



Reporting Standard ARS 113.0

Capital Adequacy: Internal Ratings-based Approach to Credit Risk

Objective of this Reporting Standard

This Reporting Standard outlines the requirements for the provision of information to APRA in relation to an authorised deposit-taking institution's exposures that are subject to calculations using the internal ratings-based approach to credit risk.

It includes associated instructions (all of which are attached and form part of this Reporting Standard) and should be read in conjunction with *Prudential Standard APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk*.

Authority

1. This Reporting Standard is made under section 13 of the *Financial Sector (Collection of Data) Act 2001*.

Purpose

2. The information reported to APRA under this Reporting Standard is used by APRA for the purpose of prudential supervision including assessing compliance with capital adequacy standards. It may also be used by the Reserve Bank of Australia (RBA) and the Australian Bureau of Statistics (ABS).

Application and commencement

3. This Reporting Standard applies to an authorised deposit-taking institution (ADI) that is applying the internal ratings-based approach to credit risk to all or part of its exposures for capital adequacy purposes (refer to *Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk (APS 112)* or *Prudential Standard APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk (APS 113)*, as appropriate).
4. This Reporting Standard may also apply to the non-operating holding company (NOHC) of an ADI (refer to paragraph 7).
5. This Reporting Standard commences on 1 January 2023.

Information required

6. An ADI to which this Reporting Standard applies must provide APRA with the information required by this Reporting Standard for each reporting period.
7. If an ADI to which this Reporting Standard applies is part of a Level 2 group, the ADI must also submit to APRA the information required by this Reporting Standard for an ADI at Level 2 for each reporting period, unless the ADI is a subsidiary of an authorised NOHC. If the ADI is a subsidiary of an authorised NOHC, the ADI's immediate parent NOHC must submit to APRA the information required by this Reporting Standard for each reporting period. In doing so, the immediate parent NOHC must comply with this Reporting Standard (other than paragraph 6) as if it were the relevant ADI.

Method of submission

8. The information required by this Reporting Standard must be given to APRA:
 - (a) in electronic format using an electronic method available on APRA's website; or
 - (b) by a method notified by APRA prior to submission.

Reporting periods and due dates

9. Subject to paragraph 10, an ADI to which this Reporting Standard applies must provide the information required by this Reporting Standard for each quarter based on the financial year (within the meaning of the *Corporations Act 2001*) of the ADI.
10. APRA may, by notice in writing, change the reporting periods, or specified reporting periods, for a particular ADI, to require it to provide the information required by this Reporting Standard more frequently, or less frequently, having regard to:
 - (a) the particular circumstances of the ADI;
 - (b) the extent to which the information is required for the purposes of the prudential supervision of the ADI; and
 - (c) the requirements of the RBA or the ABS.
11. The information required by this Reporting Standard must be provided to APRA within 35 calendar days after the end of the reporting period to which this information relates.
12. APRA may grant an ADI an extension of a due date in writing, in which case the new due date for the provision of the information will be the date on the notice of extension.

Note: For the avoidance of doubt, if the due date for a particular reporting period falls on a day other than a usual business day, an ADI is nonetheless required to submit the information required no later than the due date.

Quality control

13. All information provided by an ADI under this Reporting Standard (except for the information required under paragraph 7) must be the product of systems, processes and

controls that have been reviewed and tested by the external auditor of the ADI as set out in *Prudential Standard APS 310 Audit and Related Matters*. Relevant standards and guidance statements issued by the Auditing and Assurance Standards Board provide information on the scope and nature of the review and testing required from external auditors. This review and testing must be done on an annual basis or more frequently if required by the external auditor to enable the external auditor to form an opinion on the accuracy and reliability of the information provided by an ADI under this Reporting Standard.

14. All information provided by an ADI under this Reporting Standard must be subject to processes and controls developed by the ADI for the internal review and authorisation of that information. These systems, processes and controls are to assure the completeness and reliability of the information provided.

Authorisation

15. When an officer or agent of an ADI provides the information required by this Reporting Standard using an electronic format, the officer or agent must digitally sign the relevant information using a digital certificate acceptable to APRA.

Variations

16. APRA may, by written notice to the ADI, vary the reporting requirements of this Reporting Standard in relation to that ADI.

Transition

17. An ADI must report under the old reporting standard in respect of a transitional reporting period. For these purposes:

old reporting standard means the reporting standard revoked by the determination that makes this Reporting Standard (being the reporting standard that this Reporting Standard replaces); and

transitional reporting period means a reporting period under the old reporting standard:

- (a) that ended before the date of revocation of the old reporting standard; and
- (b) in relation to which the ADI was required, under the old reporting standard, to report by a date on or after the date of revocation of the old reporting standard.

Note: For the avoidance of doubt, if an ADI was required to report under an old reporting standard, and the reporting documents were due before the date of revocation of the old reporting standard, the ADI is still required to provide any overdue reporting documents in accordance with the old reporting standard.

Interpretation

18. In this Reporting Standard the following definitions are applicable:

AASB has the meaning in section 9 of the *Corporations Act 2001*.

ADI means an authorised deposit-taking institution within the meaning of the *Banking Act 1959*.

APRA means the Australian Prudential Regulation Authority established under the *Australian Prudential Regulation Authority Act 1998*.

business days means ordinary business days, exclusive of Saturdays, Sundays and public holidays.

due date means the relevant due date under paragraph 11 or, if applicable, paragraph 12.

foreign ADI has the meaning in section 5 of the *Banking Act 1959*.

highest parent entity means an ADI that satisfies all of the following conditions:

- (a) it is locally-incorporated;
- (b) it has at least one subsidiary (within the meaning of *AASB 127 Consolidated and Separate Financial Statements* (AASB 127)); and
- (c) it is not itself a subsidiary (within the meaning of AASB 127) of an ADI that is locally-incorporated.

IRB approach refers to the internal ratings-based approach to credit risk, as set out in APS 113.

Level 1 has the meaning given to that expression in *Prudential Standard APS 001 Definitions* (APS 001).

Level 2 has the meaning given to that expression in APS 001.

locally incorporated means incorporated in Australia or in a State or Territory of Australia, by or under a Commonwealth, State or territory law.

reporting period means a period mentioned in paragraph 9 or, if applicable, paragraph 10.

19. Unless the contrary intention appears, a reference to an Act, Prudential Standard, Reporting Standard, Australian Accounting or Auditing and Assurance Standard is a reference to the instrument as in force from time to time.

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General instructions

Securitisation deconsolidation principle

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

1. Where an *ADI* (or a member of its *Level 2* consolidated group) participates in a securitisation that meets *APRA's* operational requirements for regulatory capital relief under *Prudential Standard APS 120 Securitisation* (APS 120):
 - (a) special purpose vehicles (SPVs) holding securitised assets may be treated as non-consolidated independent third parties for regulatory reporting purposes, irrespective of whether the SPVs (or their assets) are consolidated for accounting purposes; and
 - (b) the assets, liabilities, revenues and expenses of the relevant SPVs may be excluded from the *ADI's* reported amounts in *APRA's* regulatory reporting returns.
2. Where an *ADI* (or a member of its *Level 2* consolidated group) participates in a securitisation that does not meet *APRA's* operational requirements for regulatory capital relief under APS 120, or the *ADI* undertakes a funding-only securitisation or synthetic securitisation, such assets are to be reported as on-balance sheet in *APRA's* regulatory reporting returns.

Requirements applying to certain ADIs

An *ADI* that has received IRB approval under APS 113 and has approval for partial use of the standardised approach under APS 112 is expected to report under this reporting form in respect of relevant operations that are covered by the IRB approach. There are reporting obligations under ARS 112 in respect of operations that remain under standardised approach.

An *ADI* that is operating under the APS 112 standardised approach to credit risk, but has applied to adopt IRB approach is expected to meet the requirements of this standard for those exposures they are seeking approval to use the IRB approach under APS 113.

Definitions

All terms highlighted in *bold italics* in this Reporting Standard are as defined in APS 113.

Specific instructions

Table 1: Capital Adequacy: Internal Ratings-based Approach to Credit Risk

Scope

Table 1 captures the credit risk-weighted assets (RWA) and risk components of all exposures under the internal ratings-based approach to credit risk, except the following specifically excluded items (refer to APS 113):

- (a) assets or investments that are required to be deducted from Tier 1 or Tier 2 capital under *Prudential Standard APS 111 Capital Adequacy: Measurement of Capital*;
- (b) securitisation exposures, which are subject to the requirements of APS 120; and
- (c) exposures of an overseas banking subsidiary that is prudentially regulated by a prescribed New Zealand authority.

Reporting basis

Complete Table 1 for all exposures that use the internal ratings-based approach to credit risk.

This table is to be completed by all *ADIs* on both a licensed *ADI* and consolidated *ADI* group basis (where applicable). Licensed *ADI* refers to the operations of the reporting *ADI* on a stand-alone basis.

Report data as at the end of the reporting period.

Reporting tables

The table described in this reporting standard lists each of the data fields required to be reported. The data fields are listed sequentially in the column order that they will appear in the reported data set. Constraints on the data that can be reported for each field have also been provided. The Unique identifier column indicates which field or fields form the primary key of the table. Where a field has 'Y' in the Unique identifier column, this denotes that this field forms part of the primary key for the table. A blank cell in the Unique identifier column means that the field does not

form part of the primary key for the table. Any specific combination of values in the fields that form the primary key of a table must not appear on more than one row in that table when reported

Units of measurement

Unless otherwise specified, report all values in whole Australian dollars (no decimal place).

Percentages are to be reported as an unconverted number to two decimal places or as specified. For example, 12.34 per cent is to be reported as 0.1234.

Convert amounts denominated in foreign currency to Australian dollars in accordance with Australian Accounting Standards.

Table 1: Internal Ratings-Based Approach To Credit Risk.

	Name	Unique identifier	Applicable to:	Valid values	Description
1	Exposure classification	Y		<ul style="list-style-type: none"> • <i>Sovereign</i> • <i>Financial institution</i> • <i>Corporate - large</i> • <i>Corporate - SME</i> • <i>Corporate - IPRE</i> • <i>Corporate - other</i> • <i>Retail - SME</i> • <i>Retail - QRR</i> • <i>Retail - residential mortgages - owner occupied and principal and interest</i> • <i>Retail - residential mortgages - Other</i> • <i>Retail - other</i> 	<p>This column is mandatory for all exposures in scope of this Reporting Standard.</p> <p>Exposure classifications are as defined in APS 113. Also refer to <i>Prudential Practice Guide APG 113 Internal Ratings-based Approach to Credit Risk</i> for further details of the definitions of the classifications.</p> <p>Use 'Exposures to residual value' to capture the residual value of lease exposures that expose an ADI to residual value risk. Refer to Attachment A of APS 113.</p>

				<ul style="list-style-type: none"> • <i>Supervisory slotting - project finance</i> • <i>Supervisory slotting - object finance</i> • <i>Supervisory slotting - commodities finance</i> • <i>Supervisory slotting - IPRE</i> • Exposures to residual value 	For rows containing ‘Exposures to residual value’ in column 1, populate columns 2 to 16 with ‘Not Applicable’, ‘No’ and 0 as appropriate.
2	RWA overlay	Y		<ul style="list-style-type: none"> • Yes • No 	<p>For APRA or bank imposed RWA overlays implemented as a direct add-on as opposed to an adjustment to a model or a risk parameter (e.g. PD) report ‘Yes’ for all other exposures report ‘No’</p> <p>a) for rows with ‘Yes’, report the RWA overlay amount in column 19 and populate columns 3 to 18 and 21 to 22 with ‘Not Applicable’, ‘No’ and 0 as appropriate; and</p> <p>b) for rows with ‘No’, populate columns 3 to 22 as per the instructions. RWA reported in column 19 must not contain overlays.</p>
3	<i>Purchased receivable</i>	Y		<ul style="list-style-type: none"> • Yes • No 	For <i>purchased receivables</i> , report ‘Yes’ for report ‘No’ for all other exposures.

4	<i>Asset value correlation multiplier (AVCM)</i>	Y		<ul style="list-style-type: none"> • Yes • No 	For financial institution exposures subject to an AVCM of 1.25 report ‘Yes’. For all other exposures report ‘No’.
5	<i>On/off balance sheet</i>	Y		<ul style="list-style-type: none"> • <i>On-balance sheet</i> • <i>Off-balance sheet</i> • Not Applicable 	<p>Off-balance sheet exposures include both non-market-related (including undrawn commitments) and market-related off-balance sheet transactions.</p> <p>For ‘Exposures to residual value’ or RWA overlays, report ‘Not Applicable’.</p>
6	Nature of transaction	Y		<ul style="list-style-type: none"> • <i>Direct credit substitutes</i> • <i>Sale and repurchase agreements and asset sales with recourse</i> • <i>Lending of securities or posting of securities as collateral</i> • <i>Forward asset purchases, forward deposits and partly paid shares and securities</i> • <i>Other off-balance sheet items that are credit substitutes</i> • <i>Unsettled securities, commodities and foreign exchange transactions accounted for at settlement date</i> • <i>Other commitments with certain drawdown</i> • <i>Note issuance and revolving underwriting facilities</i> • <i>Performance-related contingencies</i> 	<p>Report the nature of the transaction for off-balance sheet exposures only. For all other exposures report ‘Not applicable’.</p> <p>Refer to Attachment C of APS 112 and <i>Prudential Practice Guide APG 112 Standardised Approach to Credit Risk</i> for further details of the definitions of the non-market related transactions.</p> <p>Use ‘Modelled EAD’ to group exposures that use internal estimates of EAD (e.g. revolving retail exposures).</p> <p>Use ‘Market related exposure’ to group exposures that expose an ADI to counterparty credit risk (refer to APS 113).</p>

				<ul style="list-style-type: none"> • Other commitments • Short-term self-liquidating trade letters of credit arising from the movement of goods • Intraday limits • Irrevocable standby commitments under industry support arrangements • Modelled EAD • Market-related exposure • Not Applicable 	
7	Weighted average credit conversion factor (CCF)	Y		Percentage to 2 decimal places	Report the exposure-weighted average CCF for rows with ‘Modelled EAD’ in column 6. For all other rows report 0.
8	Slotting category	Y		<ul style="list-style-type: none"> • Strong • Good • Satisfactory • Weak • Default • Not Applicable 	<p>Report the slotting category for supervisory slotted exposures only. For all other exposures report ‘Not Applicable’.</p> <p>Where this is used, report ‘Not Applicable’ or 0 in columns 9 to 16.</p>
9	Internal probability of default (PD) grade	Y		Text	<p>Report the label assigned to the internal PD grade or pool.</p> <p>The allocation of exposures to each PD grade should be made after the application of regulatory floors on PD.</p>

					For rows to which this column does not apply (e.g. slotted exposures), report ‘Not Applicable’.
10	Probability of default (PD)			Percentage to 5 decimal places	Report the PD estimate for the internal grade or pool. For rows to which this column does not apply (e.g. slotted exposures), report 0.
11	Prescribed loss given default (LGD) category	Y		<ul style="list-style-type: none"> • Eligible financial collateral (0%) • Eligible financial receivables (20%) • Eligible CRE or RRE (20%) • Other eligible physical collateral (25%) • Senior unsecured (5%) • Senior unsecured (25%) • Senior unsecured (40%) • Senior unsecured (45%) • Senior unsecured (50%) • Subordinated debt (75%) • Dilution risk (100%) • Not Applicable 	<p>This column contains the FIRB LGD categories in APS 113 and is mandatory for exposures subject to the FIRB approach. For all other exposures report ‘Not Applicable’.</p> <p>For partly secured exposures or exposures with mixed eligible collateral, exposures should be allocated to the relevant FIRB LGD categories as detailed in Attachment B to APS 113. For partly secured exposures, the amount reported in column 18 against a senior unsecured category should be calculated as $EAD \times E_U / (E \times (1 + H_E))$, where E is the committed amount.</p> <p>The ‘Dilution risk (100%)’ category is used for purchased receivables only. Refer to Attachment A of APS 113.</p>
12	Internal LGD grade	Y		Text	This column captures internal LGD grades.

					<p>For ADIs that use discrete LGD grades for regulatory capital calculation, report the label given to the internal LGD grade.</p> <p>For ADIs that assign continuous LGD estimates for regulatory capital calculation, the estimates must first be grouped into LGD bands for reporting purposes and then report the label given to each band. It is up to the bank to determine the reasonable number of discrete bands for reporting purposes. The bands may be aligned with bands used internally for other purposes such as pricing.</p> <p>The allocation of exposures to each LGD grade or band should be made after the application of regulatory floors on LGD.</p> <p>For rows to which this column does not apply (e.g. slotted exposures), report ‘Not Applicable’.</p>
13	Internal LGD estimate	Y		Percentage to 3 decimal places	<p>Report the LGD estimate or the exposure-weighted average of the LGD estimate for the internal LGD grade or band after the application of regulatory floors on LGD.</p> <p>For rows to which this column does not apply (e.g. slotted exposures), report 0.</p>
14	Maturity (M) band	Y		<ul style="list-style-type: none"> • <1 year • = 1 year • >1 to <=2 years 	For exposures in sovereign, financial institution and corporate classifications report as follows:.

				<ul style="list-style-type: none"> • >2 to <=3 years • >3 to <=4years • >4 to <5 years • =5 years • Not Applicable 	<p>The '<1 year' band should be used for exposures that are exempt from the one-year maturity floor only.</p> <p>The allocation of exposures to each effective maturity band should be made after the application of regulatory caps and floors on effective maturity.</p> <p>For all other exposures report 'Not Applicable'</p>
15	Weighted average <i>maturity</i> (years)			Years to 1 decimal place	<p>Report the exposure-weighted average <i>effective maturity</i> in years for each effective maturity band in column 14.</p> <p>For rows to which this column does not apply, report 0.</p>
16	Weighted average firm size	Y		Whole dollars	<p>For Corporate – SME exposures report the exposure-weighted average consolidated annual revenue for the purpose of calculating the firm-size adjustment for Corporate SME borrowers.</p> <p>For all other exposures report 0</p>
17	Exposure before <i>CRM</i> and <i>CCF</i>			Whole dollars	Report exposure before <i>credit risk mitigation (CRM)</i> and before <i>CCF</i> .
18	Exposure after <i>CRM</i> and <i>CCF</i>			Whole dollars	Report exposure after <i>CRM</i> and after <i>CCF</i> .

19	<i>Risk weighted assets (RWA) – Internal ratings-based (IRB)</i>			Whole dollars	Report the RWA without the 1.1 scaling factor. Refer to Attachment A to APS 113. For RWA overlays, refer to the instructions for column 2.
20	Scaled <i>RWA</i>			Whole dollars	APRA calculated field.
21	<i>Expected loss (EL)</i> amount			Whole dollars	Report the <i>EL</i> amount.
22	<i>RWA</i> - Standardised			Whole dollars	Report the equivalent standardised <i>RWA</i> calculated in accordance with APS 112.