



Reporting Standard ARS 226.0

Margining and risk mitigation for non-centrally cleared derivatives

Objectives of this Reporting Standard

This Reporting Standard requires an authorised deposit-taking institution to submit information to APRA relating to counterparty credit risk exposures.

It includes *Reporting Form ARF 226.0 Margining and risk mitigation for non-centrally cleared derivatives* and associated instructions and should be read in conjunction with *Prudential Standard CPS 226 Margining and risk mitigation for non-centrally cleared derivatives*.

Authority

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

Purpose

2. Information collected in *Reporting Form ARF 226.0 Margining and risk mitigation for non-centrally cleared derivatives* is used by APRA for the purpose of prudential supervision, including assessing compliance with *Prudential Standard CPS 226 Margining and risk mitigation for non-centrally cleared derivatives* (CPS 226). It may also be used by the Reserve Bank of Australia (RBA) and the Australian Bureau of Statistics (ABS).

Application

3. This Reporting Standard applies to all authorised deposit-taking institutions (ADIs) other than providers of purchased payment facilities and Restricted ADIs. This Reporting Standard also applies to a non-operating holding company (NOHC) of an ADI that meets the requirements of paragraph 6.

Commencement

4. This Reporting Standard applies for reporting periods ending on or after 30 September 2023.

Information required

5. An ADI to which this Reporting Standard applies must submit to APRA the information required by this Reporting Standard designated for an ADI at Level 1, as set out in paragraph 7, for each reporting period.
6. 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 designated for an ADI at Level 2, as set out in paragraph 7, 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 provide APRA with the information required by this Reporting Standard designated for an ADI at Level 2, as set out in paragraph 7, for each reporting period. In doing so, the immediate parent NOHC must comply with this Reporting Standard (other than paragraph 5) as if it were the relevant ADI.
7. An ADI must complete a separate reporting form for each reporting consolidation level specified for the class of ADI in the table below.

Reporting form	Class of ADI to which reporting form applies	Reporting consolidation
226 Margining and risk mitigation for non-centrally cleared derivatives	Locally incorporated ADI (other than a provider of purchased payment facilities or a Restricted ADI)	Level 2 or, where not applicable, Level 1

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 paragraphs 10 and 11, an ADI to which this Reporting Standard applies must provide the information required by this Reporting Standard within 35 calendar days after the end of each quarter based on the ADI's financial year (within the meaning of the *Corporations Act 2001*).
10. APRA may, by notice in writing, vary 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. 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

12. All information submitted by an ADI under this Reporting Standard must be the product of processes and controls that have been reviewed and tested by the external auditor of the ADI. *Guidance Statement GS 012 Prudential Reporting Requirements for Auditors of Authorised Deposit-taking Institutions*, issued by the Auditing and Assurance Standards Board, provides guidance on the scope and nature of the review and testing required from external auditors.¹ This review and testing must be done on an annual basis or more frequently if necessary to enable the external auditor to form an opinion on the accuracy and reliability of the information.
13. All information submitted by an ADI under this Reporting Standard must be subject to systems, processes and controls developed by the ADI for the internal review and authorisation of that information. These systems, processes and controls must assure the completeness and reliability of the information submitted.

Authorisation

14. 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

15. APRA may, by written notice to the ADI, vary the reporting requirements of this Reporting Standard in relation to that ADI.
16. APRA may determine, in writing, that an individual ADI of one class of ADI is to be treated, for the purposes of this Reporting Standard, as though it was an ADI of another class of ADI.

Interpretation

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

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

ADI reporting category has the meaning given in *Reporting Standard ARS 701.0 ABS/RBA Definitions for the EFS Collection*.

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

¹ Pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*.

APS 001 means *Prudential Standard APS 001 Definitions*.

Authorised NOHC has the meaning given in the Banking Act.

Banking Act means the *Banking Act 1959*.

Branch of a foreign bank means a foreign ADI as defined in the Banking Act.

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

Central counterparty (CCP) means a clearing house that interposes itself between counterparties to contracts traded in one or more financial markets, becoming the buyer to every seller and the seller to every buyer. A CCP becomes counterparty to trades with market participants through novation, an open offer system, or another legally binding arrangement. For the purposes of the capital framework, a CCP is a financial institution.

Credit conversion factor (CCF) means the percentage value used to convert an off-balance sheet exposure into an on-balance sheet equivalent (i.e. the credit equivalent amount). CCFs are generally pre-defined in the form and correspond to the CCFs detailed in Attachment E of *Prudential Standard APS 180 Capital Adequacy: Counterparty Credit Risk* (APS 180) for market-related off-balance sheet exposures. Where CCFs have not been pre-defined in the form, the ADI does not need to report a CCF as more than one CCF may have been used in relation to that exposure type (see the section below for column 5 Credit equivalent amount).

Credit equivalent amount (CEA) means the on-balance sheet equivalent of an off-balance sheet exposure. These include all market-related transactions held in the banking and trading books that give rise to off-balance sheet credit risk and are eligible for the current exposure method. Refer to Attachment E of APS 180 for details of how to calculate CEAs for various types of transactions under the current exposure method.

Credit rating grade has the meaning given in APS 001.

Current exposure means, for each type of market-related off-balance sheet exposure, the sum of the positive mark-to-market value (or replacement cost) of each individual contract within each classification.

Derivative has the meaning given in CPS 226.

Due date means the last day of the 35 calendar days provided for in paragraph 9 or, if applicable, the relevant due date under paragraph 10 or the date on a notice of extension given under paragraph 11.

Eligible bilateral netting agreement has the meaning given in paragraph 9 of Attachment H of *Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk* (APS 112).

Exchange traded derivative means a derivative that is transacted directly through an organised, licensed and regulated exchange.

External Credit Assessment Institution (ECAI) has the meaning given in APS 001.

Fair value means the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's-length transaction. The fair value should be able to be determined through observation of similar transactions, quoted market prices, independent valuations or if there is no readily observable market, through the ability to liquidate the investment or through assessing the net present value of future cash flows.

Immediate parent NOHC means an authorised NOHC, or a subsidiary of an authorised NOHC, that is an immediate parent NOHC.

IRB ADI means an ADI with approval from APRA to use an internal ratings-based (IRB) approach to credit risk.

Level 1 has the meaning given in APS 001.

Level 2 has the meaning given 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.

Long settlement transaction means a transaction where a counterparty undertakes to receive or deliver a security, a commodity, or a foreign exchange amount against cash, other financial instruments, or commodities at a contractually specified settlement or delivery date that is more than the lesser of (i) the market standard for the particular instrument, and (ii) five business days after the date on which the parties enter into the transaction.

Netting means the process under a netting agreement of combining all relevant outstanding transactions between two counterparties and reducing them to a single net sum for a party to either pay or receive (refer to Attachment H of APS 112).

Notional principal amount means the face value or gross amount of a given off-balance sheet transaction and not the fair value. Absolute values should be reported.

Non-centrally cleared derivative has the meaning given in CPS 226.

Number of counterparties means the total number (count) of counterparties, each as a separate legal entity, with a non-zero notional principal amount in each credit rating grade.

Off-balance sheet exposures means exposures that need to be converted to a CEA before they can be risk-weighted. Prior to the adoption of International Financial Reporting Standards (IFRS) for reporting periods beginning on or after 1 January 2005, some items, e.g. derivatives for accounting purposes, were treated as off-balance sheet. After the adoption of IFRS some of these items for accounting purposes were brought on-balance sheet. For the purposes of this Reporting Standard, continue to report items that were off-balance sheet before the adoption of IFRS as off-balance sheet.

Over-the-counter (OTC) derivative transaction means a customised, privately negotiated, risk-shifting agreement, the value of which is derived from the value of an underlying asset.

Potential future exposure, for the purposes of ARF 180.1, means the amount calculated to reflect the potential for the credit exposure of a market-related contract to exceed the current credit exposure over time. This is calculated under either the adjusted current exposure method (detailed in Attachment E of APS 180) or the standardised approach to counterparty credit risk (detailed in Attachment D of APS 180). Generally, the potential future exposure amount is a derived field in ARF 180.1. In some cases, however, the amount must be entered by the ADI. Under the current exposure method, the potential future exposure amount for some off-balance sheet exposure types may consist of several discrete exposures, each potentially attracting different CCFs. The ADI must, by reference to Attachment E of APS 180, determine the appropriate CCF(s) to be applied to the exposure(s) to calculate the potential future exposure amount for that off-balance sheet exposure type and report the total as a single potential future exposure amount in ARF 180.1.

Provider of purchased payment facilities means an ADI that is subject to a condition on its authority under section 9 of the Banking Act confining the banking business that the ADI is authorised to carry on to providing purchased payment facilities.

Qualifying CCP (QCCP) means an entity that is licensed to operate as a CCP (including a licence granted by way of confirming an exemption), and is permitted by the CCP's regulator/supervisor to operate as such with respect to the products offered. The entity must be based and prudentially supervised in a jurisdiction where the relevant regulator/overseer has established, and publicly indicated that it applies to the CCP on an ongoing basis, domestic rules and regulations that are consistent with the Committee on Payment and Settlement Systems and International Organization of Securities Commissions (CPSS-IOSCO) *Principles for Financial Market Infrastructures*. In order for a CCP to be a QCCP, it must also calculate or make available the necessary data to allow for the calculation of an ADI's default fund capital charge.

Reporting period means a period mentioned in paragraph 9 or, if applicable, as varied under paragraph 10 or 11.

Restricted ADI means an ADI that holds a Restricted ADI licence.

Restricted ADI licence means authorisation under section 9 of the Banking Act to conduct banking business for a limited period with specific requirements and restrictions.

Securities financing transactions (SFTs) means transactions such as repurchase agreements, reverse repurchase agreements, and securities lending and borrowing transactions where the value of the transactions depends on the market valuation of securities and the transactions are typically subject to margin agreements.

Standardised ADI means an ADI that does not have approval from APRA to use an IRB approach to credit risk.

Subsidiary has the meaning given in the *Corporations Act 2001*.

Trade exposure means an exposure a clearing member or a client of a clearing member has to a CCP reflecting a measure of the current mark-to-market value (replacement cost) and the potential future exposure arising from OTC derivative transactions, exchange traded derivative transactions, SFTs and long settlement transactions. Trade exposure is

calculated on a bilateral basis, and must include the initial margin posted by an ADI, as well as any variation margin due to the ADI from the CCP that has not yet been received.

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

DRAFT

ARF_226_0: Margining and risk mitigation for non-centrally cleared derivatives

Australian Business Number	Institution Name
Reporting Period	Scale Factor
Reporting Consolidation	
Level 1 / Level 2	

1 Aggregate month-end average notional amount

	For the margining group (1)	For the Level 1 or 2 ADI (2)
1.1 March		
1.2 April		
1.3 May		
1.4 Average		

2 Exchange of margins

	CPS226 compliant CSA for VM (1)	CPS226 compliant CSA for IM (2)
2.1 Number of covered counterparties		
2.2 Number of covered counterparties with margin exchanged		

3 Exemptions from margin requirements

	Number of covered counterparties (1)	Aggregate notional amount (2)
3.1 Jurisdictions not permitting required safe-keeping of initial margin		
3.2 Doubtful netting agreement enforceability		
3.3 Questionable collateral arrangement enforceability		
3.4 Below three billion qualifying level		

4 Collateral fair value for non-centrally cleared derivatives

4.1 Total variation margin collected	
4.1.1 Cash collateral	
4.1.2 Government debt securities	
4.1.3 Other debt securities	
4.1.4 Gold bullion	
4.1.5 Equities	
4.1.6 Other	
4.2 Total variation margin posted	
4.2.1 Cash collateral	
4.2.2 Government debt securities	
4.2.3 Other debt securities	
4.2.4 Gold bullion	
4.2.5 Equities	
4.2.6 Other	
4.3 Total initial margin and independent amount collected	
4.3.1 Cash collateral	
4.3.2 Government debt securities	
4.3.3 Other debt securities	
4.3.4 Gold bullion	
4.3.5 Equities	
4.3.6 Other	
4.4 Total initial margin and independent amount posted	
4.4.1 Cash collateral	
4.4.2 Government debt securities	
4.4.3 Other debt securities	
4.4.4 Gold bullion	
4.4.5 Equities	
4.4.6 Other	

Reporting Form ARF 226.0

Margining and risk mitigation for non-centrally cleared derivatives

Instructions

These instructions are designed to assist in the completion of *Reporting Form ARF 226.0 Margining and risk mitigation for non-centrally cleared derivatives*. This form captures information relating to an ADI's margining and risk mitigation practices for non-centrally cleared derivatives. In completing this form, ADIs should refer to CPS 226.

Terms highlighted in ***bold italics*** are defined in paragraph 17 of this Reporting Standard.

Reporting entity

This form must be completed at ***Level 2***, or where not applicable, ***Level 1***, by each ***locally incorporated ADI***, except for an ***ADI*** that is a ***branch of a foreign bank*** or a ***provider of purchased payment facilities*** or a ***restricted ADI***.

If an ***ADI*** is a ***subsidiary*** of an ***authorised NOHC***, the report at ***Level 2*** must be submitted by the ***ADI's immediate parent NOHC***.

Reporting basis and units of measurement

Report all items on ARF 226.0 in accordance with Australian Accounting Standards unless otherwise specified.

Items on ARF 226.0 must be completed as at the last day of the stated ***reporting period*** (i.e. the relevant quarter).

All items must be reported in Australian dollars (AUD) and in millions of dollars rounded to one decimal place for an ***ADI reporting category B*** and whole dollars with no decimal place for an ***ADI reporting category A***.

An ***immediate parent NOHC*** must complete this form in AUD and in accordance with the same units as its ***subsidiary ADI***.

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

Specific instructions

Item 1	For the March quarter, report nil in items 1.2 and 1.3. For the June quarter, report the relevant amounts in items 1.1, 1.2, and 1.3. Items 1.1 to 1.3 are expected to remain unchanged for September and December quarters.
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	<p>Report in column 1 the total notional amount of outstanding <i>non-centrally cleared derivative</i> transactions for the margining group as at 31 March (item 1.1), 30 April (item 1.2) and 31 May (item 1.3) of the reporting year. The total notional amount is the aggregate of all outstanding <i>non-centrally cleared derivative</i> transactions across all entities within the margining group. Refer to CPS 226 for the definition of margining group. The calculation of the notional amounts must include physically settled foreign exchange forwards and swaps. Intra-group transactions (transactions between two counterparties within the same margining group) are excluded from the calculation unless otherwise required by <i>APRA</i>.</p> <p>Report in column 2 the total notional amount of outstanding <i>non-centrally cleared derivative</i> transactions for the <i>Level 2</i> group (or <i>Level 1</i> if not applicable) as at 31 March (item 1.1), 30 April (item 1.2) and 31 May (item 1.3) of the reporting year. The total notional amount is the aggregate of all outstanding <i>non-centrally cleared derivative</i> transactions across all entities within the <i>Level 2</i> group (or <i>Level 1</i> if not applicable). The calculation of the notional amounts must include physically settled foreign exchange forwards and swaps. Intra-group transactions (transactions between two counterparties within the same margining group) are excluded from the calculation unless otherwise required by <i>APRA</i>.</p> <p>Item 1.4 is a derived field, calculated as the simple average of items 1.1, 1.2 and 1.3.</p>
<p>Item 2</p>	<p>Item 2.1 – report the total number of covered counterparties with CPS 226 compliant Credit Support Annexes (CSAs) for variation margin in column 1 and CPS 226 compliant CSAs for initial margin in column 2 as at the reporting date.</p> <p>Item 2.2 – report the total number of covered counterparties with a non-zero amount of variation margin exchanged under a CPS 226 compliant CSA in column 1 as at the reporting date. Report the total number of covered counterparties with a non-zero amount of initial margin posted or received under a CPS 226 compliant CSA in column 2 as at the reporting date.</p>
<p>Item 3</p>	<p>Item 3.1 – for new <i>non-centrally cleared derivative</i> transactions entered into on or after 1 March 2017 where initial margin is not posted or collected because the reporting <i>ADI</i> or its counterparty is incorporated, and operating, in a legal jurisdiction that does not permit it or its counterparty to satisfy the requirements in paragraph 25 of CPS 226 in relation to that transaction, report the number of covered counterparties in column 1 and</p>

	<p>the aggregate notional amount of <i>non-centrally cleared derivative</i> transactions with those covered counterparties in column 2.</p> <p>Item 3.2 – for new <i>non-centrally cleared derivative</i> transactions entered into on or after 1 March 2017 where variation margin is not exchanged and initial margin is not posted or collected because there is doubt as to the enforceability of the netting agreement upon insolvency or bankruptcy of the counterparty, report the number of covered counterparties in column 1 and the aggregate notional amount of <i>non-centrally cleared derivative</i> transactions with those covered counterparties in column 2.</p> <p>Item 3.3 – for new <i>non-centrally cleared derivative</i> transactions entered into on or after 1 March 2017 where variation margin is not exchanged and initial margin is not posted or collected because collateral arrangements are questionable or not legally enforceable upon default of the counterparty, report the number of covered counterparties in column 1 and the aggregate notional amount of <i>non-centrally cleared derivative</i> transactions with those covered counterparties in column 2.</p> <p>Item 3.4 – for new <i>non-centrally cleared derivative</i> transactions entered into on or after 1 March 2017 where variation margin is not exchanged because the covered counterparty did not belong to a margining group whose aggregate month-end average notional amount of <i>non-centrally cleared derivative</i> transactions for the relevant reference period exceeded the qualifying level of AUD 3 billion, report the number of covered counterparties in column 1 and the aggregate notional amount of <i>non-centrally cleared derivative</i> transactions with those covered counterparties in column 2.</p>
<p>Item 4</p>	<p>Report the aggregate <i>fair value</i> of all collateral collected as variation margin (item 4.1), collateral posted as variation margin (item 4.2), collateral collected as initial margin or independent amount (item 4.3), and collateral posted as initial margin or independent amount (item 4.4). For clarity, this should be the <i>fair value</i> amount prior to the application of haircuts.</p> <p>For items 4.1.1, 4.1.4, 4.1.5, 4.2.1, 4.2.4, 4.2.5, 4.3.1, 4.3.4, 4.3.5, 4.4.1, 4.4.4 and 4.4.5, refer to paragraph 45 of CPS 226 for definitions of the collateral types.</p> <p>For items 4.1.2, 4.2.2, 4.3.2, and 4.4.2, government debt securities include eligible debt securities per paragraph 45 of CPS 226 issued by Commonwealth, State and Territory governments in Australia (including State and Territory central borrowing authorities); central, state and regional governments in other countries; the RBA; central banks in other</p>

	<p>countries; and the international banking agencies and multilateral development banks.</p> <p>For items 4.1.3, 4.2.3, 4.3.3 and 4.4.3, include other eligible debt securities as per paragraph 45 of CPS 226 issued by bodies other than those included in column 2, covered bonds rated by an <i>ECAI</i> with a <i>credit rating grade</i> of either three (or better), and senior securitisation exposures rated by an <i>ECAI</i> with a <i>credit rating grade</i> of one.</p> <p>Item 4.1.6 is a derived field equal to item 4.1 less the sum of items 4.1.1 to 4.1.5</p> <p>Item 4.2.6 is a derived field equal to item 4.2 less the sum of items 4.2.1 to 4.2.5</p> <p>Item 4.3.6 is a derived field equal to item 4.3 less the sum of items 4.3.1 to 4.3.5</p> <p>Item 4.4.6 is a derived field equal to item 4.4 less the sum of items 4.4.1 to 4.4.5</p>
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