

Reporting Forms ARF 120.1A, ARF 120.1B and ARF 120.1C

Internal Ratings-based (IRB) Approach – Securitisation

Instruction Guide

This instruction guide is designed to assist in the completion of the *IRB – Securitisation* suite of forms. This suite of forms consists of the following:

- (a) *ARF 120.1A IRB – Securitisation – Exposures subject to RBA, IAA or SF (ARF 120.1A)*;
- (b) *ARF 120.1B IRB – Securitisation – Other Securitisation Exposures (ARF 120.1B)*; and
- (c) *ARF 120.1C IRB – Securitisation – Summary (ARF 120.1C)*.

These forms capture the credit risk-weighted assets (**RWA**) and deductions from regulatory capital relating to an authorised deposit-taking institution's (**ADI**'s) securitisation exposures under the internal ratings-based (**IRB**) approach to securitisation. In completing these forms, ADIs should refer to *Prudential Standard APS 120 Securitisation (APS 120)*.

General directions and notes

Reporting entity

These forms are to be completed at Level 1 and Level 2¹ by each ADI that has APRA's approval or is seeking APRA's approval to use an IRB approach to credit risk for capital adequacy purposes, in accordance with *Prudential Standard APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk (APS 113)*.

If an ADI is a subsidiary of an authorised non-operating holding company (**NOHC**), the report at Level 2 is to be provided by the ADI's immediate parent NOHC.²

Securitisation deconsolidation principle

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

¹ Level 1 and Level 2 are defined in accordance with *Prudential Standard APS 110 Capital Adequacy*.

² Refer to paragraph 4 of *Reporting Standard ARS 120.1 Internal Ratings-based (IRB) Approach – Securitisation*.

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 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;
 - (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; and
 - (c) the underlying exposures (i.e. the pool) under such a securitisation may be excluded from the calculation of the ADI's regulatory capital (refer to APS 120). However, the ADI must still hold regulatory capital for the **securitisation exposures**³ that it retains or acquires and such exposures are to be reported in *Form ARF 120.0 Standardised – Securitisation* or this suite of forms (ARF 120.1A, ARF 120.1B and ARF 120.1C), as appropriate. The RWA relating to such securitisation exposures must also be reported in *Form ARF 110.0 Capital Adequacy (ARF 110.0)*.
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, is otherwise considered a non-complying securitisation or a secured funding arrangement which APRA requires to be treated as if on-balance sheet or the ADI elects to treat the securitised assets as on-balance sheet assets under *Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk (APS 112)* or APS 113, such exposures are to be reported as on-balance sheet assets in APRA's regulatory reporting returns. In addition, these exposures must also be reported as a part of the ADI's total securitised assets within *Form ARF 120.2 Securitisation – Supplementary Items*.

Reporting period and timeframe for lodgement

These forms are to be completed as at the last day of the stated reporting period (i.e. the relevant quarter) and submitted to APRA within 30 business days after the end of the relevant reporting period.

Requirements applying to certain ADIs reporting under the forms

The following particular requirements apply to certain ADIs:

³ Securitisation exposures are defined in accordance with APS 120.

Description of ADI	Reporting requirement	Timeframe for lodgement
ADI is operating under Basel II APS 112 standardised approach, but has applied to adopt (or APRA has indicated that it proposes to approve it for) the IRB approach for <u>most or all</u> of its operations	Report under ARF 120.1A, ARF 120.1B and ARF 120.1C (the forms) in respect of relevant operations to be covered by the IRB approach (for purposes of assessing prospective component of regulatory capital relating to securitisation activities after IRB approval (i.e. “parallel run” of data))	Within 30 business days of end of reporting period
ADI has IRB approval, but some operations remain under Basel II standardised approach	Report under the forms in respect of relevant operations that are under the IRB approach (for purposes of calculating component of regulatory capital relating to securitisation activities)	Within 30 business days of end of reporting period

These ADIs will also have certain reporting obligations under *Reporting Form ARF 120.0 Standardised – Securitisation*.

Unit of measurement

These forms are to be completed in millions of Australian dollars (AUD) rounded to one decimal place.

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

Definitions

For this instruction guide and its corresponding reporting forms (ARF 120.1A, ARF 120.1B and ARF 120.1C), refer to APS 120 for the definitions of securitisation exposures, resecuritisation exposures and other securitisation related terminology.

Specific instructions

The following instructions are applicable at Level 1 and (where relevant) Level 2.

For on-balance sheet securitisation exposures, the exposure value is to be reported net of specific provisions. For off-balance sheet securitisation exposures, a credit conversion factor (CCF) is to be applied to the exposure amount (or the notional amount in the case of eligible facilities) to determine the credit equivalent amount (refer to Attachments B and D to APS 120).

Where an ADI has set aside a specific provision or has a non-refundable purchase price discount on an exposure in the pool, the exposure amount is to be calculated gross of the specific provision and/or non-refundable purchase price discount. In this case, the ADI may reduce the amount of any deductions from capital associated with

such an exposure by the amount of the specific provision and/or non-refundable purchase price discount (refer to Attachment D to APS 120).

Unless otherwise stated in this instruction guide, deductions from capital relating to an ADI's securitisation exposures, are to be made 50 per cent from Tier 1 capital and 50 per cent from Tier 2 capital (refer to Attachment B to APS 120).

ARF 120.1A IRB - Securitisation - Exposures subject to RBA, IAA or SF

This form captures the RWA and deductions from regulatory capital relating to an ADI's securitisation and resecuritisation exposures that are subject to the ratings-based approach (**RBA**), internal assessment approach (**IAA**) or supervisory formula (**SF**) under the IRB approach to securitisation (refer to Attachment D to APS 120).

Section A: Securitisation exposures subject to RBA or IAA

This section applies to securitisation exposures which are not resecuritisation exposures.

Risk-weights are pre-defined in this section in accordance with the weightings detailed in paragraphs 6 and 7 of Attachment D to APS 120.

Columns 2 and 3. Exposures after CRM subject to RBA or IAA

Refer to Attachments B and D to APS 120 for the treatment of credit risk mitigation (**CRM**) for securitisation exposures.

Exposures after CRM are to be assigned to the relevant risk-weights in accordance with the requirements detailed in paragraphs 5 to 8 of Attachment D to APS 120. Report securitisation exposures after CRM that are subject to the RBA or IAA in columns 2 or 3 respectively, of the following tables:

- (a) Table 1 – Senior positions and eligible senior IAA exposures;
- (b) Table 2 – Tranches backed by non-granular pools; and
- (c) Table 3 – All other positions.

Column 5. RWA

Derived field that multiplies the sum of the securitisation exposures subject to RBA and IAA for each credit rating grade by the relevant risk-weights (refer to Attachment D to APS 120).

Column 6. Deductions from capital

Derived field that equates to the amount of exposures after CRM corresponding to those credit rating grades for which a deduction is required, in accordance with Attachment D to APS 120.

These deductions are to be made 50 per cent from Tier 1 capital and 50 per cent from Tier 2 capital, in accordance with Attachment B to APS 120. These deductions are also captured in ARF 120.1C.

Section B: Resecuritisation exposures subject to RBA or IAA

This section applies to securitisation exposures which are resecuritisation exposures.

Risk-weights are pre-defined in this section in accordance with the weightings detailed in paragraphs 6 and 7 of Attachment D to APS 120.

Columns 2 and 3. Exposures after CRM subject to RBA or IAA

Refer to Attachments B and D to APS 120 for the treatment of credit risk mitigation (**CRM**) for securitisation exposures.

Exposures after CRM are to be assigned to the relevant risk-weights in accordance with the requirements detailed in paragraphs 5 to 9 of Attachment D to APS 120. Report securitisation exposures after CRM that are subject to the RBA or IAA in columns 2 or 3 respectively, of the following tables:

- (a) Table 4 – Senior positions; and
- (b) Table 5 – Non-senior positions.

Column 5. RWA

Derived field that multiplies the sum of the securitisation exposures subject to RBA and IAA for each credit rating grade by the relevant risk-weights (refer to Attachment D to APS 120).

Column 6. Deductions from capital

Derived field that equates to the amount of exposures after CRM corresponding to those credit rating grades for which a deduction is required, in accordance with Attachment D to APS 120.

These deductions are to be made 50 per cent from Tier 1 capital and 50 per cent from Tier 2 capital, in accordance with Attachment B to APS 120. These deductions are also captured in ARF 120.1C.

Section C: Exposures subject to SF

This section captures the RWA and deductions from regulatory capital relating to an ADI's securitisation (including resecuritisation) exposures that are subject to the SF (refer to Attachment D to APS 120).

Risk-weight buckets are pre-defined in the form.

Column 2. Exposures after CRM

Report securitisation exposures after CRM that are subject to the SF, in the relevant rows, for each risk-weight bucket.

Column 3. RWA

RWA under the SF are to be calculated in accordance with the requirements detailed in Attachment D to APS 120. Report the total amount of RWA for securitisation exposures, in the relevant rows, corresponding to each risk-weight bucket.

Column 4. Deductions from capital

Derived field that equates to the amount of exposures after CRM subject to a risk-weight of 1250 per cent or greater (refer to Attachment D to APS 120).

These deductions are to be made 50 per cent from Tier 1 capital and 50 per cent from Tier 2 capital, in accordance with Attachment B to APS 120. These deductions are also captured in ARF 120.1C.

ARF 120.1B IRB - Securitisation - Other securitisation exposures

This form captures the RWA and deductions from regulatory capital relating to an ADI's securitisation (including resecuritisation) exposures that are not subject to RBA, IAA or SF (refer to Attachment D to APS 120) and revolving exposures with early amortisation provisions (refer to Attachment G to APS 120). The form also captures additional securitisation related deductions that are required to be made from an ADI's regulatory capital, in accordance with APS 120 and as required by APRA.

Section A: Eligible facilities not subject to RBA, IAA or SF

A facility will be considered an eligible facility where it meets the requirements detailed in Attachment E to APS 120.

In accordance with Attachment D to APS 120, an ADI may, subject to written approval from APRA, apply the approach detailed in paragraph 40 of Attachment D to APS 120 to an eligible facility to which the RBA, IAA or SF cannot be applied.

Column 1. Notional amount

Report the notional amount of eligible facilities. Include both the drawn and undrawn amounts associated with each facility.

Column 2. RWA

RWA are to be calculated in accordance with the requirements detailed in paragraph 40(b) of Attachment D to APS 120.

Section B: Credit risk capital requirements relating to cash collateral lodged for securitisation and resecuritisation exposures

This section captures the RWA associated with cash collateral facilities provided by the ADI to collateralise its obligations under liquidity and other facilities (refer to Attachment E to APS 120).

Column 1. Notional amount

Report the amount lodged in the cash collateral facilities. (refer to Attachment E to APS 120).

Column 2. RWA

RWA are calculated in accordance with the requirements detailed in Attachment E to APS 120.

Section C: Early amortisation

This section captures the RWA for the investors' interest⁴ where an ADI transfers a pool of revolving exposures into a securitisation that contains an early amortisation provision (refer to Attachment G to APS 120).

RWA are to be calculated in accordance with the requirements detailed in Attachment G to APS 120. Report the total amount of RWA for the revolving exposures (that have been transferred into a securitisation) that contain an early amortisation provision.

Section D: Additional securitisation-related deductions from capital

This section captures any additional securitisation related deductions from capital that are not captured elsewhere in ARF 120.1A and ARF 120.1B.

4.1 Deductions from Tier 1 capital

4.1.1 Securitisation start-up costs

Report start-up and other establishment costs of a securitisation, where the costs have been capitalised (refer to *Prudential Standard APS 111 Capital Adequacy: Measurement of Capital*).

4.1.2 Tier 1 specific deductions (excluding securitisation start-up costs)

Report all deductions that need to be made specifically from Tier 1 capital, in accordance with APS 120, with the exception of the start-up costs of securitisation that have been capitalised. Include:

- (a) gain-on-sale, including expected future income from a securitisation exposure that an ADI reports as an on-balance sheet asset or profit, until irrevocably received;

⁴ Investors' interest is defined in accordance with Attachment G to APS 120.

- (b) funds provided by the ADI to establish a spread, reserve or similar account, until the funds are irrevocably paid to the ADI;
- (c) the difference between the book value and the amount received by the ADI, where the originating ADI transfers exposures to an SPV below their book value, unless it is written off in the ADI's profit and loss (and capital) accounts;
- (d) any positive mark-to-market value of a basis swap provided to a securitisation, that the ADI has reported as an on-balance sheet asset or profit before it has been irrevocably received; and
- (e) any other Tier 1 specific deductions in accordance with APS 120.

4.1.3 Any other deductions relating to securitisation (50%)

Report 50 per cent of any other deductions relating to securitisation that have not been captured elsewhere in this form or in ARF 120.1A.

4.1.3.1 of which: Securitisation exposures that do not meet the due diligence requirements

Report 50 per cent of securitisation exposures that do not meet the due diligence requirements in paragraph 13 in Attachment B to APS 120. Do not include resecuritisation exposures in this item.

4.1.3.2 of which: Resecuritisation exposures that do not meet the due diligence requirements

Report 50 per cent of resecuritisation exposures that do not meet the due diligence requirements in paragraph 13 in Attachment B to APS 120.

4.2 Deductions from Tier 2 capital

4.2.1 Any other deductions relating to securitisation (50%)

Report 50 per cent of any other deductions relating to securitisation that have not been captured elsewhere in this form or in ARF 120.1A.

ARF 120.1C IRB - Securitisation - Summary

This form summarises the RWA and deductions from regulatory capital relating to an ADI's securitisation (including resecuritisation) exposures under the IRB approach to securitisation. All fields in this form are derived from the data reported in ARF 120.1A and ARF 120.1B, with the exception of item 1.7 *Other securitisation related adjustments* and item 2.4 *Other securitisation related adjustments* in sections A and B of this form, respectively.

Section A: Risk-weighted assets

1.7 Other securitisation related adjustments

Report any other securitisation related adjustments to RWA, as required by APRA. Any additions to RWA are to be reported as a positive amount and any deductions from RWA are to be reported as a negative amount.

1.8 Adjusted total

Derived field that adds or deducts (as appropriate) the amount reported under item 1.7 *Other securitisation related adjustments* to/from item 1.6 *Total*, for the calculation of the adjusted total RWA relating to securitisation exposures under the IRB approach.

Section B: Deductions from capital

2.3 All other deductions relating to securitisation

This item captures all deductions relating to securitisation that are to be made 50 per cent from Tier 1 capital (column 1) and 50 per cent from Tier 2 capital (column 2).

Column 1. Deductions from Tier 1 capital

These deductions include item 4.1.3 *Any other deductions relating to securitisation (50%)* of ARF 120.1B and the sum of items 2.3.1 *of which: Exposures subject to RBA or IAA* (column 1) and 2.3.2 *of which: Exposures subject to SF* (column 1) of this form.

Column 2. Deductions from Tier 2 capital

These deductions include item 4.2.1 *Any other deductions relating to securitisation* of ARF 120.1B and the sum of items 2.3.1 *of which: Exposures subject to RBA or IAA* (column 2) and 2.3.2 *of which: Exposures subject to SF* (column 2) of this form.

2.4 Other securitisation-related adjustments

Report any other securitisation-related adjustments to deductions from Tier 1 and/or Tier 2 capital, as required by APRA, in columns 1 and 2 of this form respectively. Any additions are to be reported as a positive amount and any deductions are to be reported as a negative amount.

Related guidance for reporting in ARF 110.0 Capital Adequacy

For capital adequacy purposes, the following items of ARF 120.1C, relating to RWA and deductions from capital, are to be reported under the corresponding items in ARF 110.0 as set out in the table below:

Item in ARF 120.1C	Corresponding item in ARF 110.0
Item 1.8 <i>Adjusted total</i>	Section B, item 1.2.2 <i>Securitisation – IRB approach</i>
Item 2.1 <i>Securitisation start-up costs</i>	Section A, item 2.6.5 <i>Securitisation start-up costs</i>
Item 2.2 <i>Tier 1 specific deductions (excluding securitisation start-up costs)</i>	Section A, item 2.9 <i>Tier 1 specific deductions relating to securitisation (excluding securitisation start-up costs)</i>
Item 2.3 <i>All other deductions relating to securitisation</i> (a) column 1 <i>Deductions from Tier 1 capital</i> (b) column 2 <i>Deductions from Tier 2 capital</i>	(a) Section A, item 2.14.4 <i>All other deductions relating to securitisation (50%)</i> (b) Included in section A in the total for item 4.1 <i>Total 50/50 deductions from Tier 2 capital.</i>
Item 2.4 <i>Other securitisation related adjustments</i> (a) column 1 <i>Deductions from Tier 1 capital</i> (b) column 2 <i>Deductions from Tier 2 capital</i>	(a) Included in section A in the total for item 2.13 <i>Other Tier 1 capital deductions</i> (b) Included in section A in the total for item 4.2 <i>Other Tier 2 capital deductions as advised by APRA</i>