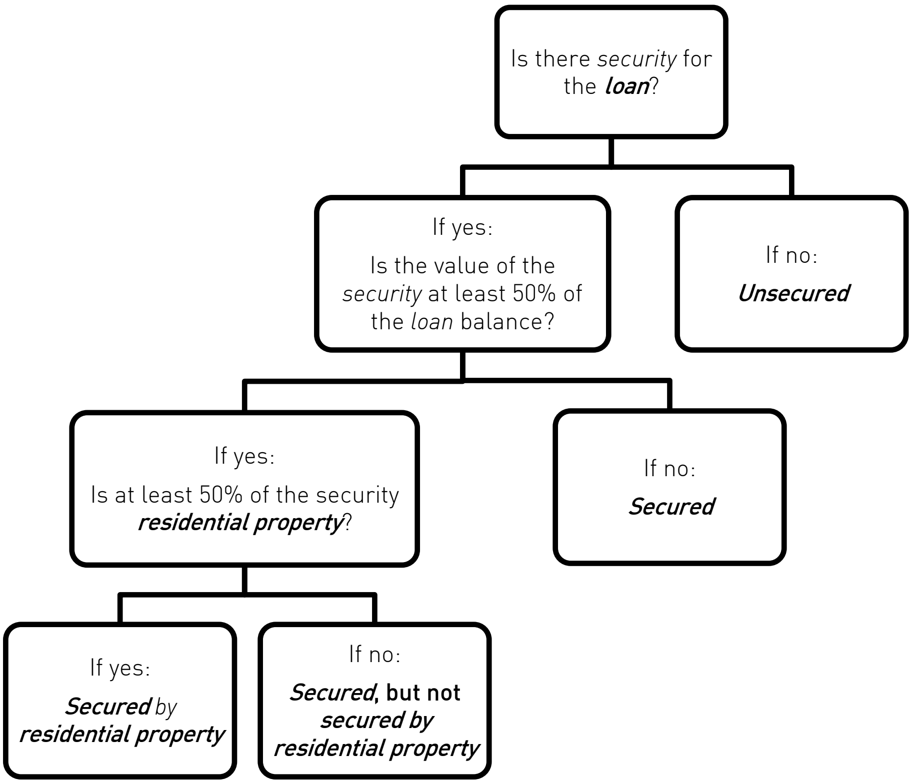
In the case of reporting items as ***secured by residential property***, however, the following criteria must be met:~~.~~

- the value of the collateral for the ***loan*** represents 50 per cent or more of the ***loan*** balance; and
- 50 per cent or more of the ***collateral*** is ***residential property.***

If the above criteria are met, the entire ***loan*** balance should be reported as ***secured by residential property***.

Figure 6: Secured by Residential Property

Elements to consider



1.11 Location of property

1.11.1 Housing

Institutions should collect and report ***housing*** finance based on the location of the ***property*** for which the customer is borrowing the funds (e.g. the address of the ***property*** being purchased).

This information will assist reporting institutions by providing a verifiable data point against which they can cross-check customers' residential address to assist in determining whether a ***housing loan*** is ***owner-occupied*** or ***investment*** (see *Section 1.9 Residential property purpose – owner-occupied and investor housing*).

If this information is not available to be reported, the ***ADI*** or ***RFC*** may report the location of ***housing*** finance according to the following proxy.

PROXY: An ***ADI*** or ***RFC*** may use the location of the collateral securing a ***loan*** for ***housing*** purposes to proxy the location of the property for reporting by state. Where the ***loan*** is collateralised against properties located in different states, the ***ADI*** or ***RFC*** should use an appropriate methodology to determine the property location for reporting by state.

1.11.2 Business

When reporting on ARF 741.0, institutions should report ***fixed-term business loans*** for ***construction*** or the purchase of ***property*** (by ***small*** or ***medium*** businesses) based on the location of the ***property*** for which the customer is borrowing the funds (e.g. the address of the ***property*** being purchased or constructed) when reporting by state.

1.12 Types of financial assets and liabilities

1.12.1 Loans and finance leases

Generally include:

- overdrafts;
- ***secured*** and ***unsecured*** lending;
- ***finance leases***;
- ***credit card*** balances;
- ***fixed-term loans***;
- mortgage lending;
- commercial ***loans***;
- redeemable preference share finance not evidenced by a security; and
- subordinated ***loans***.

Generally exclude:

- ***reverse repos***;
- ***loans*** and ***finance leases*** that have been written off;
- associated deferred tax assets in the amounts reported for ***collective provisions*** or ***individual provisions***;
- ***debt securities***; and
- ***deposits***.

Fixed-term loans vs revolving credit facilities

The key distinction between a ***fixed-term loan*** and a ***revolving credit facility*** is that repayments of ***revolving credit facilities*** (other than of charges and interest) increase the amount of unused credit available that may be redrawn up to the original ***credit limit***, while repayments of ***fixed-term loans*** (other than into ***redraw facilities***) generally cannot be redrawn.

Both ***fixed-term loans*** and ***revolving credit facilities*** can have a fixed period when the ***facility*** is due to end. This is not sufficient to classify a ***facility*** as a ***fixed-term loan***.

Example of ***revolving credit facilities*** with a fixed term:

- A ***lending facility*** where the borrower can repeatedly ***draw down*** and repay the finance up to a specified limit. This specified limit does not decline over the life of the ***facility***. The ***facility*** has a fixed term of one year – at the end of the year, the ***facility*** will either be cancelled (and fully repaid), or renewed.

Generally, ***revolving credit facilities*** include:

- ***credit cards***; and
- overdrafts.

Valuation of Finance Leases

The value of ***finance leases*** should be reported as either:

- the capital cost of new goods;

- the written-down value of goods re-leased; or
- the purchase price of second-hand goods;

For ***finance leases*** where the full value of the goods under lease is not financed by one corporation (e.g. partnership and syndicated leases), report the value as your share of the full value.

For revolving ***lease*** facilities (such as master leases), report the value of goods acquired at each draw down against such ***facilities***. Exclude the value of ***commitments*** to provide a leasing limit or to increase a leasing limit.

1.12.2 Deposits

Generally include:

- ***offset accounts***;
- account balances with ***resident*** and ***non-resident financial institutions***;
- purchased payment facilities such as smart cards and electronic cash; and
- ***non-negotiable certificates of deposit***.

Generally exclude:

- ***debt securities***;
- payables due to counterparties arising from the first leg of a ***repurchase agreement***;
- treasury-related short-term borrowings from ***resident ADIs*** and ***non-resident banks***;
- ***loans*** (including arranged and unarranged overdrafts); and
- ***finance leases***.

1.12.3 Debt securities

Generally include:

- ***bills of exchange***;
- ***negotiable certificates of deposit***;
- ***commercial paper*** including promissory notes and asset-backed ***commercial paper***;
- treasury notes;
- financial paper;
- government and semi-government inscribed stock;
- medium-term notes, bonds, debentures and unsecured notes;
- inflation-indexed bonds;
- floating-rate notes and other floating-rate debt securities;
- ***asset-backed securities*** such as mortgage-backed bonds;
- credit-linked notes and other ***debt securities*** with embedded financial ***derivatives***; and
- ***hybrid securities treated as liabilities***.

Generally exclude:

- ***deposits***;
- ***loans***;
- ***finance leases***; and
- ***derivatives***.

Report ***debt securities*** adjusted for the value of ***short-sold positions*** (see *Section 1.19 Treatment of short-sold positions*).

Reporting institutions that have elected to use settlement date accounting under AASB 9 should exclude unsettled trades when reporting the value of ***debt securities***. Institutions that have elected to use trade date accounting under AASB 9 should include unsettled trades when reporting the value of ***debt securities***, in line with their statutory reporting.

1.12.4 Equity securities

Generally include:

- ordinary shares;
- units in trusts; and
- *preference shares*.

Generally exclude convertible notes prior to conversion.

Report ***equity securities*** adjusted for the value of ***short-sold positions*** (see *Section 1.19 Treatment of short-sold positions*).

Reporting institutions that have elected to use settlement date accounting under AASB 9 should exclude unsettled trades when reporting the value of ***equity securities***. Institutions that have elected to use trade date accounting under AASB 9 should include unsettled trades when reporting the value of ***equity securities***, in line with their statutory reporting.

1.12.5 Provisions for doubtful financial assets

To determine the amounts to be reported as individual and collective provisions in the EFS collection, 'Expected Credit Loss' (ECL) provisions over any particular financial asset first needs to be determined as per AASB 9 *Financial Instruments*, and then separated in the following way:

	12 month ECL — on performing loans	**Lifetime ECL — on underperforming loans**	**Lifetime ECL — on non-performing loans**
Financial assets affected	Assets measured at amortised cost (e.g. **loans**), at fair value through other comprehensive income (OCI; e.g. **securities** held for trading), **lease** assets, assets arising from AASB 15 *Revenue from Contracts with Customers*, and from financial guarantees (Para 5.5.1).		
Provision to recognise	If there has been no indication of significantly increased credit risk since inception, still recognise a provision for the next 12 months' worth of expected losses (para. 5.5.5 and B5.5.22-23).	If there has been an indication of significantly increased *credit risk* (defined in AASB 7) since the inception of the asset, recognise a provision that would take up losses to maturity (para 5.5.3 and B5.5.15-18).	On actually underperforming assets, a provision that would take up losses to maturity (para 5.5.13).

Characteristics	Low risk financial instruments which haven't had a significant increase in risk since inception (para 5.5.10) from borrowers in good standing (para B.5.22-23)	Significant increase in the risk of default (*credit risk*) since recognition (para 5.5.9). A non-exhaustive list of indicators are given in para. B5.5.17.	Purchased or originated credit-impaired assets e.g. in significant financial difficulty, breach of contract, concessions granted etc. (see AASB 9, Appendix A).
How assessed?	• ***'General approach'*** — individually or collectively (para 5.5.5) every period. • Individually — where it had been determined as such in the Lifetime ECL and it has moved to this bucket (para 5.5.4 and 5.5.7).	• ***'General approach'*** — individually or collectively (para 5.5.4 and B5.5.1) every period. • ***Where 'renegotiated or modified'*** — Individually (para 5.5.12, B5.5.2) every period. • Trade ***receivables*** and ***leases*** — collectively (para 5.5.15) every period.	• ***'Credit-impaired financial assets'*** — individually where assets are individually known to be distressed and assessed as such, otherwise collectively (para 5.5.4), at initial recognition or subsequent measurement.
Reporting in EFS forms E.g. ARF 720.0A/B, ARF 720.1A/B etc.	Allocate all amounts to the **collective** column by default, except for **individually** assessed amounts.	• Allocate all renegotiated or modified loan related provision amounts to the **individual** column. • Allocate all trade and lease receivable related provision amounts to the **collective** column by default, unless for assets that were **individually** assessed. • Allocate all remaining amounts to the **collective** column by default, except for any that've been actually **individually** assessed.	Allocate amounts to the **individual** or **collective** column, following assessment.

Expected credit losses (ECL):

- are determined using forward-looking information (informed by probability-weighted forecasts, time value of money, future economic conditions, para 5.5.17) related to the financial assets (determined either **individually** or **collectively**), and not merely based past-due data unless forward-looking information is cost ineffective to obtain (B5.5.4), or the data is not available (B5.5.3), unless
- assets are >30 days past due, then they are considered have suffered 'significant increase in credit risk' and therefore **individually** identifiable.

Collective assessment Is to be performed based on 'shared credit risk characteristics', such as instrument type, risk ratings, collateral type, industry etc. (para B5.5.5).

Once the ECL provisions have been allocated between individual and collective provision as above:

- For loans and finance leases, report the provisions in the relevant 'individual' or 'collective' item codes.

- For other financial assets, net off the value of individual provisions and report the net amount of the asset as one item. For clarity, do not net off collective provisions. This treatment is in line with the requirement to report using market values and should be applied to all EFS forms.
- For off-balance sheet credit related commitments, report individual provisions in Item 17.5. Other provisions in ARF 720.0.

1.13 Borrower-accepted commitments

RFCs should report ***borrower-accepted commitments*** at the point at which the borrower has indicated acceptance of a firm offer to provide finance consistent with the definition.

PROXY: ***ADIs*** should also report on this basis, except where capital adequacy guidelines (e.g. APG 112 – Standardised Approach to Credit Risk) require recognition of a commitment at the point at which a firm offer of finance is made (i.e. before customer acceptance).

This means that ***ADIs*** taking advantage of the long-standing concessional treatment for residential mortgages should report in a manner consistent with the definition of a ***borrower-accepted commitment*** for this form of finance. However, other forms of finance may be reported earlier (i.e. when a firm offer to provide finance is made but prior to borrower acceptance).

Practical implementation

When reporting at the point of borrower acceptance, the reporting institution may determine the month in which a ***borrower-accepted commitment*** is accepted by the borrower with reference to either:

- PROXY: the month in which it receives a signed contract indicating the borrower(s) has/have accepted the reporting institution's offer of finance; or
- the date the contract is signed by the borrower(s).

New ***borrower-accepted commitments*** that have been cancelled in the same reporting period they are recognised should not be reported as a new ***borrower-accepted commitment***.

1.13.1 Cancellations and reductions in previously committed credit limits

Include:

- borrower-initiated and lender-initiated cancellations and reductions;
- cancellations of and reductions in drawn and undrawn ***commitments***.

Exclude:

- reductions due to amortisation of a ***loan*** or ***finance lease***; and
- reductions due to expiration of a contract.

1.14 Identifying facilities

Multiple accounts/lending agreements should only be considered part of a single lending ***facility*** where they differ by ***interest rate*** type (***fixed interest rate*** or ***variable interest rate***) and/or repayment type (***interest only*** or ***amortising***).

If the accounts/lending agreements differ by characteristics that are not the result of different ***interest rate*** or repayment types – for example, ***revolving credit*** and ***fixed-term*** credit – ~~, or two separate *fixed-term* lending agreements of different *original maturities* –~~ then these should not be considered part of a single lending ***facility***.

Practical implementation

When grouping accounts/lending agreements into a ***lending facility*** apply the following logic:

1. Disaggregate accounts/lending agreements to the same borrower(s) to the lowest level possible.

2. For those accounts/lending agreements approved at the same point in time and/or as a part of the same ***application***, consider whether they are for the same ***purpose*** **class and for housing, *the same* residential property purpose.** In comparing purposes, first apply the predominant purpose principle to each separately identifiable account/lending agreement.
3. For those accounts/lending agreements that were approved at the same point in time as part of the same ***application*** and for the same (predominant) purpose, , including the same ***residential property purpose***, treat those that are similarly structured and differ only by characteristics relating to ***interest rate*** type (***fixed interest rate*** or ***variable interest rate***) and/or repayment type (***interest only*** or ***amortising***) as belonging to a single ***lending facility***.

For example, a ***housing loan application*** to be split 25/75 into ***fixed interest rate*** and ***variable interest rate*** products may be recorded as two new ***loan*** accounts but would be regarded as one lending ***facility***.

Facilities with a mix of ***interest rate*** types and/or repayment types may be referred to as 'split' ***facilities***.

The features of some ***facilities*** may be unknown when a reporting entity makes a firm offer to provide finance. In this instance, report the ***borrower-accepted commitment*** and ***credit limit*** as revolving credit, and according to the expected predominant ***purpose*** and ***sub-purpose***. Once a ***loan*** has been ***funded*** and ***drawn down*** from the facility, the ***loan*** should be reclassified according to its actual characteristics if required. Do not report such reclassifications as internal refinancing.

1.14.1 Apportioning number

Where the number is required to be reported along an ***interest rate*** or repayment type dimension (e.g. ***fixed interest rate*** and ***variable interest rate***, or ***amortising*** and ***interest-only***), report each ***facility*** once according to the predominant type by value for that dimension, unless otherwise directed.

For example, if a ***facility*** is split by value 25/75 ***fixed interest rate*** and ***variable interest rate*** then one ***facility*** should be recorded (by number) in ***variable interest rate*** and none in ***fixed interest rate***.

If a ***facility*** is split by value 50/50 across ***interest rate*** types or repayment types, then report the number of ***facilities*** as follows:

- ***interest rate*** type: default to ***variable interest rate***; and
- repayment type: default to ***amortising***.

1.15 Interest rates

The guiding principle in reporting ***interest rates*** is to report the contractual rate to be paid to or received by the customer/counterparty/debtholder. No fees should be included and no adjustment should be made for whether the payment/receipt actually occurred.

Reporting institutions are requested to report ***interest rates*** as annualised rates and not as a spread. That is, even if the reporting institution would typically consider that rate as a spread over a market rate, then the applicable market rate should be added to the spread when reporting the rate.

Reporting institutions are requested to report ***interest rates*** on foreign currency assets or liabilities as the contractual rate paid to or by the counterparty in that foreign currency. That is, no adjustments for hedging (such as cross-currency basis costs) should be incorporated in the rate reported.

Where there is more than one contractual rate, and the rate paid by the customer depends on their behaviour in that period, report the contractual rate that applied given their behaviour. For example, if a customer qualified for a bonus interest rate, then the rate reported for that account for that period should include the bonus interest rate.

The treatment of ***interest rates*** for ***credit cards*** (including charge cards) is specific:

- Because a ***credit card*** may charge interest in the month on only a portion of the balances outstanding, the treatment differs. The ***interest rate*** to be reported should be calculated as interest charged on ***credit cards*** during the month divided by the relevant balance × 100%. In the absence of further instructions, the relevant balance is the ~~balance~~ value of ***credit card*** debt (outstanding or funded) incurring interest ~~outstanding~~ at the end of the month.~~In other cases, where specifically directed, the balance of **credit card** debt outstanding to be reported is total balances that accrued interest in the month. In this case, the **interest rate** reported would be the **weighted average** contractual rate for all balances that accrued interest in the month.~~
- When reporting ***credit cards funded*** during the month, the ***interest rate*** reported against the ***credit card*** limit ***funded*** should be zero unless a balance transfer has taken place (in which case, report the ***interest rate*** applying to this balance).

The treatment of ***interest rates*** for ***offset*** and ***set-off accounts*** is specific:

- The linked ***deposit*** and ***loan*** balances are, in the absence of specific instructions to the contrary, to be reported on a gross basis.
- For ***offset accounts***, the ***interest rate*** should be reported as the contractual rate payable on the linked ***loan*** account, multiplied by the proportion of the ***offset account*** balance that is offset against the ***loan*** balance.
- For ***set-off accounts***~~Accordingly~~, the same (contractual) ***interest rate*** payable to or receivable by the customer on the net balance should be reported on both the ***loan*** and ***deposit*** amounts.
- Both ***offset*** and ***set-off accounts*** should be reported as ***interest-bearing deposits*** on ARF 720.2, even if the customer is not due to pay or receive any interest on the net balance of the ***loan*** in the given reporting period (unless the contractual ***interest rates*** on both the ***loan*** and the ***deposit*** account are zero).

- The average interest rate net of offset balances should include impaired loans temporarily not bearing interest (e.g. loans with a repayment holiday or loans that are in hardship). However, these loans should be excluded from the calculation of the weighted average interest rate.

Example 1: mortgage offset account

Assume a $100 ***housing loan*** with an ***interest rate*** of 4 per cent and a linked ***offset account*** (which has a contractual interest rate of 0 per cent):

- If the ***deposit*** balance is $50, an ***interest rate*** of 4 per cent will be charged on the net ***loan*** balance ($50). The entire ***loan*** balance and the entire ***deposit*** balance should each be reported with an ***interest rate*** of 4 per cent (since the full ***offset account*** balance is being utilised to offset the ***loan***).
- If the ***deposit*** balance is $200, no interest will be payable or receivable by the customer on the ***loan*** or ***deposit***. The entire ***loan*** balance should be reported with an ***interest rate*** of 4 per cent, and the entire ***deposit*** balance should be reported with an ***interest rate*** of 2 per cent (since only half of the ***offset account*** balance is being utilised).

~~Assume a ***housing loan offset account*** with an ***interest rate*** of 7 per cent charged on the net balance if the ***loan*** balance exceeds the ***deposit*** balance and an ***interest rate*** of 0 per cent if the ***deposit*** balance exceeds the ***loan*** balance.~~

~~If the ***loan*** balance exceeds the ***deposit*** balance then report the entire ***loan*** balance with an ***interest rate*** of 7 per cent and the entire ***deposit*** balance with an ***interest rate*** of 7 per cent.~~

~~If the ***deposit*** balance exceeds the ***loan*** balance then report the entire ***loan*** balance with an ***interest rate*** of 0 per cent and the entire ***deposit*** balance with an ***interest rate*** of 0 per cent.~~

Example 2: net balance

Assume linked ***business*** lending and ***deposit*** accounts with an ***interest rate*** of 16 per cent charged on the net balance if the total ***loan*** balance exceeds the total ***deposit*** balance and an ***interest rate*** of 3 per cent paid if the total ***deposit*** balance exceeds the total ***loan*** balance.

If the total ***loan*** balance exceeds the total ***deposit*** balance then report the total ***loan*** balance with an ***interest rate*** of 16 per cent and the total ***deposit*** balance with an ***interest rate*** of 16 per cent.

If the total ***deposit*** balance exceeds the total ***loan*** balance then report the total ***loan*** balance with an ***interest rate*** of 3 per cent and the total ***deposit*** balance with an ***interest rate*** of 3 per cent.

1.15.1 Calculating an annualised rate

Annualised rates may be calculated by simple multiplication or division of the relevant rate on a 365 days per year basis (no calculation of compound rates is required). Where market convention is to use an annualised rate other than 365 days, this annualised rate may be used instead.

Example 3

A bank has issued a fixed-rate bond that pays a semi-annual coupon of 3 per cent. To obtain the annualised rate on this funding, multiply the semi-annual rate of 3 per cent by 2 to obtain the annualised rate of 6 per cent.

1.15.2 Calculating a weighted average rate

The ***weighted average*** rate is the weighted sum of the individual rates where the weights used are the corresponding balances expressed as a share of the total balance for that category.

Do not excluded interest rates that are less than or equal to zero from the calculation of weighted average interest rates.

Weighted average rates may be calculated using the formula below.

$$Weighted\ average\ rate = \sum_i rate_i \times weight_i$$

Where $weight_i$ = the balance for item i divided by the sum of balances for all items i

Example 4

A bank's portfolio of ***business loans*** in a given industry sector consists of ***loans*** with the following characteristics:

Loan Characteristics		
Loan	Outstanding balance	Interest rate
1	\$50m	3%
2	\$10m	5%
3	\$40m	4%

The ***weighted average interest rate*** would be calculated as:

3% × 50/100 + 5% × 10/100 + 4% × 40/100 = 3.6%

1.15.3 Cost/value of funds

The guiding principle in reporting the ***cost/value of funds*** is to report the rate to be charged or credited to the business unit.

Unless otherwise explicitly directed, the ***cost/value of funds*** is not to be expressed as a spread. That is, even if the reporting institution would typically consider that rate as a spread over a market rate, then the applicable market rate should be added to the spread when reporting the ***cost/value of funds***.

The ***cost/value of funds*** for a foreign currency asset or liability should be reported on an AUD (or AUD equivalent) basis.

This ***cost/value of funds*** should include transfer pricing relating to:

- Interest rate risk managed centrally. This transfer price has the effect of reducing the exposure of the business unit to variability in the interest income it receives that arises from changes in interest rates (and transferring that exposure to the treasury). Accordingly, this transfer price may differ by product – where the characteristics of the product expose it to different types of interest rate risk to other asset or liabilities (for example, because their interest rates may re-price on a different frequency or at the option of the customer).
- Liquidity risk managed centrally. This transfer price serves to attribute the costs of centrally managing liquidity risk. It may incorporate the cost of raising funding that matches the expected life of an asset, and other costs relating to the management of liquidity risk (including contingent liquidity risk) in line with APS 210.
- Strategic pricing determined by management. This transfer price is an overlay determined by management policy that is designed to influence the asset or liability composition of the balance sheet.

If the internal transfer prices calculated by your reporting institution contain components that do not fit in one of the categories above (or if they do not incorporate interest rate risk and/or liquidity risk transfer pricing), please contact APRA for further guidance.

PROXY: If, in reporting ***cost/value of funds***, the ***ADI*** or ***RFC*** faces significant difficulties in providing accurate information by purpose, the agencies may consider allowing a proxy methodology involving allocation or apportionment based on product characteristics and/or other information. An ***ADI*** or ***RFC*** in this situation should seek reporting advice from ***APRA***.

1.16 Treatment of fixed interest rate products once the fixed period ends

Finance (***loans***, ***finance leases*** and ***bill acceptances***) with a ***fixed interest rate*** should be reported as having a ***fixed interest rate*** for the period that the ***fixed interest rate*** applies. When the ***fixed interest rate*** period ends, the finance should then be reported as having a ***variable interest rate*** (assuming that the customer has not entered into a new ***fixed interest rate*** period) from that point onwards.

Some fixed-term finance may contain provisions for the ***interest rate*** to be reset at regular short-term intervals over the ***term*** of the agreement (and remain fixed in the interim between resets). Such finance should be classified as having a ***variable interest rate***.

Similarly, ***short-term*** debt instruments with any provision for regular changes in their interest rates are to be classified as having a ***variable interest rate*** (e.g. 9 month bill, with quarterly resets).

1.17 Residual maturity

1.17.1 Hybrid securities

The ***residual maturity*** of ***hybrid securities*** should be based on the period until the next call date.

1.18 Funds held on behalf of/in trust for clients

The ***domestic books*** definition does not consolidate funds management operations.

Any ***deposits*** with the ***domestic books*** entity (including those by funds management operations) should be reported on the ARF 720.0A/B, ARF 720.2A/B, ARF 720.3 and ARF 747.0A/B (as applicable). The sectoral classification should be based on the counterparty with whom the reporting entity is making the deposit and has a position with on a flow of funds basis, not on an ultimate risk basis.

Example 1: funds manager deposits

Consider the situation where a funds manager makes a ***deposit*** with a bank on behalf of a ***household***. This should be reported by the bank as a ***deposit*** by a funds manager. If the funds manager is a ***related party***, the ***deposit*** should be reported as an ***intra-group*** liability. If the funds manager is a ***non-related party***, the ***deposit*** should be reported as a ***deposit***.

Where the direct legal entity facing the reporting institution is a trustee, a responsible entity, or a custodian acting on behalf of a trust, reporting entities should classify the counterparty according to the sectoral classification of the trust, and not e.g. a deposit by a financial auxiliary (i.e. trustee, a responsible entity, or custodian).

1.19 Treatment of short-sold positions

Report ***securities held for trading*** and ***securities not held for trading*** by adjusting for the value of ***short-sold positions*** (that is, report the value of securities held less the value of securities sold short). ~~Do not include unsettled trades.~~ Where the ***short-sold position*** exceeds the asset position, the amount to be reported will be negative.

For example, a reporting entity may have a ***trading book*** comprised of the following positions:

- $1 million of purchased ***equity securities***; and
- $100,000 of short sold ***equity securities***

In this example, the amount to be reported for ***securities held for trading*** that are ***equity securities*** is $900,000.

2. Form-specific Guidance

2.1 ARF 720.0A/B: ABS/RBA Statement of Financial Position (Standard) / (Reduced)

2.1.1 General guidance

Applicable sections of general guidance include:

- *1.1 General guide to reporting by counterparty;*
- *1.2 Residency;*
- *1.3 Related parties;*
- *1.4 Domestic books consolidation;*
- *1.5 Standard Economic Sector Classifications of Australia;*
- *1.12 Types of financial assets and liabilities;*
- *1.16 Treatment of fixed interest rate products once the fixed period ends;*
- *1.17 Residual maturity;*
- *1.18 Funds held on behalf of/in trust for clients; and*
- *1.19 Treatment of short-sold positions.*

2.1.2 Foreign currency conversion

The general requirements of *AASB 121 The Effects of Changes in Foreign Exchange Rates* (AASB 121) for translation are:

1. translate foreign currency monetary items outstanding at the reporting date at the spot rate at the reporting date;[17]
2. translate foreign currency non-monetary items that are measured at historical cost in a foreign currency using the exchange rate at the date of the transaction;[18]
3. translate foreign currency non-monetary items that are measured at fair value at the exchange rate at the date when fair value was determined.

[17] Monetary items are defined to mean units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency. Spot rate means the exchange rate for immediate delivery.

[18] Examples of non-monetary items include amounts prepaid for goods and services (e.g. prepaid rent), ***goodwill***, ***intangible assets***, inventories, property, plant and equipment and provisions that are to be settled by the delivery of a non-monetary asset.

AASB 9 Financial Instruments (AASB 9) applies to many foreign currency derivatives. In addition, AASB 121 applies when an entity translates amounts relating to derivatives from its functional currency to its presentation currency. As foreign currency ***derivatives*** are measured at fair value at reporting date, they should be translated at the spot rate at the reporting date.

Translate equity items using the foreign currency exchange rate at the date of investment or acquisition. Post-acquisition changes in equity are required to be translated on the date of the movement.

Exchange differences for monetary items arising from a foreign currency transaction are generally recognised in profit and loss in the period in which they arise. Exceptions include: a monetary item that is designated as a hedging instrument in a cash flow hedge; a hedge of a net investment; or a fair value hedge of an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income. For these exceptions, the gain or loss that is presented in other comprehensive income (in accordance with AASB 9 requirements) includes any related foreign exchange component.

4. translate financial reports of foreign operations.

   A foreign operation is defined in AASB 121 as meaning an entity that is a subsidiary, ***associated entity***, ***joint venture entity*** or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.

   Exchange differences relating to foreign currency monetary items that form part of the net investment of an entity in a foreign operation must be recognised as a separate component of equity.

   Translation of financial reports should otherwise follow the requirements in AASB 121.

2.1.3 Treatment of foreign currency forwards/swaps with legs in different currencies

Each leg should be converted to AUD using the relevant spot rate per differing currency.

2.1.4 Treatment of repurchase agreements and securities lending

Transactions related to ***repurchase agreements*** (***repos***) and ***securities lending*** are to be recorded consistent with AASB 9.

Repos – General treatment

In a ***repo***, the security (collateral) will remain as an asset on the balance sheet of the seller and is not derecognised, in accordance with AASB 9.

If the security is sold under ***repo*** in exchange for cash:

- the seller records an increase in assets (i.e. cash), and the purchaser records a decrease in assets (i.e. cash) as a result of the sale.
- the seller records a liability representing the payable due to the purchaser to reflect its obligation to return the cash once the purchaser returns the security (collateral) to the seller at the end of the transaction.

- The purchaser will record a corresponding asset representing the receivable due from the seller.

Securities lending – General treatment

In a ***securities loan***, the security loaned will remain as an asset on the balance sheet of the lender and is not derecognised, in accordance with AASB 9. If the security is lent in exchange for cash collateral under a securities lending agreement:

- the lender records an increase in assets (i.e. cash), and the purchaser/borrower records a decrease in assets as a result of the loan.
- the lender records a liability representing the payable due to the borrower to reflect its obligation to return the cash collateral once the borrower returns the security to the lender at the end of the transaction.
- The borrower will record a corresponding asset representing the receivable due from the lender.

If the security is lent in exchange for non-cash collateral, then there is no impact on reporting for ARF 720.0A/B (the lender continues to recognise the securities on its balance sheet) except that, where the value of the security is reported in 'Item 3: Total securities held for trading' of ARF 720.0A, the value of that security should also be reported in 'Item 3.2: Total securities held for trading: *of which*: Securities lent or sold under repurchase agreements' on ARF 720.

Example 1: Bank A sells securities to Bank B under a repurchase agreement (or lends them against cash collateral)

Bank A (Seller)		Bank B (Purchaser)	
Assets	**Liabilities**	**Assets**	**Liabilities**
Securities	Payable due to Bank B	Receivable due from Bank A	
Proceeds from sale under ***repo*** / cash ***collateral*** from ***securities lending***		*less Value* of funds transferred under ***repo*** / cash ***collateral*** under ***securities borrowing***	

Reporting on ARF 720.0A/B for the Seller / Lender

Although the ***repo*** seller/securities lender continues to recognise the securities sold or lent as an asset, the reporting of the securities lent/sold under ***repo*** on ARF 720.0A/B will depend on whether the securities were issued by a ***related party*** or a ***non-related party***. If the securities lent/sold under ***repo*** are issued by a ***related party***, they should be reported under 'Item 12: Total intra-group assets' on ARF 720.0A/B. If the securities lent/sold under ***repo*** are issued by a ***non-related party***, they should be reported under 'Item 3: Total securities held for trading' against the appropriate security type on ARF 720.0A, or under 'Item 3: Total debt securities' or 'Item 4: Total equity securities' against the appropriate security type on ARF 720.0B. These securities should also be reported in 'Item 3.2: Total securities held for trading: *of which*: Securities lent or sold under repurchase agreements' on ARF 720.0A.

Where applicable, the reporting of the liability representing the payable due to the purchaser/borrower of the securities in the books of the seller/lender will depend on whether the purchaser/borrower is a ***related party*** or a ***non-related party***. If the purchaser/borrower is a ***non-related party***, it should be reported under 'Item 18.6: Payables related to securities lent under securities lending arrangements or sold under repurchase agreements'. If the purchaser/borrower is a ***related party***, it should be reported under 'Item 20: Total intra-group liabilities'.

If the securities were sold or lent against cash collateral, the seller should record the funds received under the relevant asset type e.g. cash.

Reporting on ARF 720.0A/B for the Purchaser / Borrower

The securities borrowed or purchased under ***repo*** should not be reported on ARF 720.0A/B.

Where applicable, the reporting of the asset representing the receivable due from the seller/lender of the securities will depend on whether the seller/lender is a ***related party*** or a ***non-related party***. If the seller/lender is a ***non-related party***, it should be reported under 'Item 10.4: Receivables related to securities borrowed under securities lending arrangements or purchased under repurchase agreements' on ARF 720.0A/B. If the seller/lender is a ***related party***, it should be reported under 'Item 12: Total intra-group assets' on ARF 720.0A/B.

If the securities were purchased or borrowed against cash collateral, the purchaser should report a decline in funds under the relevant asset type e.g. cash.

2.1.5 Treatment of securitisation

2.1.5.1 Special Purpose Vehicles

SPVs are a separate legal entity to the ***ADI*** or ***RFC***.

In the case of ***ADIs*** and ***RFCs*** that are a ***related party*** of an ***ADI, the following treatment applies.***

- ***SPVs*** should not be consolidated within ***domestic books*** reporting.
- Any positions between the ***ADI*** or ***RFC*** and an ***SPV*** that is a ***related party*** will need to be recorded as an ***intra-group*** asset or liability.
- For any ***SPV*** that has been established for the purpose of holding assets in a cover pool for ***covered bonds***, the securitised assets should be treated as on-balance sheet. That is, any assets in a cover pool that have been transferred to an ***SPV*** must not be derecognised from the ***domestic books*** balance sheet of the reporting entity. In addition, the ***covered bonds*** are issued by an ***ADI*** and should therefore be included as a ***debt security*** issued by that *ADI* for reporting purposes.
- For all other assets that have been transferred to an ***SPV*** for the purposes of ***securitisation***, refer to the accounting standards to determine whether the securitised assets should be treated as on-balance sheet or off-balance sheet.

Note that, in contrast to reporting to ***APRA*** for prudential purposes, the ***EFS collection*** does not use the 'securitisation deconsolidation principle'.

~~In the case of an~~ ***RFCs*** that are not a ***related party*** of an ***ADI***~~,~~ should consolidate ***resident SPVs*** that are ***controlled entities*** for the purposes of ***domestic books*** reporting (see *Section 1.4.4 Consolidation of SPVs by RFCs* for more detail). All assets that have been originated by, or transferred to, a controlled ***SPV*** for the purposes of securitisation should therefore be treated as ***on-balance sheet securitised assets***. Any ***intra-group*** positions and transactions between the ***RFC*** and these ***SPVs*** should not be reported.

Example 1: Off-balance sheet securitisation (ADIs and RFCs that are related parties of ADIs)

Step 1: a bank has some ***loans*** (or any other assets), that it would like to securitise.

Step 2: the bank sells the loans to the ***SPV***. In this example, the purchase by the ***SPV*** is funded by a ***loan*** from the bank. However, this purchase could have also been funded in a number of other ways.

Step 3: the ***SPV*** creates securities backed by the ***loans***. In this example, a portion of the securities issued by the ***SPV*** is purchased by the bank, and the remaining securities are purchased by other entities. The ***SPV*** uses the proceeds from the sale to repay the original ***loan*** from the bank.

Once the assets to be securitised have been sold to the ***SPV***, they should no longer be reported on ARF 720.0A/B.

Any ***loans*** (or other funding) to an ***SPV*** that is a ***related party*** should be reported in 'Item 12: Total intra-group assets'. These assets due from ***SPVs*** that are ***related parties*** should also be reported on ARF 720.3.

Any securities held that are issued by an ***SPV*** that is a ***related party*** should be recorded in 'Item 12: Total intra-group assets'. These securities should also be reported on ARF 720.3 and either ARF 720.4 for ***debt securities*** or ARF 720.5 for ***equity securities***. ***Asset-backed securities*** issued by an ***SPV*** that is a ***related party*** should be treated as ***debt securities***, not ***intra-group loans***.

Step 1: Prior to securitisation

Bank		SPV	
Assets	Liabilities	Assets	Liabilities
Loans	Funding for ***loans***		

Step 2: Bank sells loans to be securitised to the SPV

Bank		SPV	
Assets	**Liabilities**	**Assets**	**Liabilities**
	Funding for ***loans***		
Loan to ***SPV***		***Loans***	***Loan*** from ***bank***

Step 3: SPV issues securities

Bank		SPV	
Assets	**Liabilities**	**Assets**	**Liabilities**
	Funding for ***loans***		
		Loans	
Portion of securities issued by ***SPV*** held by bank Funds from repayment of remaining portion of ***loan*** to ***SPV***			Securities issued by ***SPV***

Example 2: On-balance sheet securitisation

Step 1: a bank has some ***loans*** (or any other assets), that it would like to securitise.

Step 2: the bank sells the ***loans*** to the ***SPV***. In this example, the purchase by the ***SPV*** is funded by a ***loan*** from the bank. However, this purchase could have also been funded in a number of other ways. Because the bank does not derecognise the ***loans*** but does notionally transfer them to the ***SPV***, the bank records a liability equal to the value of the ***loans*** transferred to the ***SPV***. -The ***SPV*** records a corresponding asset representing the value of the ***loans*** transferred by the bank.

Step 3: the ***SPV*** creates securities backed by the ***loans***.

Step 3A – Self-Securitisation: all of the securities issued by the ***SPV*** are purchased by the bank and the ***loan*** is extinguished.

Step 3B – Other on-balance sheet securitisation: in this example, a portion of the securities issued by the ***SPV*** are purchased by the bank, and the remaining securities are purchased by other entities. The ***SPV*** uses the proceeds from the sale to repay a portion of the original ***loan*** from the bank.

The assets to be securitised that have been transferred to the ***SPV*** should be reported on ARF 720.0A/B against the relevant asset item. -For example, ***loans*** to ***non-related parties*** should be reported in 'Item 6: Total loans and finance leases'. These assets should also be reported in 'Item 13.1: Total assets including intra-group assets: *of which*: Assets that have been securitised' against the appropriate asset type. Any ***interest*** and ***fees*** accrued on these ***loans*** but not yet charged to the customer (i.e. as recorded in 'Item: 10.1 Interest receivable' and 'Item 10.11: Fees and commissions receivable') should be reported in 'Item 13.1.2: *of which*: Assets that have been securitised: Other'.

The liability representing the value of ***loans*** that have been transferred should be reported in 'Item 20: Total intra-group liabilities'. -It should also be identified in 'Item 20.1: *of which*: Liabilities to SPVs representing the value of assets transferred for securitisation'.

Any ***loans*** (or other funding) to an ***SPV*** that is a ***related party*** should be reported in 'Item 12: Total intra-group assets'. These assets due from ***SPVs*** that are ***related parties*** should also be reported on ARF 720.3.

Any securities held that are issued by an ***SPV*** that is a ***related party*** should also be recorded in 'Item 12: Total intra-group assets'. These securities held should also be reported on ARF 720.3 and either ARF 720.4 for ***debt securities*** or ARF 720.5 for ***equity securities***. ***Asset-backed securities*** issued by an ***SPV*** that is a ***related party*** should be treated as ***debt securities***, not ***intra-group loans***.

Step 1: Prior to securitisation

Bank		SPV	
Assets	Liabilities	Assets	Liabilities
Loans	Funding for ***loans***		

Step 2: Bank transfers loans to be securitised to the SPV

Bank		SPV	
Assets	Liabilities	Assets	Liabilities
Loans	Funding for ***loans***		
Loan to ***SPV***	Liability representing value of ***loans*** transferred	Asset representing value of ***loans*** transferred	***Loan*** from bank

Step 3/3A: SPV issues securities (self-securitisation)

Bank		SPV	
Assets	**Liabilities**	**Assets**	**Liabilities**
Loans	Funding for ***loans***		
	Liability representing value of ***loans*** transferred	Asset representing value of ***loans*** transferred	
Securities issued by ***SPV***			Securities issued by ***SPV***

Step 3/3B: SPV issues securities (other on-balance sheet securitisation)

Bank		SPV	
Assets	**Liabilities**	**Assets**	**Liabilities**
Loans	Funding for ***loans***		
	Liability representing value of ***loans*** transferred	Asset representing value of ***loans*** transferred	
Portion of securities issued by ***SPV*** held by bank			Securities issued by ***SPV***
Funds from repayment of remaining portion of ***loan*** to ***SPV***			

Example 3: On-balance sheet securitisation by an RFC that is not a related party of an ADI

Step 1: an ***RFC*** originates some ***loans*** that it would like to securitise.

Step 2: the ***RFC*** sells the ***loans*** to an ***SPV*** that is a ***controlled entity***. In this example, the purchase by the ***SPV*** is funded by a ***loan*** from the ***RFC***. Because the ***SPV*** is consolidated within the ***domestic books*** of the ***RFC***:

- the assets to be securitised that have been transferred to the ***SPV*** continue to be reported on the ***domestic books*** balance sheet of the ***RFC***; that is, the ***loans*** should be reported in 'Item 6: Total loans and finance leases' on ARF 720.0A/B.
- the ***loans*** should not be reported in 'Item 13.1: Total assets including intra-group assets: *of which*: Assets that have been securitised', 'Item 20: Total intra-group liabilities' or 'Item 20.1: *of which*: Liabilities to SPVs representing the value of assets transferred for securitisation'.

- the ***RFC*** should not report the ***intra-group loan*** to the ***SPV***.

Step 3: the ***SPV*** creates securities backed by the ***loans***.

Step 4: in this example, a portion of the securities issued by the ***SPV*** are purchased by the ***RFC***, and the remaining securities are purchased by other entities. The ***SPV*** uses the proceeds from the sale to repay a portion of the original ***loan*** from the ***RFC***.

Asset-backed securities issued by an ***SPV*** that is a ***controlled entity*** should be treated as ***debt securities*** issued, and reported in 'Item 16.2: Debt securities'. These securities should also be reported on ARF 720.6. Any securities held by the ***RFC*** that are issued by an ***SPV*** that is a ***controlled entity*** should not be reported.

2.1.5.2 Assets in a cover pool for covered bonds

Even when assets inside a ***covered bond collateral pool*** are segregated into an SPV, the ***covered bond*** remains a direct obligation of the issuing ***ADI***. Any assets held in a covered bond SPV must therefore not be derecognised from the ***domestic books*** balance sheet of the reporting entity. The cover pool assets should be reported on ARF 720.0A/B against the relevant asset item; for example, ***loans*** to ***non-related parties*** should be reported in 'Item 6: Total loans and finance leases'. These assets should also be reported in 'Item 13.1: Total assets including intra-group assets: *of which*: Assets that have been securitised' against the appropriate asset type.

Since the ***covered bonds*** are issued by the ADI itself, they should be reported as a ***debt security*** issued by that ADI in 'Item 16.1: Total borrowings: debt securities'. These ***debt securities*** should also be reported on ARF 720.6.

Any ***loans*** or other funding to an ***SPV*** that is a ***related party*** should be reported in 'Item 12: Total intra-group assets'. These assets due from ***SPVs*** that are ***related parties*** should also be reported on ARF 720.3 against the appropriate institution type.

Because the ADI does not derecognise the cover pool assets but notionally transfers them to the ***SPV***, it must also record a liability equal to the value of the assets transferred. This should be reported in 'Item 20: Total intra-group liabilities'.

2.1.6 Treatment of bills of exchange

Bills of exchange (***bills***) should only be reported on ARF 720.0A/B if they are held and/or ***accepted*** by your reporting institution. -See the table below for the particular items on ARF 720.0A/B where these bills should be reported.

Bills that have been ***endorsed*** (and neither held or ***accepted*** by your reporting institution) should not be reported on ARF 720.0A/B.

Reporting of bills of exchange		
	Assets	**Liabilities**
Bills held & accepted by your institution	*ARF 720.0A:* Item 3: Total securities held for trading or Item 4: Total securities not held for trading *ARF 720.0B:* Item 3: Total debt securities	Not reported
Bills held by your institution but not accepted by your institution	*ARF 720.0A:* Item 3: Total securities held for trading or Item 4: Total securities not held for trading *ARF 720.0B:* Item 3: Total debt securities	Not reported
Bills accepted but not held by your institution	Item 5: Net acceptances of customers *This item represents a contra asset that reflects the* ***ADI****'s or* ***RFC****'s claim against each drawer of a* ***bill of exchange*** *(where the* ***bill*** *is held by a third party).*	Item 15: Total acceptances *This item represents the liability of the* ***ADI*** *or* ***RFC*** *to pay (to a third party)* ***bills of exchange*** *drawn on customers.*

2.1.7 Treatment of margin monies

In the reporting of margin monies, a distinction should be made between 'repayable' and 'non-repayable' margin monies, where possible. This treatment is in line with the IMF's Monetary and Financial Statistics Manual and Compilation Guide (2016), from which the following definitions have been drawn.

- Repayable margin – sometimes referred to as initial margin – consists of collateral deposited to protect a counterparty against default risk. Ownership of the margin remains with the unit that deposited it. Although its use may be restricted, a margin is classified as repayable if the depositor retains the risks and rewards of ownership, such as the receipt of income or exposure to holding gains and losses. At settlement, ~~a~~ repayable margin (or the amount of repayable margin in excess of any liability owed on the financial contract) is returned to the depositor.

  Repayable margin payments are transactions in deposits, not transactions in the associated financial assets (e.g. financial derivatives). Repayable margin deposits made in cash should be reported as 'non-transaction deposits'. When a repayable margin deposit~~s~~ is made in a non-cash asset, no transaction or a new position in stocks is recorded in the balance sheets because no change in economic ownership has occurred.

- Non-repayable margin – sometimes referred to as variation margin – payments are transactions in financial derivatives, not deposits. Non-repayable margin is paid to meet liabilities recorded due to the daily marking of derivatives to market value. ~~In effect, n~~Non-repayable margin represents an effective transfer of ownership of the collateral between counterparties to the financial contract.

  ~~The n~~Non-repayable margin payments reduce the liability created through the financial derivative, with the contra-entry a reduction in another financial asset. The receipt of non-repayable margin is recorded as a reduction in the financial derivative asset; the contra-entry is an increase in another financial asset. For example, when debt securities are used to meet non-repayable margin obligations, the contra-entry would be an increase or decrease in 'Item 3: Total securities held for trading' on ARF 720.0A or 'Item 3: Total debt securities' on ARF 720.0B.

There may be instances where a reporting entity is unable to make the distinction between repayable and non-repayable margin monies. In these circumstances, treat all margin monies as repayable.

2.1.8 Treatment of settlement account balances

RBA Exchange Settlement Accounts and Nostro/Vostro accounts should be treated as 'at call deposits' and reported on the balance sheet accordingly.

Outstanding securities settlements should be reported on ARF 720.0 in line with the Australian Accounting Standards (specifically, AASB 9). Where a reporting entity has elected to use trade date accounting under AASB 9, ~~Settlement account balances related to~~ outstanding security settlements should be reported in:

- Item 10.5: Receivables related to securities sold not delivered / outstanding security settlements.
- Item 18.7: Payables related to securities purchased not delivered / outstanding security settlements.

Any other settlement account balances not related to outstanding security settlements (e.g. related to the payments system) should be reported in:

- Item 10: Total other assets (and will be captured in the derived Item 10.12 Other assets).

- Item 18: Total creditors and other liabilities (and will be captured in the derived Item 18.11 Other).

2.1.9 Treatment of interbank loans and deposits

Assets/liabilities arising from positions with other ***financial institutions*** (e.g. interbank assets/liabilities), should be treated no differently from assets/liabilities arising from positions with other types of counterparties. Report these positions based on the type of asset/liability, the residency and the related-party status of the ***financial institution***.

2.1.10 Funds on deposit with other financial institutions

As a guide, any funds on ***deposit*** that are redeemable or withdrawable on demand may be considered to be 'at call'. Funds on ***deposit*** that do not fit this description may be considered 'not at call' (e.g. funds with ***non-transaction deposit***-like characteristics).

2.1.11 Section A: Assets

Note that the treatment of ***residents*** and ***non-residents*** in ARF 720.0A/B 'Section A: Assets' differs from the previous version of this form (ARF/RRF 320.0), where ***residents*** and ***non-residents*** were separately identified.

2.1.12 ARF 720.0A Item 3: Securities held for trading

In accordance with AASB 9, ***securities held for trading*** are measured at fair value through profit or loss.

In accordance with AASB 9, all investments in equity instruments and contracts on those instruments must be measured at fair value. However, in limited circumstances, cost may be an appropriate estimate of fair value. Cost is never the best estimate of fair value for investments in quoted equity instruments (or contracts on quoted equity instruments).

~~2.1.13 ARF 720.0A Item 4: Securities not held for trading~~

~~***Securities not held for trading*** are securities that are not held for trading (these are reported in ARF 720.0A item 3: Securities held for trading.~~

2.1.14 ARF 720.0B Item 3: Total debt securities

~~Total ***debt securities*** i~~Include both ***debt securities*** ~~***that are***~~ ***held for trading*** and ***debt securities*** ~~***that are***~~ ***not held for trading***.

2.1.15 ARF 720.0B Item 4: Total equity securities

~~Equity securities i~~Include both ***equity securities*** ~~***that are***~~ ***held for trading*** and ***equity securities*** ~~***that are***~~ ***not held for trading***.

2.1.16 Item 10: Total other assets

Interest receivable

Item 10.1 requires institutions to report the interest that has accrued during the period but has not yet been received for ***interest-bearing*** assets.

This item should exclude the interest that has been received. Interest received should be included in the value of the relevant asset (such as ***loans*** or ***debt securities***).

PROXY: If information on ***interest receivable*** (Item 10.1) split by ***loans*** and ***finance leases*** (Item 10.1.1) and securities and other interest-earning assets (Item 10.1.2) is not available, apportionment of total ***interest receivable*** based on interest received for these product types is acceptable.

Capitalised expenses

Any expenses incurred in originating a ***loan*** or ***finance lease*** that have been capitalised by the reporting entity should be included in 'Item 10.2: Capitalised expenses' until amortised.

Derivative financial instruments

Report all ***derivatives*** recognised and measured in accordance with requirements in the Australian Accounting Standards (e.g. *AASB 132 Financial Instruments: Presentation* (AASB 132), *AASB 7 Financial Instruments: Disclosures* (AASB 7) and AASB 9. ***Derivatives*** are categorised according to whether the reporting entity holds them in the ***trading book*** or the ***banking book***.

For a given derivative instrument, report the net (market) value as either an asset or a liability. That is, do not separately record the clean price as an asset and accrued interest as a liability (or vice versa).

Fees and commissions receivable

Item 10.11 requires institutions to report fees and commissions that have been earned (accrued) during the period but not yet received.

This item should exclude fees and commissions that have been earned and received or capitalised (i.e. added to the outstanding value of the loan amount, as per the terms of the loan contract). Fees and commissions that have been earned and received should be included in the value of the relevant asset (such as ~~***loans*** or ***debt securities***~~). 'Item 1.1: Notes and coins' or 'Item 2: Funds on deposit', as appropriate) and recognised as income in ARF 730.0. Any fees and commissions that have been earned and capitalised by the entity should be reported in Item 6.

PROXY: If information on fees and commissions receivable split by ***resident households*** (Item 10.11.1), ***resident non-financial businesses*** (Item 10.11.2) and ***resident financial institutions*** (Item 10.11.3) is not available, estimation or proxy methodology is acceptable, including using fees and commissions received by product to estimate the split between these sectors.

Other assets (Item 10.12)

Generally include:

- commodities other than ***unallocated gold***;
- gold bullion (physical and ***allocated gold***, including gold certificates relating to ***allocated gold***);
- ***valuables***; and
- prepayments

Unallocated gold (including gold certificates relating to ***unallocated gold***) should be reported under Item 1.2.

'Non-financial assets' are those that meet the definition of an 'asset' according to the AASB Framework for the Preparation and Presentation of Financial Statements (para. 49(a)) but do not meet the definition of a 'financial asset' according to AASB 132 (para. 11).

2.1.17 ARF 720.0A/0B Item 12: Total intra-group assets

Item 12 collects information on the value of total assets due from ***related parties*** (***intra-group*** assets). Investments in related parties should be reported in item 12, along with the total value of assets due from related parties.

2.1.18 Section B: Liabilities

Note that the treatment of ***residents*** and ***non-residents*** in ARF 720.0A/B, 'Section B: Liabilities' differs from the previous version of this form (ARF/RRF 320.0), where ***residents*** and ***non-residents*** were separately identified.

2.1.19 Item 14 Total deposits

Exclude treasury-related short and long-term borrowings from other ***ADIs***. Report these in Item 16 as ***loans***.

2.1.20 Item 16 Total borrowings

Include treasury-related short and long-term borrowings from other ***ADIs***. Report these as ***loans***.

2.1.21 Item 18: Total creditors and other liabilities

Interest payable

Item 18.4 requires institutions to report the interest that has accrued during the period, but not yet been paid on ***interest-bearing*** liabilities.

This item should exclude the interest that has been paid. Interest paid should be included in the value of the relevant liability (such as ***deposits***, ***loans*** or ***debt securities***).

PROXY: If information on interest payable (Item 18.4) split by ***debt securities*** (Item 18.4.1), ***deposits*** (Item 18.4.2), ***loans*** and ***finance leases*** (Item 18.4.3) and other liabilities (Item 18.4.4) is not available, apportionment of total interest payable based on interest paid on these product types would be acceptable.

Derivative financial liabilities

Report all ***derivatives*** recognised and measured in accordance with the requirements in the Australian Accounting Standards (e.g. AASB 132, AASB 7 and AASB 9). ***Derivatives*** are categorised according to whether the reporting entity holds them in the ***trading book*** or the ***banking book***.

For a given derivative instrument, report the net (market) value as either an asset or a liability. That is, do not separately record the clean price as an asset and accrued interest as a liability (or vice versa).

Other (ARF 720.0A Item 18.11 or ARF 720.0B Item 18.12)

Item 18.11 (ARF 720.0A) / 18.12 (ARF 720.0B) requires institutions to report fees and commissions that have been received during the period, but not yet earned. This item should exclude fees and commissions that have been earned. Fees and commissions earned should be included in the value of the relevant asset (such as ***deposits*** or ***debt securities***).

PROXY: If information on fees and commissions received but not yet earned split by ***resident households*** (ARF 720.0A Item 18.11.1 / ARF 720.0B Item 18.12.1), ***resident non-financial businesses*** (ARF 720.0A Item 18.11.2 / ARF 720.0B Item 18.12.2) and ***resident financial institutions*** (ARF 720.0A Item 18.11.3 / ARF 720.0B Item 18.12.3) is not available, estimation or proxy methodology is acceptable, including using fees and commissions received by product to estimate the split between sectors.

Liabilities relating to ***unallocated gold*** should also be reported in item 18.11 (ARF 720.0A) / 18.12 (ARF 720.0B).

2.2 ARF 720.1A/B: ABS/RBA Loans and Finance Leases (Standard) / (Reduced)

2.2.1 General guidance

Applicable sections of general guidance include:

- *1.1 General guide to reporting by counterparty;*
- *1.2 Residency;*
- *1.3 Related parties;*
- *1.4 Domestic books consolidation;*
- *1.5 Standard Economic Sector Classifications of Australia;*
- *1.8 Identifying (predominant) purpose class and sub-class;*
- *1.9 Residential property purpose - owner-occupied and investment housing;*
- *1.10 Secured by residential property;*
- *1.11 Location of property;*
- *1.12 Types of financial assets and liabilities;* and
- *1.16 Treatment of fixed interest rate products once the fixed period ends.*

2.2.2 Treatment of securitisation

Refer to *Section 2.1.5 Treatment of securitisation* for guidance and examples of the treatment of securitisation.

SPVs should not be consolidated within ***domestic books***. Any ***loans*** to ***SPVs*** that are ***related parties*** should be excluded from ARF 720.1A/B. -These should be reported on ARF 720.3.

Reporting on ARF 720.1A/B: off-balance sheet securitisation

Once the assets to be securitised have been sold to the ***SPV*** and derecognised for accounting purposes, they should only be reported in 'Item 5: Outstanding principal balance of securitised loans and finance leases held off-balance sheet' on ARF 720.1A or 'Item 4: Outstanding principal balance of securitised loans and finance leases held off-balance sheet' on ARF 720.1B. These assets should be excluded from all other items on ARF 720.1A/B.

Reporting on ARF 720.1A/B: on-balance sheet securitisation

The assets to be securitised that have been transferred to the ***SPV*** but not derecognised for accounting purposes should be reported on ARF 720.1A/B in all items except in 'Item 5: Outstanding principal balance of securitised loans and finance leases held off-balance sheet' on ARF 720.1A or 'Item 4: Outstanding principal balance of securitised loans and finance leases held off-balance sheet' on ARF 720.1B. This applies to all assets that have been transferred to an ***SPV*** for the purposes of being held in a cover pool for ***covered bonds***.

2.2.3 Item 1: Gross outstanding loans and finance leases – by counterparty, currency & residual maturity

Maturing in one year or less

Any ***loan*** or ***finance lease*** products that do not have a maturity date should be treated as having a ***residual maturity*** of greater than 12 months. These products should not be reported in column 3 of Item 1 on ARF 720.1A.

Individual provisions

PROXY: Where ***individual provisions*** are not available by counterparty or purpose, the counterparty and purpose splits may be apportioned based on the value of ***credit outstanding*** to each counterparty and purpose.

Collective provisions

PROXY: Where ***collective provisions*** are not available by counterparty or purpose, the counterparty and purpose splits may be apportioned based on the value of ***credit outstanding*** to each counterparty and purpose.

2.2.4 Item 3: Characteristics of business loan and finance leases

Syndicated loans

Only ***syndicated loans*** that are made to ***resident*** entities should be reported in item 3.1.1 of ARF 720.1A. Where a separate funding vehicle is established for a group of borrowers seeking funding, the residency of the funding vehicle would determine whether the ***syndicated loan*** is made to a ***resident*** or ***non-resident*** entity. Where a separate funding vehicle is not established – for example, where the reporting institution makes a ***loan*** to a group of borrowers through an agent – ***syndicated loans*** should be reported based on the residency of the borrowers.

TRANSITIONAL PROXY: Where information on ***syndicated loans*** is not currently available, the reporting institution should use business-as-usual points of contact (e.g. annual reviews) prior to the commencement of reporting for the EFS Collection in 2019 to determine the correct categorisation applying to large business ***loans***. Where no business-as-usual points of contact occur within this time period, the ***ADI*** or ***RFC*** may allocate based on an internal allocation methodology. This would be updated at the next business-as-usual point of contact with the counterparty.

2.2.5 Item 6: Loans and finance leases to residents – past due and impaired

Reporting of ~~past due and impaired~~ non-performing exposures should be consistent with the data reported in the Credit Exposures and Provisions ~~Impaired Facilities~~ Return (ARF 220.0 Credit Exposures and Provisions~~Impaired Facilities~~). ***ADIs*** are encouraged to revisit APS 220 and ARS 220.0 to ensure they operate in accordance with prudential reporting requirements.

Commercial property lending

PROXY: When reporting ***commercial property*** lending in this item, reporting institutions may use the total of the 'Residential property construction' and 'Non-residential property construction' industry categories defined in ARS 701.0 may be used as a proxy for commercial property lending.

2.3 ARF 720.2A/B: ABS/RBA Deposits (Standard) / (Reduced)

2.3.1 General guidance

Applicable sections of general guidance include:

- *1.1 General guide to reporting by counterparty;*
- *1.2 Residency;*
- *1.3 Related parties;*
- *1.4 Domestic books consolidation;*
- *1.5 Standard Economic Sector Classifications of Australia;*
- *1.12 Types of financial assets and liabilities;* and
- *1.16 Treatment of fixed interest rate products once the fixed period ends;* and
- *1.18 Funds held on behalf of / in trust for clients.*

2.3.2 Transaction vs non-transaction deposits

Example of instantaneous transfer to a linked account

A customer has an online savings account that cannot be used to directly make payments or transfers to any account other than their nominated linked account.

- If this linked account is a ***transaction deposit*** account (i.e. meets none of the criteria in the definition of a ***non-transaction deposit***) with the same reporting institution as their online savings account and any funds transferred from the online savings account to the ***transaction deposit*** account are instantaneously available in the ***transaction deposit*** account, then the online savings account should be classified as a ***transaction deposit*** account.
- If this linked account is not a ***transaction deposit*** account (i.e. meets one or more of the criteria in the definition of a ***non-transaction deposit***) or is with another institution such that there may be a delay between when the funds are available in the linked account or is with the same reporting institution but any funds transferred from the online savings account to the ***transaction deposit*** account are not typically instantaneously available in the ***transaction deposit*** account, then the online savings account should be classified as a ***non-transaction deposit*** account.

Examples of restrictions/penalties on number of withdrawals or transfers

A customer has an account that provides them with 10 free transactions per month, and charges a nominal fee (that approximates the cost of providing that transaction service) on any transactions above this limit.

- This account, provided it did not meet any of the other criteria listed above, would be considered a ***transaction deposit*** account as the fee would not be considered a penalty.

A customer has an account that provides them with unlimited free electronic transactions and charges a nominal fee (that approximates the cost of providing that transaction service) on cheque or over-the-counter transactions.

- This account, provided it did not meet any of the other criteria listed above, would be considered a ***transaction deposit*** account as the fees would not be considered a penalty (and, in addition, there is a fee-free transaction option).

A customer has an account that provides them with 10 free transactions per month, and charges a fee of $10 (that considerably exceeds the cost of providing that transaction service) on any transactions above this limit.

- This account would be considered a ***non-transaction deposit*** account as the fee would be considered a penalty.

A customer has an account that does not charge a fee for transactions, but that pays an extra 3 per cent bonus interest if the customer makes less than two withdrawals per month.

- This account would be considered a ***non-transaction deposit*** account as the loss of bonus interest on the entire ***deposit*** balance would be considered a penalty.

A customer has an account where bonus ***interest*** is lost if the account balance has not increased over the month.

- This account would be considered a ***transaction deposit*** account. Even though the ***interest rate*** differs according to the final balance of the account, it is not affected by the number or value of withdrawals or transfers that are made.

Example of restrictions/penalties on early withdrawal/transfer of funds

A customer has a breakable term deposit. The customer may withdraw their funds immediately at any time, but would face a penalty of $50.

- This account would be considered a ***non-transaction deposit*** account as the fee for immediate withdrawal of funds would be considered a penalty.

2.3.3 Fixed-term deposits

Any ***deposit*** that provides a fixed date on which the funds are repayable should be treated as a ***fixed-term deposit***.

If the ***fixed-term deposit*** is breakable – for example, the funds may be withdrawn prior to the fixed date after providing a notice of withdrawal (with or without a delay in receiving the funds) – the ***deposit*** should be treated as a ***fixed-term deposit*** until notice of withdrawal is provided.

Once a notice of withdrawal is provided:

- if there is a fixed date in the future on which the funds may be withdrawn (i.e. in 30 days) then the ***deposit*** should still be classified as a ***fixed-term deposit***.
- if there is no fixed date in the future on which the funds may be withdrawn – i.e. they are available immediately or within a few days – then the ***deposit*** should no longer be classified as a ***fixed-term deposit*** (it should be classified as a ***transaction deposit*** or ***other non-transaction deposit*** as appropriate).

2.3.4 Rolling notice of withdrawal accounts

Deposit products without a fixed maturity date that offer redemption following a notice of withdrawal period (typically 30 days) should be classified as ***other non-transaction deposit*** accounts until notice of withdrawal is provided. Once notice of withdrawal is given:

- if there is a fixed date in the future on which the funds may be withdrawn (i.e. in 30 days) then the deposit should be classified as a ***fixed-term deposit***;
- if there is no fixed date in the future on which the funds may be withdrawn – i.e. they are available immediately or within a few days – then the ***deposit*** should be classified as ***transaction deposit*** or ***other non-transaction deposit*** as appropriate.

2.4 ARF 720.3: ABS/RBA Intra-group Assets and Liabilities

2.4.1 General guidance

Applicable sections of general guidance include:

- *1.1 General guide to reporting by counterparty;*
- *1.2 Residency;*
- *1.3 Related parties;*
- *1.4 Domestic books consolidation;*
- *1.5 Standard Economic Sector Classifications of Australia;*
- *1.12 Types of financial assets and liabilities;*
- *1.17 Residual maturity;*
- *1.18 Funds held on behalf of / in trust for clients; and*
- *1.19 Treatment of short-sold positions.*

2.4.2 Reporting by asset and liability type

For further detail on how to report by asset and liability type on ARF 720.3, refer to the instructions and guidance for ARF 720.0A.

When applying ARF 720.0A instructions and guidance to ARF 720.3, ignore any instructions that state to exclude positions with ***related parties*** (***intra-group*** assets or liabilities) or to include positions with ***non-related parties***. Also note that the treatment of ***provisions*** on the two forms differs: on ARF 720.3, the value of ***credit outstanding*** for ***loans*** and ***finance leases*** should be reported net of ***individual provisions*** but gross of ***collective provisions***; on ARF 720.0, ***loans*** and ***finance leases*** should be reported net of both ***individual provisions*** and ***collective provisions***.

2.4.3 Related party type

For Australian-owned ***ADIs***, the sum of assets (or liabilities) due from (due to) their ***overseas operations*** (i.e. overseas branches and overseas-based banking operations) should correspond to the sum of items 2.1.2 and 2.1.3 (items 4.1.2 and 4.1.3).

For foreign-owned ***ADIs*** and ***RFCs***, the value of assets (or liabilities) due from (due to) their ***overseas operations*** should correspond to the value reported in item 2.1.1 (item 4.1.1) for their ***parent entity***, or item 2.1.5 (item 4.1.5) for all other ***related parties***.

Items 2.1.2/4.1.2 and items 2.1.3/4.1.3 relate only to Australian-owned entities. Foreign-owned entities should not report intra-group assets of liabilities under these items.

Items 2.1.2, 2.1.3, 4.1.2 and 4.1.3 are not relevant for ***RFCs***.

2.4.4 Treatment of securitisation

In the case of ***ADIs*** and ***RFCs*** that are a ***related party*** of an ***ADI***, loans to related-party SPVs should be reported in 'Item 1.1.5: Loans and finance leases' and 'Item 2.1.4: Assets due from SPVs'. Note, this is the funding provided to the SPV and not the value of the loans transferred for securitisation.

Any securities held by ADIs or RFCs that are a related party of an ADI that are issued by a related-party SPV should be reported in the relevant items under 'Item 1.1.2: Securities held for trading' or 'Item 1.1.3: Securities not held for trading', as well as Item '2.1.4: Assets due from SPVs'. This does not apply to covered bonds, since these are issued by an ADI itself.

Since on-balance securitised assets are only notionally transferred to the SPV, the liability equal to the value of the assets transferred should be reported in 'Item 3.1.4: Creditors and other liabilities' and 'Item 4.1.4: Liabilities due to SPVs'. The same treatment applies for assets in a covered bond collateral pool.

2.4.5 Treatment of covered bond trusts

Consider the following example:

- An ADI provides an intra-group loan of $30bn to a related-party covered bond trust. This should be reported in 'Item 1.1.5: Loans and finance leases' and 'Item 2.1.4: Assets due from SPVs' on ARF 720.3.
- This loan is used to fund the notional transfer of $30bn of mortgages into the cover pool. This should be reported in 'Item 3.1.4: Creditors and other liabilities' and 'Item 4.1.4: Liabilities due to SPVs' on ARF 720.3.
- The ADI issues $25bn of covered bonds backed by the loans in the cover pool.

Subordination

Funding extended to the covered bond trust will be ***subordinated*** to the extent that it has been used to fund ***loans*** up to the value of the ***covered bonds*** issued. Please see ARS 701.0 for the definition of ***subordination***. Using the example above: $25bn of the $30bn loan should be reported as ***subordinated*** on ARF 720.3, since this amount must first be repaid to the covered bond holders; and $5bn should not be reported as ***subordinated***, since no other creditors have a claim on this amount.

The liability to the covered bond trust is the value of ***loans*** that have been notionally transferred. This value should not be reported as ***subordinated***, since the ***loans*** are legally being held in trust (even though these loans remain on-balance sheet for EFS reporting purposes). Using the example above, the entire $30bn notional liability would not be reported as ***subordinated***.

Security

Finance should be reported as ***secured*** if the lender has recourse to collateral in the event of the borrower's default.

All funding extended to an ***SPV*** that is used to purchase ***loans*** to be held in a ***covered bond collateral pool*** should be reported as ***secured***, since the ***loans*** act as security for that funding. Using the example above, the full $30bn ***loan*** to the covered bond trust should be reported as secured.

The notional liability to the covered bond trust ($30bn in the example above) is also effectively secured by the ***loans*** transferred to the trust and should also be reported as ***secured***.

2.5 ARF 720.4: ABS/RBA Debt Securities Held

2.5.1 General guidance

Applicable sections of general guidance include:

- *1.1 General guide to reporting by counterparty;*
- *1.2 Residency;*
- *1.3 Related parties;*
- *1.4 Domestic books consolidation;*
- *1.5 Standard Economic Sector Classifications of Australia;*
- *1.12 Types of financial assets and liabilities;*
- *1.17 Residual maturity; and*
- 1.19 Treatment of short-sold positions.

2.5.2 Valuation

Closing balances should be reported at ***market value*** effective at the reference date. Where denominated in foreign currency, ***market values*** of foreign currency should be converted to AUD at the spot rate effective as at the reference date.

PROXY: If ***market value*** is not available (i.e. when relevant observable market data does not exist), report fair value measured in accordance with AASB 13 *Fair Value Measurement*. Apply these valuation methods to all ***debt securities*** held.

Discounts or haircuts should not be subtracted from the value (for example, where securities are eligible for ***repo*** with the ***RBA***).

2.5.3 State, territory and local government / central borrowing authorities

Particular care should be taken to determine whether ***debt securities*** that appear to be issued by State, Territory and local government are actually issued by ***central borrowing authorities***. State ***central borrowing authorities*** have taken over almost all bond issuance for funding required by

State, Territory and local governments. -The Australian Capital Territory (ACT) general government is the only state or territory that issues securities directly.

2.5.4 Intra-group assets

Report all ***debt securities*** held, including holdings of ***debt securities*** issued by ***related parties*** that are not consolidated within ***domestic books***.

2.5.5 Treatment of securitisation

Refer to *Section 2.1.5 Treatment of securitisation* for guidance and examples on the treatment of ***securitisation***.

Securities held that are issued by ***SPVs*** that are ***related parties*** but are not consolidated within ***domestic books*** should be reported on this form.

Any securities issued by ***SPVs*** that are consolidated within ***domestic books*** should not be reported on this form. Instead, these securities should be reported on ARF 720.6 (see *Section 1.4.4 Consolidation of SPVs by RFCs* for further details on when SPVs should be consolidated).

2.5.6 Treatment of repurchase agreements and securities lending

Refer to *Section 2.1.4 Treatment of repurchase agreements and securities lending* for guidance and examples on the treatment of ***repurchase agreements*** (***repos***) and ***securities lending***.

Securities lent or sold under ***repo*** should be reported on ARF 720.4 where they are recognised on the ***domestic books*** balance sheet.

Securities borrowed or purchased under ***repo*** should not be reported on ARF 720.4.

2.5.7 Asset-backed securities

Include all ***asset-backed securities*** that are held on the ***domestic books*** balance sheet that that are issued by entities that are not consolidated within ***domestic books***. These securities should be reported against the relevant maturity and counterparty types.

If the ***asset-backed securities*** are issued by ***SPVs*** that are owned by the reporting institution or the same ***parent*** *entity* as the reporting institution but are not consolidated within ***domestic books***, these should also be reported as ***debt securities*** issued by ***related parties*** (Item 1.1 for ***short-term debt securities*** or Item 2.1 for ***long-term debt securities***) and as ***asset-backed securities*** issued by related ***SPVs*** (Item 1.2.2.4.8.1 for ***short-term debt securities*** or Item 2.4.4.8.1 for ***long-term debt securities***).

Asset-backed securities issued by entities that are consolidated within ***domestic books*** should not be reported on this form.

2.5.8 Reconciliation between ARF 720.4 and ARF 720.0A & ARF 720.3

The sum of ***short-term*** and ***long-term debt securities*** held reported on ARF 720.4 is equivalent to the sum of ***debt securities*** reported under ***securities held for trading*** and ***securities not held for***

trading on ARF 720.0A and ***debt securities*** reported under ***securities held for trading*** and ***securities not held for trading*** on ARF 720.3, apart from differences in valuation methodology. Values may not reconcile exactly because ***debt securities*** are reported at ***market value*** on ARF 720.4 and may be reported on a different basis on ARF 720.0A and ARF 720.3 (according to accounting treatment). See the table below for the specific items that should be equivalent, if it were not for the different valuation bases.

Reconciliation between ARF 720.4 and ARF 720.0A & ARF 720.3 *if ARF 720.0A and ARF 720.3 were reported at market values*	
ARF 720.4	**ARF 720.0A & ARF 720.3**
Item 1: Total short-term debt securities held – Column 1: Total Plus Item 2: Total long-term debt securities held – Column 1: Total	Item 3.3 on ARF 720.0A: Total securities held for trading: debt securities – Column 1: Total Plus Item 4.1 on ARF 720.0A: Total securities not held for trading: debt securities – Column 1: Total Plus Item 1.1.2.2 on ARF 720.3: Total intra-group assets: securities held for trading: debt securities – Column 1: Total Plus Item 1.1.3.2 on ARF 720.3: Total intra-group assets: securities not held for trading: debt securities – Column 1: Total *When these items are valued at market value.*

2.6 ARF 720.5: ABS/RBA Equity Securities Held

2.6.1 General guidance

Applicable sections of general guidance include:

- *1.1 General guide to reporting by counterparty;*
- *1.2 Residency;*
- *1.3 Related parties;*
- *1.4 Domestic books consolidation;*
- *1.5 Standard Economic Sector Classifications of Australia;*
- *1.12 Types of financial assets and liabilities;*

- *1.17 Residual maturity; and*
- *1.19 Treatment of short-sold positions.*

2.6.2 Valuation

Closing balances should be reported at ***market price*** effective at the reference date. Where denominated in foreign currency, ***market values*** of foreign currency should be converted to AUD at the spot rate effective as at the reference date.

PROXY: If ***market value*** is not available (i.e. when relevant observable market data does not exist), report at fair value measured in accordance with AASB 13 *Fair Value Measurement*.

2.6.3 Intra-group assets

All ***equity securities*** held should be reported, including holdings of shares and other equities issued by ***related parties***.

2.6.4 Treatment of repurchase agreements and securities lending

Refer to *Section 2.1.4 Treatment of repurchase agreements and securities lending* for guidance and examples on the treatment of ***repurchase agreements*** (***repos***) and ***securities lending***.

Securities lent or sold under ***repo*** should be reported on ARF 720.5 where they are recognised on the ***domestic books*** balance sheet.

Securities borrowed or purchased under ***repo*** should not be reported on ARF 720.5.

2.6.5 Reconciliation between ARF 720.5 and ARF 720.0A & ARF 720.3

The sum of ***equity securities*** held reported on ARF 720.5 is equivalent to the sum of ***equity securities*** reported under ***securities held for trading*** and ***securities not held for trading*** on ARF 720.0A and any ***securities held for trading*** and ***securities not held for trading*** on ARF 720.3, apart from differences in valuation methodology. Note that the values may not reconcile exactly because ***equity securities*** are reported at ***market value*** on ARF 720.5 and may be reported on a different basis on ARF 720.0A and ARF 720.3. See the table below for the specific items that should be equivalent, if it were not for the different valuation bases.

Reconciliation between ARF 720.5 and ARF 720.0A & ARF 720.3 *if ARF 720.0A and ARF 720.3 were reported at market values*	
ARF 720.5	**ARF 720.0A & ARF 720.3**
Item 1: Total equity securities listed on the ASX and issued by residents – Column 1: Total plus Item 2: Total equity securities not listed on the ASX and issued by residents – Column 1: Total plus Item 3: Total equity securities issued by non-residents – Column 1: Total	Item 3.4 on ARF 720.0A: Total securities held for trading: equity securities – Column 1: Total plus Item 4.2 on ARF 720.0A: Total securities not held for trading: equity securities – Column 1: Total plus Item 1.1.2.3 on ARF 720.3: Total intra-group assets: securities held for trading: equity securities – Column 1: Total plus Item 1.1.3.3 on ARF 720.3: Total intra-group assets: securities not held for trading: equity securities – Column 1: Total *When these items are valued at market value.*

2.7 ARF 720.6: ABS/RBA Securities Issued

2.7.1 General guidance

Applicable sections of general guidance include:

- *1.4 Domestic books consolidation*;
- *1.5 Standard Economic Sector Classifications of Australia*;
- *1.12 Types of financial assets and liabilities*; and
- *1.17 Residual maturity.*

2.7.2 Valuation

Closing balances should be reported at ***market value*** effective at the reference date. Where denominated in foreign currency, ***market values*** of foreign currency should be converted to AUD at the spot rate effective as at the reference date.

PROXY: If ***market value*** is not available (i.e. when relevant observable market data does not exist), report at fair value measured in accordance with AASB 13 *Fair Value Measurement*.

2.7.3 Treatment of securitisation

Refer to *Section 2.1.5 Treatment of securitisation* for guidance and examples of the treatment of ***securitisation***.

2.7.4 Treatment of covered bonds

Irrespective of the use of an ***SPV*** for segregation of the assets in a ***covered bond collateral pool***, ***covered bonds*** are considered to be issued by the ***ADI*** itself and should therefore be included as a ***debt security*** issued by that ***ADI*** for reporting purposes.

2.7.5 Bills of exchange

Bills of exchange reported in items 1.1.1 and 1.2.1 should be ***bills of exchange*** drawn on the reporting institution. -Do not report ***acceptances*** of ***bills of exchange*** drawn on other entities.

2.7.6 Asset-backed securities

Include any ***asset-backed securities*** that are issued by entities that are consolidated within ***domestic books***.

This means that ***ADIs*** and ***RFCs*** that are a ***related party*** of an ***ADI*** should not include ***asset-backed securities*** that are issued by ***related party SPVs***, except for any ***SPVs*** that have been established for the purpose of holding assets in a cover pool for ***covered bonds***.

RFCs that are not a ***related party*** of an ***ADI*** should include ***asset-backed securities*** issued by ***SPVs*** that are consolidated within ***domestic books*** on this form (see *Section 1.4.4 Consolidation of SPVs by RFCs*).

2.7.6 Hybrid securities treated as liabilities

Note that regulatory capital instruments, including Tier 2 capital instruments, are defined to be ***hybrid securities*** in ARS 701.0. All ***hybrid securities treated as liabilities*** under Australian accounting standards should also be reported in 'Item 3: Total hybrid securities treated as liabilities' on ARF 720.6.

2.7.7 Reconciliation between ARF 720.6 and ARF 720.0A & ARF 720.3

The sum of ***short-term debt securities excluding hybrids*** and ***long-term debt securities excluding hybrids*** and ***hybrid securities treated as liabilities*** issued on ARF 720.6 are equivalent to the sum of ***short-term debt securities*** and ***long-term debt securities*** issued on ARF 720.0A and ***debt securities*** issued on ARF 720.3, apart from differences in valuation methodology. Note that the values may not reconcile exactly because securities issued are reported at ***market value*** on ARF 720.6 and may be reported on a different basis on ARF 720.0A and ARF 720.3. See the table below for the specific items that should be equivalent, if it were not for the different valuation bases.

Reconciliation between ARF 720.6 and ARF 720.0A & ARF 720.3 *if ARF 720.0A and ARF 720.3 were reported at market values*	
ARF 720.6	**ARF 720.0A & ARF 720.3**
Item 1: Total short-term debt securities excluding hybrids – column 1: AUD plus Item 1: Total short-term debt securities excluding hybrids – column 2: FX (AUD equivalent) plus Item 2: Total long-term debt securities excluding hybrids – column 1: AUD plus Item 2: Total long-term debt securities excluding hybrids – column 3: FX (AUD equivalent) plus Item 3: Total hybrid securities treated as liabilities – column 1: AUD plus Item 3: Total hybrid securities treated as liabilities – column 3: FX (AUD equivalent)	Item 16.2 on ARF 720.0A: Total borrowings: debt securities – column 1: Short-term Plus Item 16.2 on ARF 720.0A: Total borrowings: debt securities – column 2: Long-term Plus Item 3.1.3.1 on ARF 720.3: Total intra-group liabilities: borrowings: debt securities – column 1: Total. *When these items are valued at market value.*

2.8 ARF 720.7: ABS/RBA Bill Acceptances and Endorsements

2.8.1 General guidance

Applicable sections of general guidance include:

- *1.1 General guide to reporting by counterparty;*
- *1.2 Residency;*
- *1.3 Related parties;*
- *1.4 Domestic books consolidation;*
- *1.5 Standard Economic Sector Classifications of Australia*; and
- *1.12 Types of financial assets and liabilities.*

2.8.2 Valuation

Closing balances should be reported at ***market value*** effective at the reference date. Where denominated in foreign currency, ***market values*** of foreign currency should be converted to AUD at the spot rate effective as at the reference date.

PROXY: If ***market value*** is not available (i.e. when relevant observable market data does not exist), report at fair value measured in accordance with AASB 13 *Fair Value Measurement*.

2.9 ARF 721.0A/B: ABS/RBA Repurchase Agreements and Securities Lending (Option A) / (Option B)

2.9.1 General guidance

Applicable sections of general guidance include:

- *1.1 General guide to reporting by counterparty;*
- *1.2 Residency;*
- *1.3 Related parties;*
- *1.4 Domestic books consolidation;*
- *1.5 Standard Economic Sector Classifications of Australia;* and
- *1.12 Types of financial assets and liabilities.*

2.9.2 Option A vs Option B

If a reporting institution is indifferent between options, reporting of Option A is preferred.

However, if it is more difficult or costly for an ***ADI*** or ***RFC*** to report on Option A than Option B, then the ***ADI*** of ***RFC*** may select to report on Option B instead.

To switch between reporting on Option A and Option B, the ***ADI*** or ***RFC*** is requested to notify ***APRA*** in advance. Switching between reporting on Option A and Option B should occur infrequently (i.e. switching should not occur more frequently than once a year).

2.9.3 Valuation

Closing balances should be reported at ***market value*** effective at the reference date. Where denominated in foreign currency, ***market values*** of foreign currency should be converted to AUD at the spot rate effective as at the reference date.

If ***market value*** is not available (i.e. when relevant observable market data does not exist), report at fair value measured in accordance with AASB 13 *Fair Value Measurement*.

2.9.4 Exchange-Traded Funds (ETFs)

PROXY: Where ***exchange-traded funds*** are not separately identifiable from other ***non-money-market financial investment funds***, these may be estimated using an appropriate proxy or apportionment method.

2.9.5 Haircut

The ***haircut*** may be reported as the ***haircut*** applied at the origination of the transaction.

2.9.6 Collateral

The value and characteristics of ***collateral*** reported should typically include that relating to the initial value of ***collateral*** provided, adjusted for any change in the value and/or characteristics of

collateral provided due to changes in market valuations and/or the addition of further ***collateral*** due under margining arrangements.

PROXY: If the reporting institution is unable to provide the required information on the value and/or characteristics of additional ***collateral*** provided under margining arrangements – for example, because this information is not available at the trade level – these values may be excluded from reporting.

2.9.7 Repo rate

In calculating the ***repo rate***, reporting institutions are requested to use 365 days as the number of days in a year, consistent with the Australian Financial Markets Association (AFMA) repo conventions and the Australian Office of Financial Management (AOFM) pricing formulae.

2.10 ARF 722.0: ABS/RBA Derivatives

2.10.1 General guidance

Applicable items of general guidance include:

- *1.1 General guide to reporting by counterparty;*
- *1.2 Residency;*
- *1.3 Related parties;*
- *1.4 Domestic books consolidation;*
- *1.5 Standard Economic Sector Classifications of Australia (SESCA); and*
- *1.17 Residual maturity.*

2.10.2 Purpose of reporting

The form is designed to meet international economic statistical reporting requirements as prescribed by the *2008 System of National Accounts* (SNA08) and *Balance of Payments Manual 6* (BPM6). These economic statistical frameworks consider ***derivatives*** as more than a financial instrument used for risk management such as hedging. ***Derivatives*** according to these frameworks are financial instruments in their own right, like ***loans*** and ***securities***, and contribute to an economy's accumulation of financial assets and liabilities and its overall net financial wealth.

2.10.3 Principles of reporting under economic statistical frameworks

The principles underlying the reporting of financial instruments through the Australian Accounting Standards Board (AASB) are broadly in line with reporting principles within the SNA08 and BPM 6 economic statistical frameworks. However, for ***derivatives***, there are significant divergences in reporting requirements between the AASB and the economic statistical frameworks, and therefore the reporting of ***derivatives*** on this form does not align with AASB. Specifically, the divergences result in reporting for statistical purposes that requires:

- financial *derivatives* to be treated as a financial instrument that can be traded and carries a market valuation that is linked to, but valued separately from, the underlying instrument on which the *derivative* is based;
- positions and flows associated with the financial *derivative* to be reported separately;
- assets and liabilities of *derivatives* on a *gross* basis, that is, *derivatives* should not be reported on net basis;
- settlements (cash receipts and payments) as transactions and *market value* changes and accruing interest (e.g., on swap coupons) as *revaluations*. The transactions and *revaluations* will not reconcile back to items in the profit and loss (P&L) statement; and
- reporting of all *warrants*.

Table 1 below illustrates the divergence between AASB, and SNA08 and BPM6 reporting for *derivative* by comparing the reporting requirements for loans.

Table 1: AASB and SNA08/BPM6 reporting for loans and a swap

	Instrument /counterparty	**AASB reporting**	**SNA08/BPM 6 reporting**
Asset position	ADI loan with non-resident (Asset position)	ADI loan asset position with non-resident	ADI loan asset position with non-resident
	Swap with trading company (Asset position)	Net asset or net liability position: (offset with swaps with other counterparties)	Swap (gross positive position)
Liability position	ADI loan with non-resident (Liability position)	ADI loan liability position with non-resident	ADI loan liability position with non-resident
	Swap with trading company (Liability position)	Net asset or net liability position: (offset with swaps with other counterparties)	Swap (gross negative position)
Asset transactions	ADI loan with non-resident (Asset position)	Transactions (issuance less repayments)	Transaction (issuance less repayments)
	Swap with trading company (Asset position)	Net transactions (offset with swaps with other counterparties)	Transactions (cash receipts and payments on a contract by contract basis)
Liability transactions	ADI loan with non-resident (Liability position)	Transactions (issuance less repayments)	Transactions (issuance less repayments)

	Swap with trading company (Liability position)	Net transactions (offset with swaps with other counterparties)	Transactions (cash receipts and payments on a contract by contract basis)

The major objective of reporting on ARF 722.0 is to reconcile the opening and closing positions for ***derivatives*** through:

- transactions and ***revaluations*** during the period for those ***derivatives*** with ***resident*** counterparties; and
- transactions, ***market value*** changes, exchange rate variations and other changes for those ***derivatives*** with ***non-resident*** counterparties.

Reporting on ARF 722.0 is not an attempt to reconcile the net transactions and ***revaluations*** back to the P&L statement. Reporting on ARF 722.0 is not expected to reconcile with forms using AASB (e.g ARF 118.0), and thus will not have validation points with such forms. *Employee stock options* should be excluded.

Adjustments, where possible, should not be included in reported values. This is because adjustments are often not consistent across reporting entities. If adjustments cannot be removed from reported values, then any adjustments included in reported values must also be reported separately in Item 10 at either the counterparty or portfolio level.
Hedging should not be included in reported values.

Within the SNA08 and BPM6 reporting, the transactions and positions are of equal priority within these economic statistics.

2.10.4 Types of derivatives

Report the value of the ***derivatives***; do not include the value of the underlying financial instrument.

The form categorises ***derivatives*** to the following instrument types:

- options;
- forwards;
- swaps; and
- other.

Report credit ***derivatives*** where these are not classified as options or forward-type instruments in the 'Other' instrument category. Report Commodity / Electricity contracts, FX spot, Swaption, and FRA in the 'Other' instrument category. Report Total return swaps in the 'Swaps' instrument category.

When categorising ***derivatives*** it is important that each contract is only reported under one category to avoid double counting. The categories; Options, Forwards, Swaps and Other as outlined in the SNA08.

Futures should only be reported at item 9.

Exclude buy-sellback and sell-buyback transactions.

Example 1: Swap

ADI A sets up to pay fixed-rate and receive floating-rate from *resident* Company XYZ.

The swap was initiated in March quarter and settles in December quarter. There was no payment to initiate the contract and payments will be made semi-annually in June and December. These payments are the net of the receive floating and pay fixed legs of the contract.

ADI A would report in the ARS 722.0 for the March, June, September, and December quarters as shown in Tables 2, 3, 4 and 5:

At the end of March quarter, the swap had a *market value* of $10 million.

Table 2: ARF 722.0 - Swap – March quarter *Item 1: Derivatives with gross positive mark to market values and resident counterparties excluding clearing houses and central counterparties*					
Type of counterparty	**Instrument type**	**Opening position: Gross positive mark to market value**	**Transactions**	**Revaluations**	**Closing position: Gross positive mark to market value**
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
Private non-financial corporations	Swaps	0	0	10,000,000	10,000,000

During the June quarter a $5 million net coupon receipt was received by the ADI and, at the end of June quarter, the swap had a *market value* of $12 million.

Table 3: ARF 722.0 - Swap – June quarter *Item 1: Derivatives with gross positive mark to market values and resident counterparties excluding clearing houses and central counterparties*					
Type of counterparty	Instrument type	Opening position: Gross positive mark to market value	Transactions	Revaluations	Closing position: Gross positive mark to market value
(1)	(2)	(3)	(4)	(5)	(6)
Private non-financial corporations	Swaps	10,000,000	-5,000,000	7,000,000	12,000,000

At the end of September quarter the swap had a ***market value*** of $5 million. No net coupon payments were received during the quarter.

Table 4: ARF 722.0 - Swap – September quarter *Item 1: Derivatives with gross positive mark to market values and resident counterparties excluding clearing houses and central counterparties*					
Type of counterparty	Instrument type	Opening position: Gross positive mark to market value	Transactions	Revaluations	Closing position: Gross positive mark to market value
(1)	(2)	(3)	(4)	(5)	(6)
Private non-financial corporations	Swaps	12,000,000	0	-7,000,000	5,000,000

During December quarter, a $4 million net coupon receipt was received and at the end of December quarter the swap expires.

Table 5: ARF 722.0 - Swap – December quarter					
Item 1: Derivatives with gross positive mark to market values and resident counterparties excluding clearing houses and central counterparties					
Type of counterparty	Instrument type	Opening position: Gross positive mark to market value	Transactions	Revaluations	Closing position: Gross positive mark to market value
(1)	(2)	(3)	(4)	(5)	(6)
Private non-financial corporations	Swaps	5,000,000	-4,000,000	-1,000,000	0

Example 2: Forward

In terms of ARS 722.0 requirements, a forward is reported the same way as the swap in Example 1. The only difference is that a forward has one settlement period, whereas a swap can have multiple settlement periods.

If a ***derivative*** contract is entered into and settled within the same ***reporting period***, this should be reported in the transactions and ***revaluations*** but have no impact on the opening and closing positions.

ADI A sets up to pay $3 million AUD and receive €1.8 million EUR at €0.60 from ***resident RFC*** Z.

The forward was initiated and settled in the same quarter. There was no payment to initiate the contract and the payment will be made within the period. This payment are the net of the receive EUR and pay AUD legs of the contract.

During the quarter, the AUD depreciates against the EUR from €0.60 to €0.50, hence a $0.6 million gain was made and at the end of the quarter the forward expires.

ADI A would report on the ARS 722.0 for that ***reporting period*** as shown in Table 6:

Table 6: ARF 722.0 - Forward Item 1: Derivatives with gross positive mark to market values and resident counterparties excluding clearing houses and central counterparties					
Type of counterparty	Instrument type	Opening position: Gross positive mark to market value	Transactions	Revaluations	Closing position: Gross positive mark to market value
(1)	(2)	(3)	(4)	(5)	(6)
Registered financial corporations	Forwards	0	-600,000	600,000	0

Example 3: Options

European Option

In March quarter, *ADI* A enters into a European-style option agreement with a superannuation fund to buy 1,000,000 XYZ shares at a pre-set price of $10 per share from the superannuation fund. The option premium is $0.4 million. The option expires in December quarter.

The payment of the option premium is treated as a transaction ($0.4 million). The erosion of the premium (or time value) is treated as a revaluation (-$0.1 million).

ADI A would report on the ARS 722.0 for March, June, September, and December quarters in tables 7, 8, 9, and 10 as follows:

At the end of March quarter, the share price is $10 per share, which suggests a zero intrinsic value.

Table 7: ARF 722.0 - Option – March quarter					
Item 1: Derivatives with gross positive mark to market values and resident counterparties excluding clearing houses and central counterparties					
Type of counterparty	Instrument type	Opening position: Gross positive mark to market value	Transactions	Revaluations	Closing position: Gross positive mark to market value
(1)	(2)	(3)	(4)	(5)	(6)
Superannuation funds	Options	0	400,000	-100,000	300,000

In June quarter, the ***market value*** of Company XYZ shares rise to $30 per share. Therefore the intrinsic value, equal to the difference between the ***market value*** and the pre-set price multiplied by the number of shares, is $20 million. The premium has eroded by a further $0.1 million. The $19.9 million revaluation is equal to the intrinsic value ($20 million) less the erosion of time value ($0.1 million).

Table 8: ARF 722.0 - Option – June quarter					
Item 1: Derivatives with gross positive mark to market values and resident counterparties excluding clearing houses and central counterparties					
Type of counterparty	Instrument type	Opening position: Gross positive mark to market value	Transactions	Revaluations	Closing position: Gross positive mark to market value
(1)	(2)	(3)	(4)	(5)	(6)
Superannuation funds	Options	300,000	0	19,900,000	20,200,000

In September quarter, the ***market value*** of Company XYZ shares rises to $31 per share, making the intrinsic value equal to $21 million. The premium erodes by a further $0.1 million. The $0.9 million revaluation is equal to the $1 million increase in the intrinsic value less the erosion of premium.

Table 9: ARF 722.0 - Option – September quarter *Item 1: Derivatives with gross positive mark to market values and resident counterparties excluding clearing houses and central counterparties*					
Type of counterparty	Instrument type	Opening position: Gross positive mark to market value	Transactions	Revaluations	Closing position: Gross positive mark to market value
(1)	(2)	(3)	(4)	(5)	(6)
Superannuation funds	Options	20,200,000	0	900,000	21,100,000

In December quarter, the ***market value*** of Company XYZ shares is $31 per share. The premium erodes by $0.1 million and the option expires. The cash receipt of $21 million closes the option position.

Table 10: ARF 722.0 - Option – December quarter *Item 1: Derivatives with gross positive mark to market values and resident counterparties excluding clearing houses and central counterparties*					
Type of counterparty	Instrument type	Opening position: Gross positive mark to market value	Transactions	Revaluations	Closing position: Gross positive mark to market value
(1)	(2)	(3)	(4)	(5)	(6)
Superannuation funds	Options	21,100,000	-21,000,000	-100,000	0

American Option

The ***ADI*** enters into an American-style option contract with a US clearing member trading on the London Clearing House. The option has the following features:

- no opening position as there were no existing contracts at the end of the last ***reporting period***;
- The option is to buy 300,000 XYZ shares from an ***ADI*** in the US at a pre-set price of USD$2 per share from the ***ADI;***
- the option premium is USD $50,000, paid up-front;
- during that month share price rises to USD$2.50 and the ***ADI*** exercises the option;
- between entering into the option and exercising the option the USD/AUD exchange rate changed from USD $0.625 to USD $0.75;
- the option is exercised before the end of the period, leaving no closing position.

The ***ADI*** would record the following for the quarter in Table 11;

Table 11: ARF 722.0 - Option

Item ~~6~~5: Derivatives with resident and non-resident clearing houses and central counterparties that are not margined

Country of clearing house and central counter-party	Instrument type	Net opening position	Opening position: *of which* gross positive	Opening position: *of which* gross negative	Net transactions	Market value changes	Exchange rate variations	Other changes	Net closing position	Closing position: *of which* gross positive	Closing position: *of which* gross negative
[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]	[12]
United Kingdom	Option	0	0	0	-186,667	200,000	-13,333	0	0	0	0

The country of exchange is the UK, not the nationality of the clearing member.

Initially the option is worth its premium (USD $50,000/0.625 = AUD $80,000). Option premiums are recognised as transactions.

Then the AUD appreciates against the USD. The premium is now worth AUD $66,667 (USD $50000 / 0.75). The erosion of the premium is an exchange rate variation of AUD$13,333 (AUD $80,000 – AUD $66,667).

The share price increases from USD$2 to USD$2.50, increasing the market value of the option by AUD $200,000 (USD $150,000/0.75). This is a market value change.

The reporting *ADI* exercises the option, with a net cash receipt of AUD $266,667 (Net transactions show AUD $80,000 – AUD$266,667) and the value of the option becomes zero.

2.10.5 Item 9: Futures with resident and non-resident counterparties

The form requires the reporting of futures separately in item 9 in recognition of their balance sheets positions being equal to zero due to these settling on a daily basis. Futures should be reported using mark-to-market values. Include derivatives with *resident* related parties in other sectors (e.g. an *ADI* would exclude trades with a related resident ADI) and *non-resident related parties* (e.g. an offshore branch) but exclude trades made within domestic book entity desks and same sector *resident* related parties (e.g. an *ADI* would exclude trades with a related resident *ADI*).

Futures have the following unique features:

- they are only traded on an exchange, which is a type of *clearing house*;
- they have a value of zero for the opening and closing positions as they are fully *margined* (or settled) daily to account for any mark-to-market changes (timing differences should be ignored when reporting futures, and local Australian exchange timing used);
- *ADIs* can have several *derivative* contracts with the exchange which are settled on a net basis.

Country of exchange refers to where the counter-party risk associated with the *derivative* is borne. If the risk is borne by the exchange then ~~we want~~ the 'country of exchange' ~~to~~should be the country where the exchange is located, regardless of the nationality of the clearing member. If the risk is borne by another counter-party, such as a *clearing house*, then report the country of residence of that counter-party.

Example 4: Resident Futures

An *ADI* has Futures contracts with the Australian Stock Exchange (ASX). Since the ASX is a resident, the country of exchange is Australia. During the quarter the entity makes a net gain of $100 million. The net gain can be broken down into $150 million positive and $50 million negative. The entity would report the following for the quarter in Table 12:

Table 12: ARF 722.0 - Futures *Item 9: Futures with resident and non-resident counterparties*			
Country of exchange	Net transactions during the period	Revaluations with gross positive value during the period	Revaluations with gross negative value during the period
(1)	(2)	(3)	(4)
Australia	-100,000,000	150,000,000	50,000,000

For item 9, values in column 3 and 4 should be reported as a positive numbers. A net cash receipt should be shown as a negative number in column 2. Similarly a net cash payment should be shown as a positive number in column 2.

Column 4 less column 3 should equal column 2, as futures are fully *margined* or settled daily to account for any mark-to-market changes.

2.10.6 Assets and liabilities

Derivatives on an asset side should be reported separately to those on a liability side. Therefore, the form requires reporting of gross positive mark to market (MTM) value and gross negative MTM value of *derivatives* separately.

If the contract starts and finishes in an asset position, show

- a cash receipt as a negative transaction; and
- a cash payment as a positive transaction.

Similarly, if the contract starts and finishes in a liability position, show

- a cash receipt as a positive transaction;
- a cash payment as a negative transaction.

Items 1, 2, 3, and 4 require a splitting of transactions by asset or liability side. If the institution is unable to do this, e.g., in the case of a netting agreement that are difficult to unwind for reporting purposes or the *derivative* switches during the quarter and there is uncertainty as to the position the *derivative* is in at the time the settlement is received, then:

- show a cash receipt as a negative transaction on the asset side, rather than estimating splits between a negative transaction on the asset side and a positive transaction on the liability side; and
- show a cash payment as a negative transaction on the liability side, rather than estimating splits between a negative transaction on the liability side and a positive transaction on the asset side.

Items 7 and 8 are also split by asset or liability side for residual maturity of *derivatives*.

Example 5: Swap that switches positions

(a) Assume a swap with a private non-financial corporation has an opening position of $30 million asset (gross positive *market value*) and a closing position of $30 million liability (gross negative *market value*). During the quarter there is a net cash receipt of $4 million was received by the ADI. *Revaluations* in this case, is used as a balancing item between the opening position on the positive mark to market contracts and the negative mark to market contracts.

(b) Assume a swap with a superannuation fund has an opening position of $20 million liability (gross negative *market value*) and a closing position of $20 million asset (gross positive *market value*). During the quarter there are no cash settlements. *Revaluations*, in this case, is used as a balancing item between the opening position on the negative mark to market contracts and the positive mark to market contracts.

The entity would report the following for the quarter in Table 13:

Table 13: ARF 722.0 - Swap – December quarter					
Item 1: Derivatives with gross positive mark to market values and resident counterparties excluding clearing houses and central counterparties					
Type of counterparty	Instrument type	Opening position: Gross positive mark to market value	Transactions	Revaluations	Closing position: Gross positive mark to market value
(1)	(2)	(3)	(4)	(5)	(6)
Private non-financial corporations	Swaps	30,000,000	-4,000,000	-26,000,000	0
Superannuation Funds	Swaps	0	0	20,000,000	20,000,000
1.1. Total derivatives with a gross positive mark to market value		30,000,000	-4,000,000	-6,000,000	20,000,000
Item 2: Derivatives with gross negative mark to market values and resident counterparties excluding clearing houses and central counterparties					
Type of counterparty	Instrument type	Opening position: Gross negative mark to market value	Transactions	Revaluations	Closing position: Gross negative mark to market value
(1)	(2)	(3)	(4)	(5)	(6)
Private non-financial corporations	Swaps	0	0	30,000,000	30,000,000
Securitisers	Swaps	20,000,000	0	-20,000,000	0
2.1. Total derivatives with a gross negative mark to market value		20,000,000	0	10,000,000	30,000,000

If any adjustments are included in reported values, these should also be reported separately in Item 10.

2.10.7 Counterparties

Include trades with ***resident related parties*** in other sectors, also called 'intra-group', under the relevant counterparty type for items 1 and 2 , but exclude same-sector ***resident related parties*** (e.g. an *ADI* would exclude trades with a related resident *ADI*). Exclude trades made within domestic book entity desks (e.g. between Sydney desk and Melbourne desk within an *ADI* or *RFC*).

For items 1 and 2 that exclude ***clearing houses and central counterparties***, the form requires the ***derivative*** positions and flows (transactions and ***revaluations***) by ***resident*** counterparties, by SESCA counterparty type.

Items 3 and 4 also exclude ***clearing houses and central counterparties.***

For items 3, 4, 7 and 8 report for ***non-resident*** counterparties only. Further, items 3 and 4 require a breakdown of ***derivative*** positions and flows by country. Include derivatives entered into by the domestic book entity with ***non-resident related parties*** (e.g. an offshore branch).

Refer to Section 1.5 *Standard Economic Sector Classifications of Australia* for more details on classifying counterparties under SESCA. Households and Community Service Organisations are not to be reported on this form.

Clearing houses and central counterparties

The form uses the term ***clearing houses and central counterparties*** to represent recognised ***clearing houses and central counterparties*** that interpose themselves between counterparties to ***derivatives*** traded in one or more financial markets, becoming the buyer to every seller and the seller to every buyer. A ***central counterparty*** becomes counterparty to trades with market participants through novation, an open offer system, or another legally binding arrangement.

It is recognised that the increased use of ***central counterparties*** for OTC ***derivatives*** and ***derivatives*** with exchanges will result in some difficulty in the reporting of ***derivatives*** based on the economic statistical frameworks. As a result, the form has separated the reporting of ***derivatives*** with ***clearing houses and central counterparties*** into:

- futures, where the balance sheet positions are equal to zero due to these ***derivative*** settling on a daily basis. Futures are reported at item 9;
- ***derivatives*** with ***clearing houses and central counterparties*** that are ***margined***. These are reported at item 5; and
- ***derivatives*** with ***clearing houses and central counterparties*** that are not ***margined***. These are reported in item 6.

Items 5, 6, and 9 require reporting the exchange, ***clearing house and central counterparty*** by country. ***Clearing houses and central counterparties*** should also be reported in items 7 and 8.

Table 14: Summary of ARF 722.0 items			
Item	**Name**	**Residency**	**Inclusions**
1	Derivatives with gross positive mark to market values and resident counterparties excluding clearing houses and central counterparties	Residents	Exclude clearing houses and central counterparties Exclude futures
2	Derivatives with gross negative mark to market values and resident counterparties excluding clearing houses and central counterparties	Residents	Exclude clearing houses and central counterparties Exclude futures
3	Derivatives with gross positive mark to market values and non-resident counterparties excluding clearing houses and central counterparties	Non-residents	Exclude clearing houses and central counterparties Exclude futures
4	Derivatives with gross negative mark to market values and non-resident counterparties excluding clearing houses and central counterparties	Non-residents	Exclude clearing houses and central counterparties Exclude futures
5	Derivatives with resident and non-resident clearing houses and central counterparties that are margined	Residents and non-residents	Only clearing houses and central counterparties Exclude futures
6	Derivatives with resident and non-resident clearing houses and central counterparties that are not margined	Residents and non-residents	Only clearing houses and central counterparties Exclude futures
7	Derivatives with closing gross positive mark to market values and non-resident counterparties, by currency and residual maturity (including clearing houses and central counterparties)	Non-residents	Include clearing houses and central counterparties, and all other counterparties Exclude futures
8	Derivatives with closing gross negative mark to market values and non-resident counterparties, by currency and residual maturity (including clearing houses and central counterparties)	Non-residents	Include clearing houses and central counterparties, and all other counterparties Exclude futures

9	Futures with resident and non-resident counterparties	Residents and non-residents	Include clearing houses and central counterparties, and all other counterparties

Adjustments

Adjustments are calculated and applied at different levels, by each reporting entity. Adjustments, where possible, should not be included in reported values. If adjustments cannot be removed from reported values, then any adjustments included in reported values must also be reported separately in item 10 at either the counterparty or portfolio level. This is to make reported values comparable between entities and purposes of meeting international reporting standards.

2.10.8 Opening and closing positions

For reporting of opening and closing positions, do not offset contracts:

- in an asset position with contracts in a liability position; or
- in different types of *derivative* instruments; or
- with different counterparties.

The opening and closing balance reported on this form will not line up with the *derivatives* items reported on the ARF 720.0A/B, as the reporting on ARF 722.0 does not follow AASB. *Derivatives* that are entered into and settled within the same *reporting period* should be reported but will balance to zero and not impact opening and closing positions. Refer to example 2 or section 2.10.10 Valuations and 2.10.11 Transactions for more details on reporting *derivatives* that are entered into and settled within the same *reporting period*.

For item 1, all *derivatives* in a positive opening position are to be reported in column 3 and all those in a positive closing position are to be reported in column 6 by counterparty and *derivative* type. For item 2, all *derivatives* in a negative opening position are to be reported in column 3 and those in a negative closing position are to be reported in column 6.

For both item 1 and 2, the *derivatives* reported in column 3 will not necessarily be the same *derivatives* as those reported in column 6 as some *derivatives* will switch during the quarter from an asset to a liability position, or vice versa. The same treatment should be applied for equivalent opening and closing positions in items 3 and 4.

Items 5 and 6 require reporting of the net opening and net closing positions with *resident* and *non-resident clearing houses and central counterparties* and the net transactions and *revaluations*.

The gross closing positive and negative positions are also to be reported, noting that the gross closing positions should reconcile with the opening positions of the next reporting period.

Residual maturity

For all *non-resident derivatives* the *residual maturity* is required to be reported in items 7 and 8. This includes derivatives with *non-resident related parties* (e.g. an offshore branch). *Residual maturity* refers to the *residual maturity* of the closing positions for the quarter and is the time remaining until the *derivative* is due to be settled. This is required to measure the foreign currency exposure risks of *derivatives*. It is not the *residual maturity* of the underlying financial instrument.

Example 6: Maturity

An *ADI* has the following *derivative* contracts:

(a) A new forward contract to sell AUD$2.5m for USD$2m at $0.80c to a counterparty in New York, and a maturity of 15 months.

(b) An existing forward contract to sell AUD$2m for CNY¥10.0m at ¥5.00 to a counterparty in Singapore. It settles at the end of the quarter.

(c) An existing forward contract to sell USD$3.2m for GBP£2.4m for £0.75 to a counterparty in London and a residual maturity of 90 days.

During the quarter:

- USD/AUD depreciated from $0.80 USD to $0.75 USD.
- CNY/AUD depreciated from ¥5.50 CNY to ¥4.50 CNY.
- GBP/USD remains unchanged at £0.80 GBP.

The entity would report the following for the quarter in Table 15;

Table 15: ARF 722.0 - Forward						
Item 7: Derivatives with closing gross positive mark to market values and non-resident counterparties, by currency and residual maturity (including clearing houses and central counterparties)						
	Residual maturity of contract ($AUD)					
Currency of closing position	<= 90 days	>90 days <= 6 months	>6 months <= 1year	>1 year <=5 years	>5 years	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)
USD (a)	0	0	0	166,667	0	166,667
Item 8: Derivatives with closing gross negative mark to market values and non-resident counterparties, by currency and residual maturity (including clearing houses and central counterparties)						
	Residual maturity of contract ($AUD)					
Currency of closing position	<= 90 days	>90 days <= 6 months	>6 months <= 1year	>1 year <=5 years	>5 years	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)
USD (c)	266,667	0	0	0	0	266,667

(a) This new forward is a USD asset because it has an AUD leg. At the end of the quarter the mark to market is an asset of $0.167m ((USD$2m/0.75) – (USD$2m/0.80) = $2.667m – $2.5m= $0.167m AUD).

(b) This existing forward has an opening liability position of $0.182m but the *derivative* is settled to 0 at the end of the *reporting period* and is therefore not recorded on either table.

(c) This existing forward is a USD liability because the USD leg is generating the liability ((£2.4m/0.8) – (£2.4m/0.75)= $3m – $3.2m = – $0.2m USD).

The USD value of the liability does not change over the quarter however the AUD equivalent has increased due to the change in the USD/AUD exchange rate (USD$0.2m/0.75 = $0.267m AUD).

Currency

Currency of the closing positions refers to the currency in which the *derivative* is likely to be settled. Closing positions denominated in foreign currency should be converted to AUD using the exchange rate as at the end of the *reporting period*. This applies to all items except item 9.

In item 7 and 8, for a derivative that involves the exchange of AUD for a foreign currency, record under that foreign currency whether buying or selling that currency.

For a *derivative* that involves the exchange of two or more foreign currencies, report the currency that is being paid to settle to zero. That is:

- if an asset position is being settled, then show the currency you are buying / receiving;
- if a liability position is being settled, then show the currency you are selling / paying.

For example, if an *ADI* has a *derivative* contract to swap USD for Yen and the Yen appreciates against the USD, then this becomes an asset for the *ADI* because they are now receiving more Yen for their USD than the market rate. The *ADI* would settle this asset back to zero by receiving money, in this case Yen. Hence the currency of the closing asset position should be in Yen.

Similarly, if the Yen depreciates against the USD, then this becomes a liability for the *ADI* because they are now receiving less Yen for their USD than the market rate. The *ADI* would settle this liability back to zero by paying money, in this case USD. The currency of the closing liability position should be in USD.

For items 1, 2, 3, 4, 5, and 6 the opening position should equal the previous *reporting period's* closing position.

Transactions, where denominated in foreign currency, should be converted to AUD at the spot rate effective as at the date the transaction occurred. Refer to section 2.10.11 Transactions for more details. *Revaluations* should be used to reconcile opening and closing positions, including exchange rate variations. Refer to section 2.10.10 Valuations for more details on exchange rate variations.

Any currencies not included in the List 1.2 should be reported as an aggregate in 'Other'.

2.10.9 Treatment of Margins

Initial *margins* consist of cash or other *collateral* to protect the counterparty against default risk. The ownership of the *margin* remains with the entity that deposited it. Initial *margin* payments in cash are classified as *deposits* (if the debtor's liabilities are part of broad money) or in other accounts receivable/payable.

Variation *margins* can be treated as settlement or *collateral*. When the variation margin is treated as settlement, gains or losses from *derivatives* are shown in the entities cash position and the *derivatives* carrying value reverts to zero with each variation settlement (*derivative* transaction). If variation *margins* are treated as collateral adjustments to the amount of posted collateral have no effect on the carrying value of the *derivative*.

Derivatives with *clearing houses and central counterparties* that are *margined* means that the variation *margins* are being used as settlement. When taken to the extreme, *margining* produces a zero balance sheet position (footprint) for the *derivative*. This is the case for futures which are fully *margined* or settled daily to square off any *revaluations* of the *derivative*. Futures positions should be measured at local Australian exchange close timing in respect to their revaluation, acknowledging likely immaterial differences to geographical exchange close differences may arise. Futures should be included at item 9.

Derivatives that are *margined* can still have a balance sheet position (footprint), such as when the margining only takes place when a specific threshold is reached. *Margined* derivatives other than Futures should be recorded at item 5.

When variation margins are treated as *collateral*, they should be excluded from transactions in the *derivative* as adjustments to the amount of posted collateral have no effect on the holding value of the *derivative*.

Derivatives with *clearing houses and central counterparties* that are not *margined* means that the variation *margins* are being treated as collateral or the *derivative* is not subject to a margining process and these should be reported at item 6.

Include derivatives with resident related parties in other sectors (e.g. an ADI would exclude trades with a related resident ADI) and *non-resident related parties* (e.g. an offshore branch) but exclude trades made within domestic book entity desks and same sector *resident* related parties (e.g. an *ADI* would exclude trades with a related resident *ADI*).

Example 7: Margins

An *ADI* has several swap contracts with a *resident clearing house* with the following features;

- at the beginning of the quarter there is a net asset position of $20,000: equal to $40,000 gross positive and $20,000 gross negative;
- during the quarter there was a net cash receipt of $10,000;
- during the quarter there was a holding loss of $60,000;
- at the end of the quarter there was a net liability position of $50,000: equal to $10,000 gross positive and $60,000 gross negative.

The *ADI* would record the following for the quarter in Table 16;

Table 16: ARF 722.0 - Margined Swap											
Item 5: Derivatives with resident and non-resident clearing houses and central counterparties that are margined											
Country of clearing house and central counter-party	Instru-ment type	Net opening position	Opening position: *of which* gross positive	Opening position: *of which* gross negative	Net transactions	Market value changes	Exchange rate variations	Other changes	Net closing position	Closing position: *of which* gross positive	Closing position: *of which* gross negative
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Australia	Swaps	20,000	40,000	20,000	-10,000	-60,000	0	0	-50,000	10,000	60,000

Since the *clearing house* is a *resident* counterparty, the country is Australia. Hence, all *revaluations* are to be reported under *market value* changes.

Example 8: Not margined

An *ADI* has several swap contracts with *non-resident* and *resident clearing houses* with the following features;

At the beginning of the quarter there is:

a) a net asset position of $15,000 with CEC Belgium, equal to $24,000 gross positive and $9,000 gross negative. These comprise mostly of EURO/AUD forwards;

b) a net asset position of $210,000 with ASX, equal to $310,000 gross positive and $100,000 gross negative. These comprise of swaps denominated in AUD;

c) a net liability position of $63,000 with ICE in USA, equal to $41,000 gross positive and $104,000 gross negative. These comprise mostly of USD/AUD forwards;

During the quarter

- The AUD depreciated against all major currencies resulting in positive *market value* changes for forward assets and negative *market value* changes for forward liabilities.
- there was a favourable change in the Bank Bill Swap Rate resulting in positive *market value* changes for swaps;

The *ADI* would record the following for the quarter in Table 17:

Table 17: ARF 722.0 – Non-margined Derivatives											
Item 6: Derivatives with resident and non-resident clearing houses and central counterparties that are not margined											
Country of non-resident clearing house and central counter-party	Instru-ment type	Net opening position	Opening position: *of which* gross positive	Opening position: *of which* gross negative	Net transacti ons	Market value change s	Excha nge rate variati ons	Other chang es	Net closing position	Closing position: *of which* gross positive	Closing position: *of which* gross negative
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Belgium (a)	Forwards	15,000	24,000	9,000	-2,100	3,200	0	0	16,100	24,800	8,700
Australia (b)	Swaps	210,000	310,000	100,000	-30,000	12,000	0	0	192,000	272,000	80,000
United States of America (c)	Forwards	-63,000	41,000	104,000	9,000	-18,800	0	0	-72,800	44,000	116,800
6.1. Total derivatives that are not margined		162,000	375,000	213,000	-23,100	-3,600	0	0	135,300	340,800	205,500

If any adjustments are included in reported values, these should also be reported separately in item 10.

2.10.10 Valuations

Market valuation should be used for both over-the-counter (OTC) and exchange-traded (ET) ***derivatives***. The ***market value*** is equivalent to the dirty price. The clean price and the accrued interest should not be reported separately.

Revaluations represent:

- the holding gain and losses arising from changes in ***market values*** of the contracts;
- accrued interest (e.g. swap coupons); and
- other changes that are not transactions (such as write offs).

Revaluations can also be used to reconcile the opening and closing positions and amend for those ***derivatives*** which have switched sides during the quarter, or balancing ***derivatives*** that are entered into and settled within the same ***reporting period***. Refer to example 2 for balancing using ***revaluations*** and transactions.

Execution costs and initial margin calls should be excluded from ***revaluations***.

Practical implementation

The guidance below is provided in recognition that the reporting of transactions and ***revaluations*** on the basis required for the economic statistical framework may be operationally challenging.

For ***resident*** counterparties, the ***revaluations*** are not required to be split into components. This applies to items 1, 2, 5, and 6 for ***derivatives*** with all ***resident*** counterparties.

For international reporting requirements under the *Balance of Payments Manual 6 (BPM6)* items 3, 4, 5, and 6 require a breakdown of ***revaluations*** into ***market value*** changes, exchange rate variations and other changes for ***non-resident*** counterparties. Market value changes

Market value changes

When reporting gross positions of ***derivative*** with ***non-resident*** counterparties, ***market value*** changes refer to the impact on the value of the stock of financial liabilities and assets due to changes in their price excluding any exchange rate movements. Market value changes include ***holding gains/losses*** during the period arising from changes in value of the underlying instrument on which the ***derivative*** is based, such as interest rates, and are realised at the end of each reporting period as part of the gross closing position for the ***derivatives***.

For ***derivatives*** involving swapping AUD into another currency, or currencies, as the underlying instrument, the effect of change in exchange rate on the ***derivatives*** should be treated as a ***market value*** change.

Exchange rate variations

Exchange rate variations refer to the change in value of the ***derivative*** due to changes in the exchange rate between the AUD and other currencies when outstanding amounts (gross positive and negative positions) of the ***derivatives*** are settled.

Table 18: Market value changed and exchange rate variation reporting

Splitting revaluations into exchange rate variations and market value changes when dealing with non-resident counterparties

Type of derivative	Market value change	Exchange rate variation
Currency forward / swap with one leg in AUD. Eg Swapping AUD for USD	All market value change	
Currency forward / swap – no AUD leg. Eg Swapping USD for GBP – no swapping sides	Balance	Change between AUD and the currency that gives you the opening position (currency of closing position t-1).
Currency forward / swap – no AUD leg. Eg Swapping USD for GBP – swapping sides	Balance, eg to bring the asset side to zero and to give the liability position	Change between AUD and the currency that gives you the opening position (currency of closing position t-1). Entered as ER variation on the opening side.

When reporting for those ***derivatives*** in gross positions with ***resident*** counterparties the effect of change on exchange rate on the ***derivative*** is absorbed into ***revaluations***.

The split between ***market value*** changes, exchange rate variations, and other changes is required for the purposes of meeting international reporting standards.

Other changes

Other changes refers to changes to the stock of financial assets and liabilities not due to transactions, ***market value*** changes and exchange rate variations and may include reclassifications and write offs. Can also include country reclassification when the counterparty moves country during the ***reporting period***.

Example 9: Revaluations

An ***ADI*** has the following ***derivative*** contracts:

a) A new forward contract to sell AUD$2.5m for USD$2m at $0.80c to a counterparty in New York, and a maturity of 15 months.

b) An existing forward contract to sell AUD$2m for CNY¥10m at ¥5.00 to a counterparty in Singapore. It settles at the end of the quarter.

c) An existing forward contract to sell USD$3.2m for GBP£2.4m for £0.75 to a counterparty in London and a residual maturity of 9 months.

During the quarter:

- USD/AUD depreciated from $0.80 USD to $0.75 USD.
- CNY/AUD depreciated from ¥5.50 CNY to ¥4.50 CNY.
- GBP/USD depreciates from £0.80 GBP to £0.65 GBP.

The ***ADIs*** would report the following for the quarter in Table 19;

Table 19: ARF 722.0 - Forward

Item 3: Derivatives with gross positive mark to market values and non-resident counterparties excluding clearing houses and central counterparties

Country of non-resident debtor	Opening position: Gross positive mark to market value	Transactions	Valuation and other changes: Market value changes	Valuation and other changes: Exchange rate variations	Valuation and other changes: Other Changes	Closing position: Gross positive mark to market value
(1)	(2)	(3)	(4)	(5)	(6)	(7)
United States of America (a)	0	0	166,667	0	0	166,667
Singapore (b)	0	-222,222	222,222	0	0	0
United Kingdom (c)	0		656,410			656,410

3.1. Total derivatives with a gross positive mark to market value	0	-222,222	1,045,299	0	0	823,077

Item 4: Derivatives with gross negative mark to market values and non-resident counterparties excluding clearing houses and central counterparties						
Country of non-resident debtor	Opening position: Gross negative mark to market value	Transactions	Valuation and other changes			Closing position: Gross negative mark to market value
			Market value changes	Exchange rate variations	Other Changes	
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Singapore (b)	181,818	0	-181,818	0	0	0
United Kingdom (c)	250,000	0	-266,667	16,667	0	0
4.1. Total derivatives with a gross negative mark to market value	431,818	0	-448,485	16,667	0	0

(a) This new forward has an opening position of 0 as the contract price is the same as the exchange rate at the start of the quarter. It is USD asset because it has an AUD leg.

At the end of the quarter the mark to market is an asset of $0.167m ((USD$2m/0.75) – (USD$2m/0.80) = $2.667m – $2.5m= $0.167m AUD). As this change in value is due to the change in the market value of the ***derivative*** it is recorded all in ***market value*** changes.

(b) This existing forward has an opening liability position of $0.182m as the contract price is less than the exchange rate at the start of the quarter. It is a CNY asset/liability because it has an AUD leg.

At the end of the quarter prior to settlement, the mark to market is an asset of $0.222m ((¥10m/4.5) - (¥10m/5.0) = $2.222m - $2m). As this change in value is due to the change in the ***market value*** of the ***derivative*** it is recorded all in ***market value*** changes.

This is firstly shown by closing the liability position of $0.182m through *market value* changes and creating an asset position to $0.222m through *market value* changes. Finally the *derivative* is settled to 0 using transactions.

(c) This existing forward has an opening liability position of $0.25m (USD$0.2m/0.80) as the contract price is less than the exchange rate at the start of the quarter ((£2.4m/0.8) – (£2.4m/0.75) = $3m – $3.2m = – $0.2m USD). It is a USD liability because the USD leg is generating the liability.

Over the quarter the forward moves from a USD liability (AUD $0.25m) to a GBP asset (AUD $0.66m, USD $2.4m/0.65 – USD $3.2m = USD$ 0.5m / 0.75 = AUD $0.66m). Exchange variation contributes AUD -$0.02m (increasing AUD liability due to depreciation of the AUD against the USD, USD $0.2m/0.75 - USD $ 0.2m/0.80 = AUD $0.02m); and market value change contributes AUD $0.93m (AUD $0.66m + AUD $0.27m).

If any adjustments are included in reported values, these should also be reported separately in Item 10.

2.10.11 Transactions

Transactions represent the settlements of the mark to market (MTM) position when reporting gross positions of *derivatives*. Specifically, transactions in *derivatives* include:

- the payment to initiate the contract less the payment to settle the contract within the quarter;
- associated cash flows such as interest payments, premiums and variation *margins* (where they are regarded as settling the derivative).

Do not report *realised gains and losses* as *derivative* transactions (as per AASB) for the reporting basis of the economic statistical framework because transactions in this form include the payment to initiate the *derivative* (e.g. an Option premium including those paid up-front or in instalments). Do not report fixed-value fees such as brokerage fees or up-front swap fees.

Report transactions for *derivatives* that are entered into and settled within the same *reporting period.* These *derivatives* have no impact on the opening or closing positions. Refer to example 2 for balancing opening and closing positions using *revaluations* and transactions.

Transactions can be likened to cash receipts and payments.

Transactions for derivatives involving exchange rates

Transactions should be converted to AUD at the spot rate effective as at the date the transaction occurred.

Transactions excluding clearing houses and central counterparties

For items 1, 2, 3, and 4 report all transactions related to *derivatives* in a gross positive MTM value (asset) position separately from transactions related to *derivatives* in a gross negative MTM value (liability) position.

Do not offset contracts:

- in an asset position with contracts in a liability position or vice versa; or

- in different types of ***derivative*** instrument; or
- with different counterparties.

If the contract starts and finishes in an asset position, show

- a cash receipt as a negative transaction; and
- a cash payment as a positive transaction.

Similarly, if the contract starts and finishes in a liability position, show

- a cash receipt as a positive transaction;
- a cash payment as a negative transaction.

Transactions with clearing houses and central counterparties

For items 5, 6, and 9 report net transactions of the ***derivatives***, that is transactions in a gross positive MTM value (asset) may be netted off with transactions in a gross negative MTM value (liability).

Do not offset contracts:

- in different types of ***derivative*** instruments; or
- with different clearing houses and central counterparties.

~~ARF 722.0 is not yet finalised and this section has been removed pending further consultation on the content and implementation of derivatives reporting.~~

2.11 ARF 723.0: ABS/RBA Margin Lending

2.11.1 General guidance

Applicable sections of general guidance include:

- *1.1 General guide to reporting by counterparty;*
- *1.2 Residency;*
- *1.3 Related parties;*
- *1.4 Domestic books consolidation;*
- *1.5 Standard Economic Sector Classifications of Australia;*
- *1.12 Types of financial assets and liabilities;*
- *1.13 Borrower-accepted commitments;*
- *1.15 Interest rates;* and
- *1.16 Treatment of fixed interest rate products once the fixed period ends.*

2.11.2 Prime broking

Margin loans provided through a reporting institution's prime brokerage business are in scope of the margin lending definition for the purposes of the ***EFS collection***, as long these ***loans*** meet the description of being 'the provision of secured loans to investors for the purpose of purchasing financial assets'. Such ***margin loans*** should be reported on all relevant forms, including ARF 720.0A/B, ARF 720.1A/B, ARF 723.0 and ARF 742.0A/B.

2.11.~~2~~ 3 Linked collateral and deposit accounts

Linked ***collateral*** and ***deposit*** accounts should be excluded from the value of ***credit outstanding*** for ***margin lending*** (i.e. do not subtract the value in the accounts from the outstanding value of the lending facility).

2.11.~~3~~ 4 Item 1: New borrower-accepted margin loan commitments – by interest rate type

For ***internal refinancing commitments*** report the total value of the new ***borrower-accepted commitment***.

2.11.~~4~~ 5 Item 2: Margin loans – by number of customers and loans

Example 1: customer with 1 margin loan with $50,000 credit outstanding

	Customers	Loans	
	Number (1)	Number (2)	Value (3)
1.1 Total margin lending to residents	1	1	50,000
1.1.0. *of which:* Credit outstanding	1	1	

Example 2: customer with 2 margin loans – one with $50,000 credit outstanding and one with $25,000 credit outstanding

	Customers	Loans	
	Number (1)	Number (2)	Value (3)
1.1. Total margin lending to residents	1	2	75,000
1.1.1. *of which:* Credit outstanding	1	2	

Example 3: customer with 2 margin loans – one with $50,000 credit outstanding and one with a zero balance

	Customers	Loans	
	Number (1)	Number (2)	Value (3)

1.1. Total margin lending to residents	1	2	50,000
1.1.1. *of which:* Credit outstanding	1	1	

Example 4: customer with 2 margin loans – one with $50,000 credit outstanding and one with a net-deposit balance of $10,000

	Customers	Loans	
	Number (1)	Number (2)	Value (3)
1.1. Total margin lending to residents	1	2	50,000
1.1.1. *of which:* Credit outstanding	1	1	

2.11.~~5~~ 6 Item 3: Credit limits on margin loans to residents

The ***credit limit*** for ***margin lending*** should reflect the maximum that the borrower can ***draw down*** based on the notional credit limit in the ***loan*** contract and the ***loan*** conditions (such as the maximum allowable ***loan-to-valuation ratio***). The ***credit limit*** reported should always be the lower of these limits.

The ***credit limit*** for ***margin lending*** can be equal to or lower than the ***credit limit*** in the ***loan*** contract. The ***credit limit*** cannot be higher than the ***credit limit*** in the ***loan*** contract.

Example 1

A borrower has a ***margin loan***. The ***loan*** conditions state the notional ***credit limit*** is $100,000 and the maximum ***loan-to-valuation ratio*** is 60%. The borrower has $200,000 worth of ***collateral*** against this ***loan***.

In this example, the borrower has enough ***collateral*** to ***draw down*** the entire value of the ***loan*** without breaching the maximum ***loan-to-valuation ratio***. The ***credit limit*** reported will be equal to the ***credit limit*** in the ***loan*** contract ($100,000).

Example 2

A borrower has a ***margin loan***. The loan conditions state the notional ***credit limit*** is $100,000 and the maximum ***loan-to-valuation ratio*** is 60%. The borrower has $100,000 worth of ***collateral*** against this ***loan***.

In this example, the borrower does not have enough ***collateral*** to ***draw down*** the entire value of the ***loan*** without breaching the maximum ***loan-to-valuation ratio***. The ***credit limit*** reported will be lower than the ***credit limit*** in the loan contract ($60,000).

Item 10: Security underlying margin loans outstanding to residents – largest 10 exposures to listed companies (by market capitalisation)

The value of market capitalisation of a company should be obtained from an appropriate third-party source.

2.11.~~6~~ 7 Reconciliation between ARF 723.0 and ARF 741.0 & ARF 745.0

Item 1.1 New borrower-accepted margin loan commitments to residents during the quarter

Total new ***commitments*** for ***margin loans*** to ***residents*** reported in item 1.1 on ARF 723.0 should be equivalent to the sum of ***commitments*** for ***margin lending*** reported on ARF 741.0 and ARF 745.0, apart from differences in the reporting periods. ARF 723.0 is reported quarterly while ARF 741.0 and ARF 745.0 are reported monthly, thus the sum of the monthly values reported on ARF 741.0 and ARF 745.0 during the quarter, should equal the values reported on ARF 723.0 for the same quarter. See the table below for the specific items that should be equivalent, if it were not for the different reporting periods.

Reconciliation between ARF 723.0 and ARF 741.0 & ARF 745.0 *where an ADI or RFC reports all relevant forms*	
ARF 723.0	**ARF 741.0 & ARF 745.0**
Item 1.1: Total new borrower-accepted margin loan commitments to residents during the quarter – Column 1: Value	Item 1.1 on ARF 741.0: New borrower-accepted commitments to resident non-related parties during the month – Column 2: Margin lending plus Item 2.1 on ARF 745.0: New borrower-accepted commitments to residents during the month – Column 2: Margin lending *Summed over each month in the calendar quarter corresponding to the reporting period for ARF 723.0.*

2.11.~~7~~ 8 Reconciliation between ARF 723.0 and ARF 742.0A/0B

Item 4 Margin loans outstanding to residents by counterparty & type of margin loan

The total number of ***margin loans*** outstanding to ***residents*** reported in item 4 (column 3) on ARF 723.0 should be equivalent to the total number of ***margin lending facilities*** outstanding for all business types reported in item 3 (column 4) on either ARF 742.0A or ARF 742.0B, whichever is applicable, where there is a one-for-one relationship between the number of ***margin loans*** and the number of ***margin lending facilities***. If there are some ***margin loans*** that may be aggregated in accordance with the definition of a ***facility***, then the total number of ***margin lending facilities*** outstanding will be less than the total number of ***margin loans*** outstanding.

Reconciliation between ARF 723.0 and ARF 742.0A/ARF742.0B *where an ADI or RFC reports all relevant forms*	
ARF 723.0	**ARF 742.0A or ARF 742.0B**
Item 4: Margin loans outstanding to residents by counterparty and type of margin loan – Column 3: Number of loans	Item 3 on ARF 742.0A or ARF 742.0B, whichever is applicable: Margin lending credit outstanding for all business types – Column 4: Number of facilities When no margin loans meet the definition of a lending facility.

2.12 ARF 730.0: ABS/RBA Statement of Financial Performance

2.12.1 General guidance

Applicable sections of general guidance include:

- *1.1 General guide to reporting by counterparty*;
- *1.2 Residency;*
- *1.3 Related parties;*
- *1.4 Domestic books consolidation;*
- *1.5 Standard Economic Sector Classifications of Australia;*
- *1.8 Identifying (predominant) purpose class and sub-class;*
- *1.9 Residential property purpose - owner-occupied and investment housing;*
- *1.12 Types of financial assets and liabilities*; and
- *1.18 Funds held on behalf of / in trust for clients.*

2.12.2 Finance lease income

A ***finance lease*** refers to the leasing or hiring of ***tangible assets*** under an agreement that transfers from the lessor to the lessee substantially all the risks and benefits incident to ownership of the assets, without transferring the legal ownership.

Income earned from a ***finance lease*** should be recorded as interest income. Treatment of ***finance leases*** should be in accordance with *AASB 1~~1~~6~~7~~ Leases* (AASB 1~~1~~6~~7~~).

2.12.3 Operating lease income

An ***operating lease*** is a ***lease*** under which the lessor effectively retains substantially all the risks and benefits incidental to ownership of the leased asset. An ***operating lease*** is a ***lease*** other than a ***finance lease***.

Income earned on ***operating leases*** should be recorded as non-interest income. Treatment of ***operating leases*** should be in accordance with AASB 16.

2.12.4 Item 1: Interest income

ADIs and ***RFCs*** are to report interest income from both ***residents*** and ***non-residents***; and from both ***related parties*** and ***non-related parties***.

Interest income on notes and coins

Notes and coins represent holdings of physical currency. Some reporting institutions may receive interest income on the working balance of notes held under cash distribution arrangements. -For most reporting institutions, reporting a zero value for this item would be valid.

Allocating interest income by financial instrument – using ARF 330.1

PROXY: For ***ADIs***, it may be useful to initially split the total ***domestic book interest income earned*** into instruments categories as described in the instructions for *Reporting Form ARF 330.1.L: Interest Income and Interest Expense (Licensed ADI)* (ARF 330.1.L) – see Table 1 below.

Note that for ***RFCs***, *Reporting Form RRF 331.0: Selected Revenue and Expense* (RRF 331.0) only categorises interest income by ***debt securities*** and ***housing loans***. ***RFCs*** may instead use the methodology based on the balance sheet forms to allocate total ***interest income earned*** by financial instruments (see Table 2 below).

Table 1: Map of Interest Income from ARF 330.1.L to ARF 730.0

ARF 330.1.L	ARF 730.0
Cash and liquid assets (PL02500) and Other deposits (PL13090)	Item 1.1.1: Notes and coins and Item 1.1.2: Deposits
Trading securities: Total (PL02501) and Investment securities: Physical (PL02502)	Item 1.1.3: Short-term debt securities and Item 1.1.4: Long-term debt securities
Derivative - banking book: hedging (PL02503)	Item 1.1.5: Derivatives – banking book hedging
Loans and advances (PL02504 to PL02509)	Item 1.1.6: Loans and finance leases
Other investments (PL02513) and Other interest-earning assets (PL02514)	Item 1.1.7: Other interest-earning assets
Investment / loans to parent entity (PL02510) and Investment / loans to controlled entities (PL02511) and Investment / loans to associate / joint ventures (PL02512)	Pro-rated using information in ARF 720.3; and then mapped to Items 1.1.2, 1.1.3, 1.1.4, 1.1.6 and 1.1.7

Allocating interest income by financial instrument – using balance sheet information

PROXY: The categories of the ***interest-earning*** assets from the ***domestic books*** balance sheet (ARF 720.0A/B, ARF 720.1A/B, ARF 720.3 and ARF 720.4) may be used to allocate and or validate the ***interest income earned*** by financial instrument categories required on ARF 730.0 – see Table 2 below.

Table 2: Map of Interest Income from ARF 730.0 to the corresponding item on balance sheet

ARF 730.0	Balance sheet forms
Item 1.1.1: Notes and coins – Column 1: Interest income	ARF 720.0A/B: Item 1.1: Notes and coins – Column 1: Total
Item 1.1.2: Deposits – Column 1: Interest income	ARF 720.0A: Item 2: Total funds on deposit at other financial institutions – Column 5: Total or ARF 720.0B: Item 2: Total funds on deposit at other financial institutions – Column 3: Total and ARF 720.3: Item 1.1.1: Funds on deposit at other financial institutions - Column 1: Total
Item 1.1.3: Short-term debt securities – Column 1: Interest income	ARF 720.4: Item 1: Total short-term debt securities held – Column 1: Total
Item 1.1.4: Long-term debt securities – Column 1: Interest income	ARF 720.4: Item 2: Total long-term debt securities held – Column 1: Total
Item 1.1.5: Derivative – banking book hedging – Column 1: Interest income	ARF 720.0A/B: Item 10.3.2: Derivative financial instruments: banking book derivatives – Column 1: Total and ARF 720.3: Item 1.1.7.1.2: Other assets: banking book derivatives – Column 1: Total
Item 1.1.6: Loans and finance leases – Column 1: Interest income	ARF 720.0A/B: Item 6: Total loans and finance leases – Column 1: Total gross of provisions and ARF 720.3: Item 1.1.5: Loans and finance leases – Column 1: Total

Example 1: Allocating interest income – short and long term debt securities

The method outlined in steps (a) to (f) illustrates a possible way to allocate ***interest income earned*** to ***short-term*** and ***long-term*** securities utilising information from ARF 330.1.L and the balance sheet forms.

a) split the ***domestic book*** total income from interest earning assets (Item 1.1 of ARF 730.0) into instrument categories by apportioning using the values reported on ARF 330.1.L as a proxy.
b) calculate an indicator quarterly market interest rate, for ***short-term*** and ***long-term debt securities*** from the RBA Statistical Tables F1, F2 and F3 or from internal indicator rates within your reporting institution.

c) for each type of ***short-term debt security*** held at the end of the reporting period (Item 1 of ARF 720.4) multiply by the indicator market interest rate determined in step (b) to obtain an estimate of interest income by type of ***short-term debt security***. Aggregate the interest income to calculate total ***interest income earned*** for ***short-term debt securities***.
d) for each type of ***long-term debt security*** held at the end of the reporting period (Item 2 of ARF 720.4) multiply by the indicator market interest rate determined in step (b) to obtain an estimate of interest income by type of ***long-term debt security***. Aggregate the interest income to calculate total ***interest income earned*** for ***long-term debt securities***.
e) pro-rate the total interest income allocated to ***short-term*** and ***long-term debt securities*** (step (a)) by interest income derived in step (c) for ***short-term securities***.
f) pro-rate the total interest income allocated to ***short-term*** and ***long-term debt securities*** (step (a)) by interest income derived in step (d) for ***long-term securities***.

Loans and finance leases interest income by counterparty

It is acknowledged that reporting of counterparty information required for ***interest income earned*** from ***loans*** and ***finance leases*** may be a challenge for some ***ADIs*** and ***RFCs*** as the reporting system for obtaining financial performance information is designed around business units (customer segmentation) and product classifications within these units.

Table 3 maps the four counterparty sectors to an indicative set of ***ADI***/***RFC*** business units.

Table 3: Map of ARF 730 counterparties for loans and finance leases to ADI/RFC Business Units

ARF 730.0- Counterparty	ADI/RFC Business Units
Households	Retail/Consumer/Personal
Private unincorporated businesses	Micro and Small Business
Other private non-financial corporations	Medium & Large Business/Corporate/Institutional
Other	Large Business/Corporate/Institutional

(a) Households

Table 3 indicates that ***interest income earned*** from ***households*** on ***loans*** and ***finance leases*** should map directly to the interest income generated from retail/consumer/personal business units.

PROXY: ARF 730.0 requires a further breakdown of ***interest income earned*** from ***households*** to the categories shown in Table 4. These categories may be estimated using product type. ***ADIs***/***RFCs*** may therefore be able to allocate the ***interest income earned*** to ***housing*** (***owner-occupied*** and ***investment***), and ***personal*** (***credit cards*** and other) by using ***loan*** product information within the business unit related to ***households***.

Table 4: Map of ARF 730 Sectors to ADI/RFC Business Units/Products

ARF 730.0 - Household - Counterparty	Business Units / Products
Housing loans • *Owner-occupied* • *Investment*	Home loan products • Owner-occupied home loans • Investor home loans
Personal loans • *Credit cards* • Other	Personal loan products • Credit card products • Other products

PROXY: If ***ADIs*/*RFCs*** are unable to allocate ***interest income earned*** for ***housing*** and ***personal*** by using ***loan*** product information, ***ADIs*/*RFCs*** may estimate this information using information from ARF 720.1A/B and indicator interest rates (similar to the method used for ***deposits*** in *Example 2: Interest expense – deposits accounts* in *Section 2.12.5 Item 4: Interest expense*).

Indicator interest rates may be calculated as follows:

- For ***owner-occupier*** and ***investor housing***, calculate the quarterly interest rate information from Item 1 on ARF 744.0A/B. If ARF 744.0A/B is not reported by your reporting institution, use interest rate information from internal indicator rates within your reporting institution.
- For ***personal***, calculate the quarterly interest rates using interest rate information from Item 1 on ARF 746.0A/B. If ARF 746.0A/B is not reported by your reporting institution, use interest rate information from internal indicator rates within your reporting institution.

(b) Private unincorporated businesses

Table 3 indicates that ***interest income earned*** from ***private unincorporated business*** on ***loans*** and ***finance leases*** should map directly to the interest income generated by micro and small business units.

PROXY: For ***ADIs*/*RFCs*** that are not able to identify small business customers into a separate business units, ***small*** business customers may be identified by an ***ADI*'s/*RFC*'s** internal business indicators such as annual ***turnover*** and debt exposure, revenue, total lending limits, business lending limits and/or through product information. See *Section 1.7 Business Size* for further guidance.

PROXY: If ***ADIs*/*RFCs*** are unable to allocate ***interest income earned*** for ***private unincorporated businesses*** using ***loan*** product information, ***ADIs*/*RFCs*** may estimate this information using information from ARF 720.1A/B and indicator interest rates (similar to the method used for ***deposits*** in *Example 2: Interest expense – deposits accounts* in *Section 2.12.5 Item 4: Interest expense*). Indicator interest rates may be calculated using internal indicator rates within your reporting institution.

(c) Private non-financial corporations and other

Table 3 indicates that ***interest income earned*** from ***other private non-financial corporations*** and the 'other' counterparty sectors on ***loans*** and ***finance leases*** would both map to interest income generated by large business/corporate/institutional business units. Interest income generated from ***medium*** size businesses would map directly to ***other private non-financial corporations***.

The 'other' counterparty includes ***financial institutions***, public sector units, ***community service organisations*** and property trusts. In general, it is expected that ***ADIs*** and ***RFCs*** do not provide significant amounts of ***loans*** and ***finance leases*** to entities included in the 'other' category. The majority of the ***loans*** and ***finance leases*** – and therefore the ***interest income earned*** – from ***large*** businesses (in the Corporate/Institutional business units) are expected to be earned by providing ***loans*** and ***finance leases*** to ***other private non-financial corporations***.

ADIs/***RFCs*** may find it difficult to distinguish between the ***interest income earned*** for the 'other' and ***other private non- financial corporations***. If possible:

- PROXY: ***ADIs*** and ***RFCs*** are encouraged to identify the entities that fall into the 'other' category as described above, estimate their ***interest income earned*** and derive, as a residual, ***interest income earned*** from ***other private non-financial corporations***; or
- PROXY: estimate ***interest income earned*** for the two categories using information on ARF 720.1A/B and internal indicator interest rates used within your reporting institution (similar to the method used for ***deposits*** in *Example 2: Interest expense – deposits accounts* in *Section 2.12.5 Item 4: Interest expense*).

2.12.5 Item 4: Interest expense

ADIs and ***RFCs*** should report ***interest expense incurred*** from both ***residents*** and ***non-residents***; and from ***related parties*** and ***non-related parties***. ***Interest expense incurred*** is not separately identified for ***non-residents*** nor ***related parties***; instead they are included in the total and instrument splits.

Allocating interest expense by financial instrument

PROXY: ***ADIs*** may find it useful to initially split the total ***domestic book interest expense incurred*** into instrument categories described in the instructions for ARF 330.1.L. The categories are:

- deposits;
- other borrowings;
- derivatives - banking book;
- bonds, notes and long-term borrowings;
- loan capital;
- loans from parent entity, controlled entities and associates/joint ventures; and
- other interest-bearing liabilities.

The current reporting standard for ***RFCs*** RRF 331.0 only categorises interest expense by ***debt securities*** on issue and 'other'. ***RFCs*** may use the methodology illustrated in Example 1 above to allocate total interest expense by financial instruments based on ARF 730.0 (see Table 6).

Table 5 below provides a concordance map from the current ARF 330.1.L to ARF 730.0.

Table 5: Map of Interest Expense from ARF 330.1.L to ARF 730.0

ARF 330.1.L	ARF 730.0
Deposits (PL02549)	Item 4.1.1: Deposits
Derivatives - banking book (PL02551)	Item 4.1.5: Derivative – banking book hedging
Bonds, notes and long-term borrowing (PL02552) and Loan capital (PL02553)	Item 4.1.2: Short-term debt securities; Item 4.1.3: Long-term debt securities; and Item 4.1.4: Loans and finance leases
Other borrowings (PL02550) and Other interest-bearing liabilities (PL02557)	Item 4.1.6: Other interest-bearing liabilities
Loans from parent entity (PL02554) and Loans from controlled entities (PL02555) and Loans from associates / joint ventures (PL02556)	Allocated to long-term borrowing in ARF 330.1.L and the item mapped to Item 4.1.4 in ARF 730.0.

PROXY: The categories of ***interest-bearing*** liabilities from the ***domestic books*** balance sheet forms (ARF 720.0A/B, ARF 720.2A/B, ARF 720.3 and ARF 720.6) along with an indicator interest rate may be used to allocate and or validate the ***interest expense incurred*** by financial instrument categories required on ARF 730.0 (similar to the methods used in *Example 1: Allocating Interest Income – short and long term debt securities* and *Example 2: Interest expense – deposits accounts*).

Indicator interest rates may be calculated using interest rate information from Item 1 on ARF 747.0A/B and ARF 748.0A/B. If ARF 747.0A/B and ARF 748.0A/B are not reported by your reporting institution, use interest rate information from RBA Statistical table F1 and F3, and/or internal indicator rates within your reporting institution.

Table 6 provides a map of the ***interest expense incurred*** by financial instrument from ARF 730.0 to the corresponding balance sheet items on ARF 720.0A/B, ARF 720.2A/B, ARF 720.3 and ARF 720.6.

Table 6: Map of Interest Expense from ARF 730.0 to the corresponding items on balance sheet forms

ARF 730.0	Balance sheet forms
Item 4.1.1: Deposits – Column 1: Interest expense	ARF 720.0A/B: Item 14: Total deposits – Column 1: Total and ARF 720.3: Item 3.1.1: Deposits – Column 1: Total
Item 4.1.2: Short-term debt securities – Column 1: Interest expense	ARF 720.6: Item 1: Total short-term debt securities excluding hybrids – Column 1: AUD and ARF 720.6: Item 1: Total short-term debt securities excluding hybrids – Column 2: FX (AUD equivalent)
Item 4.1.3: Long-term debt securities – Column 1: Interest expense	ARF 720.6: Item 2: Total long-term debt securities excluding hybrids – Column 1: AUD and ARF 720.6: Item 2: Total long-term debt securities excluding hybrids – Column 2: FX (AUD equivalent)
Item 4.1.4: Loans and finance leases – Column 1: Interest expense	ARF 720.0A/B: Item 16.3: Loans and finance leases - Column 1: Short-term and ARF 720.0A/B: Item 16.3: Loans and finance leases - Column 1: Long-term and ARF 720.3: Item 3.1.3.2: Loans and finance leases – Column 1: Total
Item 4.1.5: Derivatives: banking book hedging – Column 1: Interest expense	ARF 720.0A/B: Item 18.8.2: Banking book derivatives – Column 1: Total and ARF 720.3: Item 3.1.4.1.2: Creditors and other liabilities: banking book derivatives – Column 1: Total

PROXY: Similar methodology to that illustrated in Example 1 above may be used to allocate interest expense by financial instrument using information from ARF 330.1.L, ARF 720.0A/B and the supplementary balance sheet forms.

Deposits interest expense by counterparty

It is acknowledged that reporting of counterparty information required for ***deposit interest expense incurred*** will be a challenge for ***ADIs/ RFCs*** as the reporting system for obtaining financial performance information is designed around business units (customer segmentation) and the product classifications within these units.

Table 7 maps the four counterparty sectors to an indicative set of ADI/RFC business units.

Table 7: Map of ARF 730 counterparties for deposit accounts to ADI Business Units

ARF 730.0 - Counterparty	ADI Business Units
Households	Retail/Consumer/ Personal
Other private non-financial corporations	Medium & Large Business/ Corporate/Institutional
Self-managed superannuation funds	Retail/Consumer/ Personal
Other	Large Business/ Corporate/Institutional

Table 7 indicates that there is not a one-to-one relationship between the counterparties required for ***deposit*** accounts in ARF 730.0 and business units. ***ADIs/ RFCs*** may find it difficult to allocate ***interest expense incurred*** from ***deposit*** accounts to these counterparties. Example 2 below provides a suggested allocation methodology.

Example 2: Interest expense – deposit accounts

PROXY: Steps (a) to (e) in the example below illustrate how to allocate ***interest expense incurred*** for ***deposit*** accounts using information from ARF 330.1.L, ARF 720.0A/B and supplementary forms (see Table 5 and Table 6 above).

a) Split the *domestic book* total expense from *interest-bearing* liabilities (Item 4.1 of ARF 730.0) into instrument categories by using the splits in ARF 331.0.L as a proxy to obtain the amount of *interest expense incurred* allocated to *deposits*;

b) Derive the balances for *deposit* accounts from Item 1 of ARF 720.2A/B and use a quarterly indicator interest rate for the categories below:

   o households;

   o self-managed superannuation funds;

   o other private non-financial corporations; and

   o other (total *deposits* account balances less the 3 categories above).

c) Calculate a quarterly indicator interest rate, for the relevant categories using interest rate information from Item 1 from ARF 747.0A/B. If ARF747.0 A/B is not reported by your reporting institution, this can be calculated using internal indictor rates within your reporting institution.

d) Derive interest expense estimates for *households* and *self-managed superannuation funds* on ARF 730.0. Pro-rate the total interest expense (obtained for the deposit products for the Retail/Consumer/Personal business unit) by the derived interest expense estimates for *households* and *self-managed superannuation funds*.

e) Derive interest expense estimates for *other private non-financial corporations* and the 'other' category on ARF 730.0. Pro-rate the total interest expense (obtained for the deposit products for the Medium & Large Business/Corporate/Institutional business unit) by the derived interest expense estimates for *private non-financial corporations* and 'other'.

For ***operating lease*** expenses:

- interest expense on ***operating lease*** liabilities should be reported at item 4.1.6 Operating lease liabilities;
- depreciation expense on right-of-use assets should be reported at item 6.1.2 Depreciation of property, plant and equipment;
- short-term lease payments, payments for leases of low-value assets, variable lease payments not included in the measurement of lease liabilities and service components previously embedded in the lease should be reported at item 6.1.1 Operating lease rental expense.

2.12.6 Item 5: Personnel expense

Employer contributions into superannuation

Follow accrual accounting practices when reporting employer contributions made by employers on behalf of employees into ***superannuation funds***. For example, imputation may be required if the fund is overfunded (and the employer is on a contribution holiday) or the fund is an unfunded, defined benefit scheme and therefore needs to ensure a level of contributions consistent with the actuarial recommendations.

2.12.7 Item 8: Other operating expense

Fees and commissions – of which: financial institutions

Reporting institutions are requested to report any fees and commissions paid to ***financial institutions*** (including ***related parties***).

This item includes (but is not limited to) fees paid by the reporting institution to other ***financial institutions*** for:

- servicing a ***loan***;
- investment management fees;
- loan syndication fees; and
- underwriting fees.

Exclude fees and commissions already accounted for in ***interest expense incurred*** because they are an integral part of the effective interest rate of a financial instrument, in accordance with Australian Accounting Standards.

Note that the treatment of fees on ARF 730.0 is different to the reporting of fees on ARF 730.1. On ARF 730.1, all fees are included regardless of whether they can be treated as interest expense under the accounting standards.

2.12.8 Item 15: Multi-state operations

As ARF 730.0 is to be completed on a ***domestic books*** basis, only the ***wages and salaries*** of persons paid by entities that are consolidated within ***domestic books*** should be reported.

If an ***employee*** is based outside of Australia, but their wage is an expense of the ***domestic book*** of the ***ADI*** or ***RFC***, report the employee's wage in accordance with the location of the business cost centre responsible for paying the employee's wage.

2.12.9 Item 16: Employment

Number of employees working for this business

As ARF 730.0 is to be completed on a ***domestic books*** basis, only the number of persons working in entities that are consolidated within ***domestic books*** should be reported.

If an ***employee*** is based outside Australia, but is deemed to be ***employee*** of an entity consolidated within the ***domestic books*** of the ***ADI***/***RFC***, then they should be reported on this form. If not, they should be excluded from ARF 730.0 entirely.

2.12.10 Merger and restructuring expenses

Where possible, recognise merger and restructuring expenses at the most appropriate expense category. For example:

- capitalised wages and salaries related to integration should be reported at item 13.1.1 Capitalised wages and salaries;
- severance and redundancies as a result of the integration should be reported at item 5.1.1 Total wages and salaries;
- professional fees should be reported at item 8.1.4 Fees and commissions; and,
- integration expenses not separately identifiable, or without an appropriate expense category should be reported at item 8.1.9~~8~~ Other operating expense.

2.13 ARF 730.1: ABS/RBA Fees Charged

2.13.1 General guidance

Applicable sections of general guidance include:

- *1.1 General guide to reporting by counterparty;*
- *1.2 Residency;*
- *1.3 Related parties;*
- *1.4 Domestic books consolidation;*

- *1.5 Standard Economic Sector Classifications of Australia;*
- *1.7 Business size;*
- *1.8 Identifying (predominant) purpose class and sub-class;* and
- *1.12 Types of financial assets and liabilities.*

2.13.2 Reporting basis

Note that the treatment of fees is on ARF 730.1 is different to the reporting of fees on ARF 730.0. On ARF 730.1, unless explicitly excluded, all fees should be reported regardless of whether they can be treated as interest expense under the accounting standards.

As per the form name, the primary focus is on quantifying ***fees charged*** to customers (net of any rebates exemptions or waivers offered to the customer), not the reporting institution's perception of income derived from ***fees charged*** which may or may not involve further netting of various expenses incurred by the reporting institution. As such, ***fees charged*** will not necessarily reconcile with non-interest income reported in the reporting institution's annual profit and loss financial statements compiled in accordance with accounting standards.

2.13.3 Reporting coverage

Any fee income earned from fees charged to ***related parties*** are outside the scope of this form. Accordingly, fee income from fees charged to ***SPVs*** that are ***related parties*** should <u>not</u> be included on this form. Fee income from fees charged to ***SPVs*** that are ***non-related parties*** <u>should</u> be included under the relevant item.

Any fee income earned from fees charged to a custody business should <u>not</u> be included on the form if that custody business falls outside the scope of ***domestic books***.

2.13.4 Counterparty splits

PROXY: Where information on ***fees charged*** is not available by counterparty type, the ***ADI*** may use an appropriate allocation method to split ***fees charged*** across counterparties.

2.13.5 Item 1: Fees charged on deposit accounts

Do not include fees on overdrawn accounts with a pre-arranged overdraft facility. These fees should be included in ***loan fees charged***. Fees should be included for accounts that do not have pre-arranged overdraft facilities, such that they attract penalty interest rates if they become overdrawn, but do not include the penalty interest charged for becoming overdrawn without authorisation.

2.13.6 Item 2: Fees charged on loans and finance leases

Include fees on overdrawn accounts with a pre-arranged overdraft facility.

Include fees on ***loans*** and ***finance leases*** that have been securitised and where the ***loans*** and ***finance leases*** are held on-balance sheet. Refer to *Section 2.1.5 Treatment of securitisation* for more detail on the treatment of ***securitisation***.

Fees charged on ***personal loans*** and ***finance leases*** should include fees associated with ***margin lending*** to ***households***. Do not include merchant service fees or transaction fees for ***debit cards***.

Merchant service fees are included in ***merchant fees charged*** to ***private and public sector businesses***. ***Debit card*** transaction and account keeping fees should be included in ***fees charged*** on ***deposit*** accounts.

2.14 ARF 741.0: ABS/RBA Business Finance

2.14.1 General guidance

Applicable sections of general guidance include:

- *1.1 General guide to reporting by counterparty;*
- *1.2 Residency;*
- *1.3 Related parties;*
- *1.4 Domestic books consolidation;*
- *1.5 Standard Economic Sector Classifications of Australia;*
- *1.6 Australian and New Zealand Standard Industry Classification;*
- *1.7 Business size;*
- *1.8 Identifying (predominant) purpose class and sub-class;*
- *1.11 Location of property;*
- *1.12 Types of financial assets and liabilities;* and
- *1.13 Borrower-accepted commitments.*

2.14.2 Borrower-accepted commitments for business finance

Generally include:

- ***secured*** and ***unsecured*** finance for ***business*** purposes;
- finance to ***private and public sector businesses*** whether or not the finance is ***secured*** by ***residential property***;
- ***external refinancing***;
- ***internal refinancing***;
- ***finance leases*** for ***business*** purposes; and
- ***acceptance*** of ***bills of exchange*** by your institution.

Generally exclude:

- finance to ***households*** for ***housing*** purposes. This should be reported on ARF 743.0;
- finance to ***households*** for ***personal*** purposes. This should be reported on ARF 745.0;
- ***deposits***;
- the purchase of securities; and
- ***borrower-accepted commitments*** contingent on some specified eventuality (e.g. bill endorsements, guarantees, letters of credit, standby agreements) unless and until that eventuality occurs.

2.14.3 Credit limits

For a ***borrower-accepted commitment***, the ***credit limit*** is the maximum amount of funds that will be made available to the borrower without additional authorisation or approval. This includes outstanding balances (including capitalised interest or fees) and any other funds that can be drawn without approval from the lender.

The concept of a *credit limit* does not apply to *borrower-accepted commitments* for *finance leases* or *bill acceptances*. Only report *bill acceptances* as they are *accepted*.

Fixed-term loans

The ***credit limit*** and ***credit outstanding*** on a ***fixed-term business loan*** as at the end of the month may be equivalent in many cases. However, there may also be instances where, through options like ***redraw facilities*** (or similar), ***credit outstanding*** differs from the ***credit limit***.

Charge cards

Where an explicit ***credit limit*** is not available on a charge card, report the ***credit limit*** as the value of ***credit outstanding***.

Margin lending facilities

See guidance provided for Item 3 of ARF 723.0.

2.14.4 Reporting construction finance and finance for the purchase of property by location

When reporting by location, report according to the location of the construction site or property that the finance will be used for, not the location of the branch where the ***commitment*** was made, where the headquarters of the business are located, or where the ***collateral*** is located (if these differ from the location sought).

Reporting institutions submitting ARF 741.0 are expected to be able to meet this requirement for the bulk of finance ***commitments*** in their portfolio.

Where a single ***commitment*** is taken out to fund the construction or purchase of property across multiple states, the entire value of the ***commitment*** should be reported against the state where the greatest value of the funds will be used.

2.14.5 Item 2.1: New borrower-accepted commitments for business loans – by purpose

Acquisitions

When reporting ***loans*** and ***finance leases*** for the purposes of ***acquisitions***, either the accounting definition or legal definition of control may be used.

2.14.6 Reconciliations within ARF 741.0

Item 1.1 New borrower-accepted commitments to resident non-related parties during the month

The value of total new ***borrower-accepted commitments*** for ***fixed-term business loans*** to ***resident non-related parties*** reported in Item 1.1 (column 4) on ARF 741.0 is ~~equivalent to new **_borrower-accepted commitments_** for **_fixed-term business loans_** to **_resident non-related parties_** reported in item 3.1 (column 1), less **_fixed-term margin lending_**. It is also~~ equivalent to the sum of new ***borrower-accepted commitments*** for ***fixed-term business loans*** to ***resident non-related parties*** for ***small***, ***medium*** and ***large*** business reported in item 2.1 (columns 1, 2 and 3), less ***fixed-term margin lending***.

The sum of new ***borrower-accepted commitments*** for ***credit cards*** and other ***revolving credit facilities*** to ***resident non-related parties*** reported in item 1.1 (columns 1 and 3) on ARF 741.0 is ~~equivalent to new **_borrower-accepted commitments_** for **_revolving credit business loans_** to **_resident non-related parties_** reported in item 3.1 (column 2), less **_revolving credit facilities_** for **_margin lending_**. It is also~~ equivalent to the sum of new ***borrower-accepted commitments*** for ***revolving credit facilities*** to ***resident non-related parties*** for ***small***, ***medium*** and ***large*** businesses reported in item 2.2 (columns 1, 2 and 3), less ***revolving credit*** facilities for ***margin lending***.

See the table below for the specific items that should be equivalent, if it were not for the distribution of ***margin lending*** across selected ***fixed-term loan*** and ***revolving credit*** items on ARF 741.0.

Reconciliation within ARF 741.0 *taking account of the distribution of margin lending across selected fixed-term and revolving items*	
ARF 741.0	**ARF 741.0**
Item 1.1: New borrower-accepted commitments to resident non-related parties during the month – Column 4: Fixed-term loans	~~Item 3.1: New borrower-accepted commitments for business finance to resident non-related parties – Column 1: Fixed-term loans~~ ~~*Less any **fixed-term margin lending** reported in item 3.1 (column 1).*~~
	Item 2.1: Total new borrower-accepted commitments for fixed-term business loans to resident non-related parties – Column 1: Small plus Column 2: Medium Plus Column 3: Large *Less any **fixed-term margin lending** reported in item 2.1 (columns 1 to 3).*
Item 1.1: New borrower-accepted commitments to resident non-related parties during the month – Column 1: Credit cards plus Column 3: Other revolving credit facilities	~~Item 3.1: Total new borrower-accepted commitments for business finance to resident non-related parties – Column 2: Revolving credit~~ ~~*Less any **revolving credit** facilities for **margin lending** reported in item 3.1 (column 2).*~~
	Item 2.2: Total new borrower-accepted commitments for revolving business loans to resident non-related parties – Column 1: Small plus Column 2: Medium plus Column 3: Large *Less any **revolving credit** facilities for **margin lending** reported in item 2.2 (columns 1 to 3).*

2.15 ARF 742.0A/B: ABS/RBA Business Credit Stocks, Flows and Interest Rates (Standard) / (Reduced)

2.15.1 General guidance

Applicable sections of general guidance include:

- *1.1 General guide to reporting by counterparty;*
- *1.2 Residency;*
- *1.3 Related parties;*
- *1.4 Domestic books consolidation;*
- *1.5 Standard Economic Sector Classifications of Australia;*
- *1.6 Australian and New Zealand Standard Industry Classification;*
- *1.7 Business size;*
- *1.8 Identifying (predominant) purpose class and sub-class;*
- *1.10 Secured by residential property;*
- *1.12 Types of financial assets and liabilities;*
- *1.14 Identifying facilities;*
- *1.15 Interest rates;* and
- *1.16 Treatment of fixed interest rate products once the fixed period ends.*

2.15.2 Business finance funded during month

Generally include:

- ***secured*** and ***unsecured*** finance;
- finance to ***private and public sector businesses*** whether or not the finance is ***secured*** by ***residential property***;
- ***external refinancing***;
- ***internal refinancing***;
- ***finance leases*** for ***business*** purposes; and
- ***acceptance*** of ***bills of exchange*** by your reporting institution.

Generally exclude:

- finance to ***households*** for ***housing*** purposes. This should be reported on ARF 744.0A/B;
- finance to ***households*** for ***personal*** purposes. This should be reported on ARF 746.0A/B*;*
- ***deposits*** with ***financial institutions***; and
- the purchase of securities.

2.15.3 Credit outstanding, net of offset account balances

For ***loans*** with attached ***offset accounts***, report the value of the ***loan*** that would attract interest. For example:

- for an ***offset account*** that fully offsets interest payments (see Example 1), record the value of the ***loan*** less the ***offset account*** balance up to the value of ***credit outstanding*** (i.e. value reported should be greater than or equal to zero);
- for an ***offset account*** that only partially offsets interest payments, record the value of the ***loan*** less the portion of the ***offset account*** balance that is equivalent to a fully offset balance (see

Example 2) up to the value of ***credit outstanding*** (i.e. value reported should be greater than or equal to zero).

For ***loans*** with attached ***set-off accounts***, report the value of the ***loan*** less the value of ***deposits*** in the ***set-off account*** up to the value of ***credit outstanding*** (i.e. value reported should be greater than or equal to zero).

Example 1: Full offset

For a loan with $800 000 of ***credit outstanding***, with $200 000 in a linked ***offset account*** that is fully offset against the outstanding balance of the ***loan*** for the purposes of calculating interest, the value of ***credit outstanding, net of offset accounts*** reported would be as follows:

$800 000 – $200 000 = $600 000

Example 2: Partial offset

For a loan with $800 000 of ***credit outstanding***, with $200 000 in a linked ***offset account*** that is partially offset against the outstanding balance of the ***loan*** for the purposes of calculating interest, the value of ***credit outstanding, net of offset accounts*** reported will depend upon the proportion of the linked ***offset account*** that is offset for the purposes of calculating interest. If 75% of the balance in the ***offset account*** is offset against the outstanding loan balance for the purpose of calculating interest, then the value of ***credit outstanding, net of offset accounts*** reported would be as follows:

$800 000 – ($200 000 × 75%) = $800 000 – $150 000 = $650 000

2.15.4 Funded

All amounts ***funded*** during the reporting period should be reported in the relevant items of ARF 742.0A/B, irrespective of whether or not these amounts were ***drawn down*** (see instructions in ARS 742.0). A ***loan*** or ***finance lease*** is considered ***funded*** once any proportion of the funds is made available for the borrower to ***draw down*** according to the terms of the contract. Loan amounts ***drawn down*** during the reporting period are to be reported in Table 7 of ARF 742.0A/B.

Internal refinances

Where an ***internal refinance*** occurs, the total value of the refinance should be reported as '***funded*** in the month', not just the amount by which the ***credit limit*** was increased. This is to reflect the new ***interest rate*** that applies to the entirety of the funds as contributing to the average marginal rate on new lending.

Construction loans

Where construction ***loans*** are ***funded*** and ***drawn down*** in stages, report only the value ***funded*** in the month (not the total value of the ***commitment***).

2.15.5 Split facilities ~~(number)~~

See *Section 1.14 Identifying facilities* in general guidance.

Where a ***facility*** may involve both a mix of interest rate types (i.e. ***fixed interest rate*** and ***variable interest rate***) and a mix of repayment types (e.g. ***interest-only*** and ***amortising***), apportion value across the relevant line items. When reporting the ***weighted average interest rate***, each ***interest rate*** should be weighted by the value of its corresponding balance outstanding.

~~However, w~~When reporting the number of ***facilities*** broken down by repayment type, report each ***facility*** only once according to the predominant repayment type. Similarly, when reporting the number of ***facilities*** broken down by ***interest rate*** type, report each ***facility*** only once according to the predominant ***interest rate*** type. For example, if the majority of the value of a ***facility*** has a ***fixed interest rate***, the ***facility*** should be reported as a ***fixed interest rate facility*** only.

2.15.6 Interest rates

See *Section 1.15 Interest rate*s in general guidance.

As per the general guidance for ***interest rates***, all ***interest rates*** reported are to be contractual rates, not effective rates (inclusive of some fees). ***Interest rates*** reported are to exclude fees charged to borrowers; fees are to be reported separately on ARF 730.1.

Fixed-term loans with ***interest rates*** that are periodically reset throughout the duration of the ***loan*** should be reported as ***variable interest rate loans***. For example, a 3-year ***loan*** with an ***interest rate*** that is calculated as a spread to a 90-day reference market rate would be reported as a ***variable interest rate loan***.

For ***loans*** that have been ***funded*** in the month but not yet ***drawn down***, report the contractual ***interest rate*** that would have been charged to the borrower if they had fully drawn the ***loan***, as at the end of the month. This could be determined by, for example, applying the ***interest rate*** on the drawn portion of the ***loan*** to the undrawn portion, or calculating the rate that would have been applied to the ***loan*** using the contractual spread and market reference rate as at the end of the month. Where the contractual ***interest rate*** cannot be determined for an undrawn ***loan***, exclude this ***loan*** from the calculation of the ***weighted average interest rate***.

2.15.7 Interest charged

'Item 7.6: Interest charged' refers to the ***interest*** that has been charged or notified to the customer by adding it to the balance of their ***loan*** account(s) on a contractual basis. ***Interest*** that has been charged will therefore be included in the value of ***credit outstanding*** and should be reported in item 7.6 of ARF 742.0A/B. This is distinct from ***interest*** accrued on an accounting basis. ***Interest*** that has accrued but not yet been charged is recorded in 'Item 10.1: Interest receivable' on ARF 720.0A/B and is not included in Item 7 of ARF 742.0A/B.

2.15.8~~7~~ Reconciliations within ARF 742.0A/B

Table 6 Fixed-term business loans – by residual term

For ***credit outstanding,*** the total number of ***facilities***, value and ***weighted average interest rate*** for ***fixed-term business loans*** to ***resident non-related parties*** reported by business type in Table 6 (columns 3, 4 and 5) on ARF 742.0A/B is equivalent to ***fixed-term loans*** to ***resident non-related parties*** reported by business type in Table 3 (columns 3, 4 and), plus ***fixed-term margin lending***.

For ***funded in the month,*** the total number of ***facilities***, value and ***weighted average interest rate*** for ***fixed-term business loans*** to ***resident non-related parties*** reported by business type in Table 6 (columns 7, 8 and 9) on ARF 742.0A/B is equivalent to ***fixed-term loans*** to ***resident non-related parties*** reported by business type in Table 3 (columns 6, 7 and 8), plus ***fixed-term margin lending***.

The value of ***credit outstanding*** for ***fixed-term business loans*** to ***resident non-related parties*** as at the end of the month reported in Item 7.13 is equivalent to the total value of ***credit outstanding*** for ***fixed-term loans*** to ***resident non-related parties*** for all business types in Table 3 (column 4), plus ***fixed-term margin lending***.

See the table below for the specific items that should be equivalent, if it were not for the possible inclusion of both ***fixed-term*** and ***revolving margin loans*** in the ***margin lending*** item in Table 3.

Reconciliation within ARF 742.0A/B *the possible inclusion of both fixed-term and revolving margin loans in the margin lending item*	
ARF 742.0A/B	**ARF 742.0A/B**
Table 6: Fixed-term business loans – by residual term – Small – Credit outstanding – Column 3: Number of facilities	Table 3: Business finance – by finance type – Small – Fixed-term loans - Credit outstanding – Column 3: Number of facilities *Plus any **fixed-term margin lending** with the same characteristics reported in the same table.*
Table 6: Fixed-term business loans – by residual term – Medium – Credit outstanding – Column 3: Number of facilities	Table 3: Business finance – by finance type – Medium – Fixed-term loans - Credit outstanding – Column 3: Number of facilities *Plus any **fixed-term margin lending** with the same characteristics reported in the same table.*
Table 6: Fixed-term business loans – by residual term – Large – Credit outstanding – Column 3: Number of facilities	Table 3: Business finance – by finance type – Large – Fixed-term loans - Credit outstanding – Column 3: Number of facilities *Plus any **fixed-term margin lending** with the same characteristics reported in the same table.*
Table 6: Fixed-term business loans – by residual term – Small – Credit outstanding – Column 4: Value	Table 3: Business finance – by finance type – Small – Fixed-term loans - Credit outstanding – Column 4: Value *Plus any **fixed-term margin lending** with the same characteristics reported in the same table.*

Reconciliation within ARF 742.0A/B *the possible inclusion of both fixed-term and revolving margin loans in the margin lending item*	
Table 6: Fixed-term business loans – by residual term – Medium – Credit outstanding – Column 4: Value	Table 3: Business finance – by finance type – Medium – Fixed-term loans - Credit outstanding – Column 4: Value *Plus any **fixed-term margin lending** with the same characteristics reported in the same table.*
Table 6: Fixed-term business loans – by residual term – Large – Credit outstanding – Column 4: Value	Table 3: Business finance – by finance type – Large – Fixed-term loans - Credit outstanding – Column 4: Value *Plus any **fixed-term margin lending** with the same characteristics reported in the same table.*
Table 6: Fixed-term business loans – by residual term – Small – Credit outstanding – Column 5: Interest rate	The weighted average of: Table 3: Business finance – by finance type – Small – Fixed-term loans - Credit outstanding – Column 5: Interest rate *and the **interest rate** for any **fixed-term margin lending** with the same characteristics reported in the same table.*
Table 6: Fixed-term business loans – by residual term – Medium – Credit outstanding – Column 5: Interest rate	The weighted average of: Table 3: Business finance – by finance type – Medium – Fixed-term loans - Credit outstanding – Column 5: Interest rate *and the **interest rate** for any **fixed-term margin lending** with the same characteristics reported in the same table.*
Table 6: Fixed-term business loans – by residual term – Large – Credit outstanding – Column 5: Interest rate	The weighted average of: Table 3: Business finance – by finance type – Large – Fixed-term loans - Credit outstanding – Column 5: Interest rate *and the **interest rate** for any **fixed-term margin lending** with the same characteristics reported in the same table.*

<table>
<tr><th colspan="2">Reconciliation within ARF 742.0A/B
the possible inclusion of both fixed-term and revolving margin loans in the margin lending item</th></tr>
<tr><td>Item 7.13: Fixed-term business loan credit outstanding to resident non-related parties as at the end of the month – Column 1: Value</td><td>Table 3: Business finance – by finance type – Small – Fixed-term loans - Credit outstanding – Column 4: Value

Plus

Table 3: Business finance – by finance type – Medium – Fixed-term loans - Credit outstanding – Column 4: Value

Plus

Table 3: Business finance – by finance type – Large – Fixed-term loans - Credit outstanding – Column 4: Value

Plus any fixed-term margin lending with the same characteristics reported in the same table.</td></tr>
</table>

2.16 ARF 743.0: ABS/RBA Housing Finance

2.16.1 General guidance

Applicable sections of general guidance include:

- *1.1 General guide to reporting by counterparty;*
- *1.2 Residency;*
- *1.4 Domestic books consolidation;*
- *1.5 Standard Economic Sector Classifications of Australia;*
- *1.8 Identifying (predominant) purpose class and sub-class;*
- *1.9 Residential property purpose - owner-occupied and investment housing;*
- *1.11 Location of property;*
- *1.12 Types of financial assets and liabilities;*
- *1.13 Borrower-accepted commitments;*
- *1.14 Identifying facilities;* and
- *1.16 Treatment of fixed interest rate products once the fixed period ends;*

2.16.2 Applications and borrower-accepted commitments for housing finance

Generally include:

- ***secured*** and ***unsecured*** finance;
- finance to your employees;
- bridging finance for housing;
- ***external refinancing***; and
- ***internal refinancing***.

Generally exclude:

- finance for ***business*** purposes. This should be reported on ARF 741.0;
- finance for ***personal*** purposes. This should be reported on ARF 745.0; and
- ***commitments*** for ***revolving credit loans secured*** by ***residential property*** where the predominant purpose at application is ***business*** or ***personal***. These should be reported on ARF 741.0 or ARF 745.0 as appropriate.

2.16.3 Portable home loans

Mortgage mobility is being offered by a number of lenders as a service to their borrowers. The resulting security substitution is likely to involve a borrower transferring the ***security*** on an existing ***housing loan*** from one ***residential property*** to another ***residential property***.

Reporting guidance

In cases where there is no change to state of the ***residential property*** that the funds are being used for, and the borrower exercises the option under their existing ***loan*** agreement to transfer the security on the ***loan*** to another ***residential property***, the transaction should not be reported as a new ***commitment***.

In cases where there is a change to the state of the ***residential property*** that the funds are being used for, the transaction should be reported as a new ***commitment***.

2.16.4 Interest offset arrangements and redraw facilities on fixed-term loans

Interest on a borrower's savings is offset against interest owed on a ***loan***. Some or all of the repayments in excess of the minimum required repayment can be withdrawn.

Reporting guidance

If the borrower only withdraws the excess of repayments then there is no new finance associated with these arrangements. As such, no new ***commitment*** should be reported on any lending activity forms (ARF 741.0, ARF 743.0 and ARF 745.0). The redrawn amount should, however, be included in amounts drawn (***credit outstanding***).

Where more than the ***excess repayments*** are redrawn, then this is considered new lending finance. A new ***commitment*** should be reported in the relevant lending activity collection.

2.16.5 Bridging finance commitments

Bridging finance is typically a ***short-term commitment*** for finance that will be repaid once further finance has been obtained or the following the sale of property.

Reporting guidance

The total, or gross, value of bridging finance ***commitments*** should be reported. For example, if you make a ***commitment*** for bridging finance for $150 000 and your borrower anticipates repaying $100 000 upon the sale of their previous ***residential property***, then the full, or gross, value of the ***commitment*** should be reported, i.e. $150 000, not the anticipated or actual net.

2.16.6 Item 1: New applications for housing loans

An ***application*** should be reported as ***received*** when sufficient information and/or relevant documentation has been submitted to allow the ***application*** to be initially assessed. After the ***application*** has been initially assessed, there may still be further information or documentation that is required from the borrower before a decision has been made to provide finance.

Where a borrower submits a single ***loan application*** that covers different purposes (e.g. a ***loan*** for ***housing*** purposes <u>and</u> a ***loan*** for ***personal*** purposes), use the predominant purpose principle to determine if the ***loan application*** should be reported as for ***housing*** purposes.

Some institutions may record multiple ***applications*** for the same borrower, where two different, alternative ***loans*** are applied for or where the features of the original ***application*** are varied. Alternatively, some institutions may record only one ***application***. Either method is acceptable provided the ***ADI*** or ***RFC*** advises ***APRA*** by email the method they are using to report ***applications***. If this method changes over time, ***APRA*** should also be advised by email at the time when the change occurs.

2.16.7 Item 2: New borrower-accepted commitments for housing loans – by location and purpose

Purpose sub-class

See *Section 1.8 Identifying (predominant) purpose class and sub-class* in general guidance.

Construction

Lending to ***households*** to purchase an off-the-plan ***dwelling*** should be reported as a ***purchase of a newly erected dwelling***, not as a ***construction loan***.

Example 1: Off-the-plan purchase

Consider a ***household*** seeking finance to purchase an off-the-plan ***dwelling***. Upon completion of construction, the ***household*** may apply for finance from the ***ADI*** or ***RFC***. The resulting ***borrower-accepted commitment*** would be recorded as for the purchase of a ***newly erected dwelling*** (not for *construction*). If the ***household*** had previously received a ***loan*** for the deposit, the additional finance for purchase should still be reported as finance for a ***newly erected dwelling***, not as an ***internal refinance***.

Alterations, additions and repairs

Alterations, additions and repairs should only be separately reported where this ***purpose sub-class*** represents the predominant purpose of the finance. It is likely that most finance for ***alterations, additions and repairs*** would instead qualify as an ***internal*** or ***external refinance***.

Example 2: Top-up for alterations, additions and repairs on a different residential property

If new finance for ***alterations, additions and repairs*** relating to a different property exceeds the balance of an existing ***housing loan*** relating to the original property then the combined amount should be reported as a new ***housing commitment*** (with the ***purpose sub-class*** as ***alterations, additions and repairs***) and the location should be determined by the location of the new property, not the existing one.

Foreign-sourced income

A ***commitment*** should be reported as being serviced by ***foreign-sourced income*** where any of the 'allowable income' taken into account by the reporting institution to assess the serviceability of that commitment qualifies as ***foreign-sourced income***. This applies whether the commitment was made inside or outside the reporting entity's standard serviceability assessment policy. The share of income that qualifies as ***foreign-sourced income*** is irrelevant.

If a borrower declares some ***foreign-sourced income***, such as income streams derived from governments overseas or non-government entities incorporated overseas, but this income is not taken into account in the serviceability assessment, then the commitment should not be reported as being serviced by ***foreign-sourced income***.

Please note, whether a ***commitment*** qualifies as including ***foreign-sourced income*** for EFS reporting purposes is not intended to impact lending to these customers.

2.16.8 Item 3: New borrower-accepted commitments for housing loans to resident first-home buyers – by location

Identification of ***first-home buyers*** should not rely solely on whether they are applying for a 'First Home Owner Grant'.

A ***first-home buyer*** can only be a ***first-home buyer*** once. If a ***loan*** applicant previously bought a ***dwelling*** for the first time for ***investment*** purposes, but are now applying for ***loan*** for the purposes of ***owner-occupied housing*** for the first time, they would not be classified as a ***first-home buyer***.

If there is more than one party to the ***loan***, a ***loan*** is classified as being to a ***first-home buyer*** if none of the borrowing parties to the ***commitment*** have previously owned a ***dwelling***.

Note that it is not necessary for the individual status of each party to the ***loan*** to be recorded, only the final determination (i.e. whether the ***loan*** qualifies as ***first-home buyer***).

2.16.9 Item 5: Fixed-term housing loans to residents – stocks and flows reconciliation

Loans that were classified as written off as at the end of the previous reporting period should be excluded from the opening balance of ***credit outstanding***. ***Loans*** that are classed as written off as at the end of the current reporting period should be excluded from the closing balance of ***credit outstanding***.

Where ***loans*** are written off or recovered during the month, report the value of the ***loan*** written of or recovered in the item designated for this purpose. An adjustment should also be made in the balancing item to offset the value of any flow items associated with these ***loans***.

Drawdowns

Report each ***draw down*** stage on construction ***loans*** as a ***draw down*** for a new ***loan*** (Item 5.2).

Interest charged

'Item 5.6: Interest charged' refers to the ***interest*** that has been charged or notified to the customer by adding it to the balance of their ***loan*** account(s) on a contractual basis. ***Interest*** that has been charged will therefore be included in the value of ***credit outstanding*** and should be reported in item 5.6 of ARF 743.0. This is distinct from ***interest*** accrued on an accounting basis. ***Interest*** that has accrued but not yet been charged is recorded in 'Item 10.1: Interest receivable' on ARF 720.0A/B and is not included in Item 5 of ARF 743.0.

Scheduled repayments

The ***scheduled repayment*** may exceed the minimum required repayment possible under the ***loan*** conditions. For example, following an interest rate reduction, the customer may need to contact their lender in order to have the ***interest rate*** on their ***loan*** reduced to the lowest possible rate – otherwise, their ***scheduled repayment*** would remain unchanged.

If the ***scheduled repayment*** is automatically adjusted following an ***interest rate*** reduction, then this lower amount should be considered the ***scheduled repayment*** from the date at which it takes effect.

Scheduled repayments should be reported in Item 5.7 regardless of whether these payments were received from the borrower or made via a deduction from a ***redraw facility***. Where a ***scheduled repayment*** is met by being deducted from the borrower's ***redraw facility***, report the full value of the ***scheduled repayment*** due in the reporting period in item 5.7 and the amount ***drawn down*** from the ***redraw facility*** in item 5.3.

Balancing item

If the borrower was previously ***non-resident*** and became a ***resident*** during the month report in 'Item 5.13 Other changes to the balance of loan credit outstanding between reporting periods'.

2.16.10 Item 7: Fixed-term housing loans outstanding to residents – future scheduled repayments

~~**Scheduled repayments**~~

~~The ***scheduled repayment*** may exceed the minimum required repayment possible under the ***loan*** conditions. For example, following an interest rate reduction, the customer may need to contact their lender in order to have the ***interest rate*** on their ***loan*** reduced to the lowest possible rate – otherwise, their ***scheduled repayment*** would remain unchanged.~~

~~If the ***scheduled repayment*** is automatically adjusted following an ***interest rate*** reduction, then this lower amount should be considered the ***scheduled repayment*** from the date at which it takes effect.~~Calculating the number of scheduled repayments

To scale the stock of accumulated ***excess repayments*** and balances in associated ***redraw*** and ***offset accounts*** by the scheduled monthly repayment, the following steps may be taken:

1. convert the ***scheduled repayment*** to a monthly frequency if required, using simple multiplication or division.

2. divide the stock of accumulated ***excess repayments*** and balances in associated ***redraw facilities*** and ***offset accounts*** by the (implied) scheduled monthly repayment.

If the number of scheduled repayments does not equal a whole number, it should be rounded to the nearest whole number.

Example 1

Consider the situation where a customer has a ***housing loan*** with:

- ***Credit outstanding*** of $500,000;
- ***Offset account*** balance of $5,000;
- Available ***redraw facility*** balance of $10,000;
- Other ***excess repayments*** that can be used to meet future schedule payments of $2,500; and
- Scheduled monthly repayments of $625 per week.

3. Calculating funds available to meet future repayments:

 Value of offset balances, available redraw balances and other excess repayments (item 6.6) = closing balance of offset accounts (Item 6.1) + available redraw balances (Item 6.3) +

stock of other excess repayments that can be used to meet future scheduled payments (Item 6.5).

Value of offset balances, available redraw balances and other excess repayments = $5,000 + $10,000 + $2,500

Value of offset balances, available redraw balances and other excess repayments = $17,500

4. Converting weekly repayments into monthly repayments:

Scheduled monthly repayment = scheduled weekly repayment x 4

Scheduled monthly repayments = $625 x 4

Scheduled monthly repayment = $2,500

5. Calculating the number of future scheduled repayments

Future scheduled repayments (Item 7) = funds available to meet future repayments (step 1, or Item 6.6) / Scheduled monthly repayment (step 2)

Future scheduled repayments = $17,500 / $2,500

Future scheduled repayments = 7

Treatment of interest-only loans

The ***scheduled repayment*** amounts due to be paid by the customer over the life of the ***loan*** may be unknown (e.g. in the case of for ***interest-only loans*** where the ***scheduled repayment*** amount may vary each period based on factors such as the outstanding balance of the ***loan*** and the ***excess repayments***). In such cases, the next most recent ***scheduled repayment*** amount as at the reporting date can be used to calculate the number of future ***scheduled repayments*** covered by the customer's stock of accumulated ***excess repayments*** and balances in associated ***redraw facilities*** and ***offset accounts***, for the purposes of reporting Item 7 of ARF 743.0. If the calculated number of future ***scheduled repayments*** is greater than the residual loan term, please cap the reported number at the length of the residual loan term.

Treatment of split facilities

See *Section 1.14 Identifying facilities* for general guidance.

Where a ***loan*** consists of a mix of ***interest-only*** and ***amortising*** components, split the ***scheduled repayment*** and stock of accumulated ***excess repayments*** and balances in associated ***redraw facilities*** and ***offset accounts*** and perform and report the calculation separately for both components of the ***facility***.

2.16.11 Reconciliation between ARF 743.0 and ARF 720.2A/B

Item 6.1 Closing balance of offset accounts

The sum of the closing balance of ***offset accounts*** for ***fixed-term owner-occupied housing loans*** and ***fixed-term investment housing loans*** reported in Item 6.1 (columns 1 and 2) on ARF 743.0 should be less than or equal to the closing balance of ***housing loan offset accounts*** reported in item 1.1.1.1 (column 7/column 4) for all ***housing loans*** on ARF 720.2A/B.

The values may not be always be equal because the closing balance of ***offset accounts*** for ***fixed-term housing loans*** reported on ARF 743.0 excludes ***offset accounts*** linked to ***revolving credit housing loans*** and to ***housing loans*** that are 90 days or more ***past-due*** or ***impaired***.

Reconciliation between ARF 743.0 and ARF 720.2A/B *once offset accounts attached to past due, impaired and revolving housing loans are accounted for*	
ARF 743.0	**ARF 720.2A/B**
Item 6.1: Closing balance of offset accounts – Column 1: Owner-occupied plus Item 6.1: Closing balance of offset accounts – Column 2: Investment *Plus the closing balance of **offset accounts** linked to **revolving credit housing loans** and **housing loans** that are 90 days or more **past-due** or **impaired**.*	For ARF 720.2A: Item 1.1.1.1: Total deposits: resident deposits: households: *of which*: housing loan offset accounts – column 7: Total deposits For ARF 720.2B: Item 1.1.1.1: Total deposits: resident deposits: households: *of which*: housing loan offset accounts – column 4: Total deposits

2.17 ARF 744.0A/B: ABS/RBA Housing Credit Stocks, Flows and Interest Rates (Standard) / (Reduced)

2.17.1 General guidance

Applicable items of general guidance include:

- *1.1 General guide to reporting by counterparty;*
- *1.2 Residency;*
- *1.4 Domestic books consolidation;*
- *1.5 Standard Economic Sector Classifications of Australia;*
- *1.8 Identifying (predominant) purpose class and sub-class;*
- *1.9 Residential property purpose - owner-occupied and investment housing;*
- *1.12 Types of financial assets and liabilities;*
- *1.14 Identifying facilities;*
- *1.15 Interest rates; and*

- *1.16 Treatment of fixed interest rate products once the fixed period ends.*

2.17.2 Housing finance funded during month

Generally include:

- *secured and unsecured finance;*
- *finance to your employees;*
- *bridging finance for housing;*
- *external refinancing; and*
- *internal refinancing.*

Generally exclude:

- *finance for **personal** purposes. This should be reported on ARF 746.0A/B;*
- *finance for **business** purposes. This should be reported on ARF 742.0A/B; and*
- ***revolving credit facilities** that are **secured by residential property** where the predominant purpose at application is **personal** or **business.** These should be reported on ARF746.0 A/B or ARF 742.0A/B as appropriate.*

2.17.3 Split facilities (number)

See *Section 1.4 Identifying facilities* for general guidance.

Where a ***facility*** may involve both a mix of ***interest rate*** types (i.e. ***fixed interest rate*** and ***variable interest rate***) and a mix of repayment types (e.g. ***interest-only*** and ***amortising***), apportion value across the relevant line items. However, when reporting the number of ***facilities*** broken down by repayment type, report each ***facility*** only once according to the predominant repayment type. Similarly, when reporting the number of ***facilities*** broken down by ***interest rate*** type, report each ***facility*** only once according to the predominant ***interest rate*** type.

2.17.4 Funded

Internal refinances

Where an ***internal refinance*** occurs, the total value of the refinance should be reported as '***funded*** in the month', not just the amount by which the ***credit limit*** was increased. This is to reflect the new ***interest rate*** that applies to the entirety of the funds as contributing to the average marginal rate on new lending.

Construction loans

Where construction ***loans*** are ***funded*** and ***drawn down*** in stages, report only the value ***funded*** in the month (not the total value of the ***commitment***).

2.17.5 Item 1: Housing loans outstanding – by type

Value net of offset account balances

For ***loans*** with attached ***offset accounts***, report the value of the ***loan*** that would attract interest. For example:

- for an ***offset account*** that fully offsets interest payments (see Example 1), record the value of the ***loan*** less the ***offset account*** balance up to the value of ***credit outstanding*** (i.e. value reported should be greater than or equal to zero);
- for an ***offset account*** that only partially offsets interest payments, record the value of the ***loan*** less the portion of the ***offset account*** balance that is equivalent to a fully offset balance (see Example 2) up to the value of ***credit outstanding*** (i.e. value reported should be greater than or equal to zero).

Example 1: Full offset

For a loan with $800 000 of credit outstanding, with $200 000 in a linked ***offset account*** that is fully offset against the outstanding balance of the loan for the purposes of calculating interest, the value of ***credit outstanding, net of offset accounts*** reported would be as follows:

$800 000 – $200 000 = $600 000

Example 2: Partial offset

For a loan with $800 000 of ***credit outstanding***, with $200 000 in a linked ***offset account*** that is partially offset against the outstanding balance of the ***loan*** for the purposes of calculating interest, the value of ***credit outstanding, net of offset accounts*** reported will depend upon the proportion of the linked ***offset account*** that is offset for the purposes of calculating interest. If 75% of the balance in the ***offset account*** is offset against the outstanding ***loan*** balance for the purpose of calculating interest, then the value of ***credit outstanding, net of offset accounts*** reported would be as follows:

$800 000 – ($200 000 × 75%) = $800 000 – $150 000 = $650 000

2.17.6 Reconciliation between ARF 744.0A/B and ARF 720.1A/B

Item 1.1.1 Total owner-occupied housing credit outstanding to residents – of which: Revolving credit

The value of ***credit outstanding*** for ***revolving credit facilities*** for the purposes of ***owner-occupied housing*** reported in Item 1.1.1 (column 4) on ARF 744.0A/B should be greater than or equal to the value of ***credit outstanding*** reported for ***owner-occupied revolving credit facilities*** that are ***secured by residential property*** in Item 2.1.2.1.1.1 (column 1) on ARF 720.1A/B.

The values may not be always be equal because ***revolving credit facilities*** for the purposes of ***owner-occupied housing loans*** reported on ARF 744.0A/B may be ***unsecured*** or ***secured*** by ***collateral*** other than ***residential property***.

Item 1.2.1 Total investment housing credit outstanding to residents – of which: Revolving credit

The value of ***credit outstanding*** for ***revolving credit facilities*** for the purposes of ***investment housing*** reported in item 1.2.1 (column 4) on ARF 744.0A/B should be greater than or equal to the value of ***credit outstanding*** reported for ***investment revolving credit facilities secured*** by ***residential property*** in Item 2.1.2.1.1.1 (column 2) on ARF 720.1A/B.

The values may not be always be equal because ***revolving credit facilities*** for the purposes of ***investment housing loans*** reported on ARF 744.0A/B may be ***unsecured*** or ***secured*** by collateral other than ***residential property***.

Reconciliation between ARF 744.0A/B and ARF 720.1A/B *once unsecured housing loans or housing loans secured by collateral other than residential property are taken into account*	
ARF 744.0A/B	**ARF 720.1A/B**
Item 1.1.1: Total owner-occupied housing credit outstanding to residents: *of which*: revolving credit – Column 4: Value	Item 2.1.2.1.1.1: Total loans and finance leases to resident households: by security type: *of which*: secured by residential property: *of which*: revolving credit – Column 1: Owner-occupied housing *Plus* ***revolving credit*** *for* ***owner-occupied housing*** *that is* ***unsecured*** *or* ***secured*** *by collateral other than* ***residential property***.
Item 1.2.1: Total investment housing credit outstanding to residents: *of which*: revolving credit – Column 4: Value	Item 2.1.2.1.1.1: Total loans and finance leases to resident households: by security type: *of which*: secured by residential property: *of which*: revolving credit – Column 2: Investment housing *Plus* ***revolving credit*** *for* ***investment housing*** *that is* ***unsecured*** *or* ***secured*** *by collateral other than* ***residential property***.

2.18 ARF 745.0: ABS/RBA Personal Finance

2.18.1 General guidance

Applicable sections of general guidance include:

- *1.1 General guide to reporting by counterparty;*
- *1.2 Residency;*
- *1.4 Domestic books consolidation;*
- *1.5 Standard Economic Sector Classifications of Australia;*
- *1.8 Identifying (predominant) purpose class and sub-class;*
- *1.10 Secured by residential property;*
- *1.12 Types of financial assets and liabilities;* and
- *1.13 Borrower-accepted commitments.*

2.18.2 Borrower-accepted commitments for personal finance

Generally include:

- ***secured*** and ***unsecured*** finance;
- finance to your employees;
- ***revolving credit facilities*** that are ***secured by residential property*** where the predominant purpose at application is ***personal***;
- ***external refinancing***; and
- ***internal refinancing***.

Exclude:

- finance for ***housing*** purposes. This should be reported on ARF 743.0;
- finance for ***business*** purposes. This should be reported on ARF 741.0; and
- commitments for ***revolving credit facilities*** that are ***secured by residential property*** where the predominant purpose at application is ***housing*** or ***business***. These should be reported on ARF 743.0 or ARF 741.0 as appropriate.

2.18.3 Credit limits

Charge cards

See the specific guidance for ARF 741.0.

Margin lending facilities

See guidance provided for Item 3 of ARF 723.0.

2.19 ARF 746.0A/B: ABS/RBA Personal Credit Stocks, Flows and Interest Rates (Standard) / (Reduced)

2.19.1 General guidance

Applicable sections of general guidance include:

- *1.1 General guide to reporting by counterparty;*
- *1.2 Residency;*
- *1.4 Domestic books consolidation;*
- *1.5 Standard Economic Sector Classifications of Australia;*
- *1.8 Identifying (predominant) purpose class and sub-class;*
- *1.10 Secured by residential property;*
- *1.12 Types of financial assets and liabilities;*
- *1.14 Identifying facilities;*
- *1.15 Interest rates;* and
- *1.16 Treatment of fixed interest rate products once the fixed period ends.*

2.19.2 Personal finance funded during month

Generally include:

- ***secured*** and ***unsecured*** finance;
- finance to your employees;
- ***revolving credit facilities*** that are ***secured by residential property*** where the predominant purpose at application is ***personal***;
- ***external refinancing***; and
- ***internal refinancing***.

Exclude:

- finance for ***housing*** purposes. This should be reported on ARF 744.0A/B;
- finance for ***business*** purposes. This should be reported on ARF 742.0A/B; and
- ***revolving credit facilities*** that are ***secured by residential property*** where the predominant purpose at application is ***housing*** or ***business***. These should be reported on ARF 744.0A/B or ARF 742.0A/B.

2.19.3 Credit card interest rates

See section on interest rates in general guidance.

2.20 ARF 747.0A/B: ABS/RBA Deposit Stocks, Flows and Interest Rates (Standard) / (Reduced)

2.20.1 General guidance

Applicable sections of general guidance include:

- *1.1 General guide to reporting by counterparty;*
- *1.2 Residency;*
- *1.3 Related parties;*
- *1.4 Domestic books consolidation;*
- *1.5 Standard Economic Sector Classifications of Australia;*
- *1.12 Types of financial assets and liabilities;*
- *1.15 Interest rates;* and
- *1.18 Funds held on behalf of / in trust for clients.*

2.20.2 Fixed-term deposits

Any ***deposit*** that provides a fixed date on which the funds are repayable should be treated as a ***fixed-term deposit***.

If the ***fixed-term deposit*** is breakable – for example, the funds may be withdrawn prior to the fixed date after providing a notice of withdrawal (with or without a delay in receiving the funds) – the ***deposit*** should be treated as a ***fixed-term deposit*** until notice of withdrawal is provided.

Once a notice of withdrawal is provided:

- if there is a fixed date in the future on which the funds may be withdrawn (i.e. in 30 days) then:
    - the ***deposit*** should still be classified as a ***fixed-term deposit***;
    - the ***residual term*** should be based on the new fixed date (e.g. 30 days' time); and
    - the ***deposit*** should not be reported as a new ***fixed-term deposit*** (on ARF 747.0A/B).
- if there is no fixed date in the future on which the funds may be withdrawn – i.e. they are available immediately or within a few days:
    - the ***deposit*** should no longer be classified as a ***fixed-term deposit*** (it should be classified as a ***transaction deposit*** or ***other non-transaction deposit*** as appropriate).

2.20.3 Rolling notice of withdrawal accounts

Deposit products without a fixed maturity date that offer redemption following a notice of withdrawal period (typically 30 days) should be classified as ***other non-transaction deposit*** accounts until notice of withdrawal is provided. Once notice of withdrawal is given:

- if there is a fixed date in the future on which the funds may be withdrawn (i.e. in 30 days) then:
    - the ***deposit*** should be classified as a ***fixed term deposit***; the ***residual term*** should be based on the new fixed date (e.g. 30 days' time); and
    - the ***deposit*** should be reported as a new ***fixed-term deposit*** (on ARF 747.0A/B).
- if there is no fixed date in the future on which the funds may be withdrawn – i.e. they are available immediately or within a few days:
    - the ***deposit*** should be classified as ***transaction deposit*** or ***other non-transaction deposit*** as appropriate.

2.20.4 Interest-bearing deposits

Deposit products with a contractual rate that references a benchmark market rate are considered *interest-bearing*. This applies even if the referenced market rate falls to or below 0 per cent for a period of time. A *deposit* should only be reported as *non-interest-bearing* if the contractual rate is specified to be zero.

2.21 ARF 748.0A/B: ABS/RBA Wholesale Funding Stocks, Flows and Interest Rates (Standard) / (Reduced)

2.21.1 General guidance

Applicable items of general guidance include:

- *1.1 General guide to reporting by counterparty;*
- *1.2 Residency;*
- *1.3 Related parties;*
- *1.4 Domestic books consolidation;*
- *1.8 Identifying (predominant) purpose class and sub-class;*
- *1.12 Types of financial assets and liabilities;*
- *1.15 Interest rates;*
- *1.16 Treatment of fixed interest rate products once the fixed period ends;* and
- *1.17 Residual maturity.*

2.21.2 Interest rates on debt securities

Contractual ***interest rates*** are to be reported as an outright rate rather than a spread. Where the security is issued in a foreign currency, the ***interest rate*** should not be converted back to an implied AUD rate. As for other ***interest rates***, the ***interest rate*** provided should be on an annualised basis.

Zero-coupon securities should be reported as ***fixed interest rate***.

Do not exclude ***interest rates*** that are less than or equal to zero from reporting; in particular, include them when calculating a ***weighted average*** interest rate.

Examples

A bank issues a ***floating interest rate debt security*** in Australia at a spread over 3-month BBSW.

- The ***interest rate*** reported would be the end-of-period value of 3-month BBSW plus the spread (annualised if required).

A bank issues a ***fixed interest rate debt security*** in Australia with a semi-annual coupon payment of 2.5 per cent.

- The ***interest rate*** reported would be the 2.5 per cent semi-annual rate, annualised.

A bank issues a discount security in Australia, with an implied (annualised) yield of 2 per cent.

- The ***interest rate*** reported would be 2 per cent.

A bank issues a ***floating interest rate debt security*** in the US at a spread over 1-month LIBOR.

- The ***interest rate*** reported would be the end-of-period value of 1-month LIBOR plus the spread (annualised if required).

A bank issued a ***fixed interest rate debt security*** in the UK with a semi-annual coupon payment of 4 per cent.

- The ***interest rate*** reported would be the 4 per cent semi-annual rate, annualised.

2.21.3 Reporting term or tenor in a direct entry field

The reporting of ***term*** or ***tenor*** should be based on the ***loan*** or instrument issued, not the underlying assets.

In most cases, institutions are required to identify the ***term*** or ***tenor*** of a ***loan*** or instrument as belonging to one of several categories or buckets.

In some cases the ***weighted average term*** or ***tenor*** is requested as a direct entry field. In these cases, the instructions direct institutions to express the ***term*** or ***tenor*** as the number of days (from origination for the original ***term*** or ***tenor***, and from the end of the reporting period for ***residual maturity***) divided by 365 days. This standardises the ***term*** to one year, for ease of calculation and reporting.

Example

A 90-day term ***deposit*** (***original maturity***) would be expressed as 90 days/365 days = 0.25 years

2.21.4 Calculating a weighted average term

The ***weighted average term*** is the weighted sum of the individual ***terms*** (***original*** or ***residual***, as directed) where the weights used are the corresponding balances expressed as a share of the total balance for that category.

Weighted average term may be calculated using the formula below.

$$weighted\ average\ term = \sum_i term_i \times weight_i$$

Where $weight_i$ = the balance for item i divided by the sum of balances for all items i.

Example

A bank's ***short-term debt securities*** on issue are as follows:

Example: short-term debt securities on issue		
Short-term debt security	Outstanding balance	Term
1	$350m	0.25

Example: short-term debt securities on issue		
2	$600m	0.17
3	$550m	0.38

The ***weighted average term*** would be calculated as:

0.25 years × $350m/$1500m + 0.17 years × $600m/$1500m + 0.38 years × $550m/$1500m = 0.27 years

2.21.5 Asset-backed securities

~~Report ***asset-backed securities*** that are issued by ***related parties*** (such as an ***SPV***) where the underlying assets are held on the balance sheet of the reporting institution in accordance with accounting principles.~~ Report the value and~~,~~ ***interest rate*** ~~and **tenor**~~ based on the ***asset-backed securities*** issued and not the underlying assets. The ***tenor*** of 'Item 1.4: Memo item: Asset-backed securities' and 'Item 2.4: Memo item: Asset-backed securities' should be calculated using the weighted average life of the securities as estimated at issuance, based on internal assumptions, rather than the contractual maturity of either the ***asset-backed securities*** or the underlying assets.

Covered bonds that are asset-backed should not be reported in 'Item 1.4: Memo item: Asset-backed securities' or 'Item 2.4: Memo item: Asset-backed securities' of ARF 748.0A/B. ***Asset-backed securities*** and ***covered bonds*** are defined distinctly and treated separately in the ***EFS collection*** (see ARS 701.0).

2.21.6 Bills of exchange

Bills of exchange should be treated as ***short-term debt securities***.

For other ***debt securities*** report the ***interest rate*** on a ***bill of exchange*** as the annualised yield. Do not report the discount rate.

2.21.7 Item 3: Benchmark rate on senior unsecured debt

The guiding principle in reporting Item 3 is to report the ***ADI*** or ***RFC's*** indicative wholesale funding cost curve for ***senior unsecured debt*** in the relevant currency, as would be used in the calculation of internal funds transfer pricing.

The calculation of the reported ***benchmark rate*** curve may vary across institutions. It is expected that it would typically be based on the price of recent primary market issuance by the reporting institution or other comparable institutions, but it may also be interpolated or based on secondary market spreads or estimated in some other way where recent comparable issuance is not available. The reported rates should incorporate any relevant costs (such as hedging costs and issuance fees) that are included in the internal calculation of the entity's ***benchmark rate*** reference curve.

The unsecured funding ***benchmark rate*** is not to be expressed as a spread. That is, even if the reporting institution would typically consider that rate as a spread over a reference market rate for internal purposes, then the applicable market rate, as at the end of the reporting period, should be added to the spread when reporting the ***benchmark rate***.

The unsecured funding ***benchmark rate*** for a foreign currency should be reported on an AUD (or AUD equivalent) basis. Adjustments for relevant hedging costs (such as a cross-currency basis) should be included in the figure reported for the USD and EUR rates.

2.21.8 Treatment of hybrid securities treated as liabilities

The tenor of ***hybrid securities*** should be calculated using the period between issuance and the next call date, rather than the contractual maturity date, for the purpose of the relevant items on ARF 748.0.

All ***hybrid securities treated as liabilities*** should be classified as long-term throughout the EFS collection, even if the period between issuance and the next call date is less than or equal to one year. This means that no ***hybrid securities treated as liabilities*** should be reported in 'Item 1.1: Outstanding debt securities: short-term' or 'Item 2.1: New issuance of debt securities: short-term' on ARF 748.0, or in column 1 of 'Item 16: Total borrowings' on ARF 720.0.

The residual maturity of ***hybrid securities treated as liabilities*** should be calculated using the length of time from the reporting period until the next call date, rather than the contractual maturity date. That is, hybrid securities should be reported in the 'Matures in 12 months or less' item codes on ARF 748.0 when the next call date is within 12 months of the reporting period, irrespective of whether the original maturity is less than or equal to one year.

Hybrid securities treated as liabilities **should be reported as either** ***fixed interest rate*** **or** ***variable interest rate*** **depending on the** ***interest rate*** **which applies at the reporting date.** ***Hybrid securities treated as liabilities*** **with a** ***fixed interest rate*** **should be reported as such until the** ***interest rate*** **changes to a** ***variable interest rate*****.**

2.21.9~~8~~ Item 4: Other interest-bearing liabilities outstanding

As a guide, include any ***interest-bearing*** liabilities contained in Item 19 reported on ARF 720.0A/B that are not already reported in this form.

Do not include any ***interest-bearing*** liabilities due to ***related parties***.

The ***value of funds*** reported in Item 4 should be reported on an AUD or AUD-equivalent basis.

2.21.~~9~~ 10 Item 5: Other new interest-bearing liabilities

As a guide, include any ***interest-bearing*** liabilities reported in Item 4 that did not exist prior to the reporting period.

The ***value of funds*** reported in Item 5 should be reported on an AUD or AUD-equivalent basis.

2.21.11~~0~~ Item 6: Hedging

The interest income and expense associated with the hedging of ***banking book*** assets and liabilities relates specifically to payment streams on ***derivatives*** used to hedge ***banking book*** assets and/or liabilities.

These amounts should reflect the payables/receivables in the month, irrespective of whether these were actually paid or received. Foreign currency interest payments/receipts should be converted to Australian dollars at the end-of-period spot rate.

Where an ***ADI*** or ***RFC*** is unable to separately report interest income and expense items, they may report the net interest as either an income or an expense item, as applicable.

2.21.~~11~~ 12 Reconciliation between ARF 748.0A and ARF 730.0

Item 6.1 Total derivatives hedging banking book assets and liabilities

Interest income earned and ***interest expense incurred*** on total ***derivatives*** hedging ***banking book*** assets and liabilities reported on ARF 748.0A should be equivalent to the ***interest income earned*** and ***interest expense incurred*** on ***derivative*** hedging ***banking book*** assets and liabilities reported on ARF 730.0, apart from differences in the reporting periods. ARF 748.0A is reported monthly while ARF 730.0 is reported quarterly, thus the sum of the monthly values reported on ARF 748.0A during the quarter, should equal the values reported on ARF 730.0 for the same quarter. See the table below for the specific items that should be equivalent, if it were not for the different reporting periods.

Reconciliation between ARF 748.0A and ARF 730.0 *once differences in reporting periods are taken into account*	
ARF 748.0A	**ARF 730.0**
Item 6.1: Total derivatives hedging banking book assets and liabilities – Column 2: Interest income *Summed over each month in the calendar quarter corresponding to the reporting period for ARF 730.0.*	Item 1.1.5: Total interest-earning assets: Derivatives - banking book hedging – Column 1: Interest income
Item 6.1: Total derivatives hedging banking book assets and liabilities – Column 3: Interest expense	Item 4.1.5: Total interest-bearing liabilities: Derivatives - banking book hedging – Column 1: Interest expense

Reconciliation between ARF 748.0A and ARF 730.0 *once differences in reporting periods are taken into account*	
Summed over each month in the calendar quarter corresponding to the reporting period for ARF 730.0.	

Glossary

Terms that are defined in ARS 701.0 or in this guidance appear in bold italics.

ABS	Australian Bureau of Statistics established under the *Australian Bureau of Statistics Act 1975*.
APRA	Australian Prudential Regulation Authority established under the *Australian Prudential Regulation Authority Act 1998.*
EFS collection	Comprises the ***EFS reporting standards*** and data collected under the ***EFS reporting standards***.

APRA