



Reporting Standard ARS 113.4

Internal Ratings-based (IRB) Approach to Credit Risk – Other Assets, Claims and Exposures

Objective of this Reporting Standard

This Reporting Standard outlines the overall requirements for the provision of information to APRA in relation to an authorised deposit-taking institution's other assets, claims and exposures that are not otherwise defined in *Prudential Standard APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk*.

It includes reporting form *ARF 113.4 IRB – Other Assets, Claims and Exposures* 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. Information collected in reporting form *ARF 113.4 IRB – Other Assets, Claims and Exposures (ARF 113.4)* is used by APRA for the purpose of prudential supervision, including assessing compliance with *Prudential Standard APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk (APS 113)*. It may also be used by the Reserve Bank of Australia and the Australian Bureau of Statistics.

Application and commencement

3. This Reporting Standard applies to an authorised deposit-taking institution (ADI) that has APRA's approval or is seeking APRA's approval to use the internal ratings-based approach to credit risk for capital adequacy purposes.

This Reporting Standard may also apply to the non-operating holding company (NOHC) of an ADI (refer to paragraph 6).

4. This Reporting Standard applies for reporting periods commencing on or after 1 January 2013.

Information required

5. An ADI to which this Reporting Standard applies must provide APRA with the information required by the version of ARF 113.4 designated for an ADI at Level 1 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 provide APRA with the information required by the version of ARF 113.4 designated 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 provide APRA with the information required by that form for each reporting period. In doing so, the immediate parent NOHC must comply with this Reporting Standard (other than paragraphs 5 and 12) as if it were the relevant ADI.

Forms and method of submission

7. The information required by this Reporting Standard must be given to APRA in electronic form, using one of the electronic submission mechanisms provided by the 'Direct to APRA' (also known as 'D2A') application.

Note: the Direct to APRA application software may be obtained from APRA.

Reporting periods and due dates

8. Subject to paragraph 9, 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.
9. 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 Reserve Bank of Australia or the Australian Bureau of Statistics.
10. The information required by this Reporting Standard must be provided to APRA within 30 business days after the end of the reporting period to which the information relates.

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.

Quality control

12. The information provided by an ADI under this Reporting Standard (except for the information required under paragraph 6) must be the product of processes and controls that have been reviewed and tested by the external auditor of the ADI. *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. 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 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. It is the responsibility of the Board and senior management of the ADI to ensure that an appropriate set of policies and procedures for the authorisation of data submitted to APRA is in place.

Authorisation

14. When an ADI submits information under this Reporting Standard using the 'D2A' software, it will be necessary for an officer of the ADI to digitally sign, authorise and encrypt the relevant information. For this purpose, APRA's certificate authority will issue 'digital certificates', for use with the software, to officers of the ADI who have authority from the ADI to transmit the information to APRA.

Transitional

15. 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 in the determination making this Reporting Standard (being the Reporting Standard which this Reporting Standard replaces).

transitional reporting period means a reporting period under the old Reporting Standard:

- (a) which 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

16. In this Reporting Standard:

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*.

authorised NOHC has the meaning given in the *Banking Act 1959*.

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

GS 012 means the auditing and assurance standard entitled *Prudential Reporting Requirements for Auditors of Authorised Deposit-taking Institutions* so made by the Auditing and Assurance Standards Board.

immediate parent NOHC means an authorised NOHC, or the subsidiary of an authorised NOHC, that is an immediate parent NOHC within the meaning of *Prudential Standard APS 001 Definitions (APS 001)*.

Level 1 has the meaning in APS 001.

Level 2 has the meaning in APS 001.

reporting period means a period mentioned in paragraph 8 or, if applicable, paragraph 9.

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

ARF_113_4: IRB - Other assets, claims and exposures

Australian Business Number	
Institution Name	
Reporting Period	
Scale Factor	Millions to one decimal place
Reporting Consolidation	Level 1/Level 2

Credit risk-weighted assets

	Exposure (1)	Risk-weights % (2)	RWA (3)
1. Portfolio			
1.1 Notes and coins	CS16541	CS16542	CS16543
1.2 Gold bullion	CS16544	CS16545	CS16546
1.3 Cash items in the process of collection	CS16547	CS16548	CS16549
1.4 Equity exposures that are not deducted from capital			
1.4.1 Listed on a recognised exchange	CS16550	CS16551	CS16552
1.4.2 All other equity exposures	CS16553	CS16554	CS16555
1.5 Margin lending:			
1.5.1 Against listed instruments on recognised exchanges	CS17702	CS17703	CS17704
1.5.2 Against unlisted instruments	CS17705		CS17706
1.6 Residual value for leases	CS16556	CS16557	CS16558
1.7 Unsettled and failed transactions			
1.7.1 Delivery-versus-payment transactions			
1.7.1.1 5 to 15 days	CS16559	CS16560	CS16561
1.7.1.2 16 to 30 days	CS16562	CS16563	CS16564
1.7.1.3 31 to 45 days	CS16565	CS16566	CS16567
1.7.1.4 46 days or more	CS16568	CS16569	CS16570
1.7.2 Non-delivery-versus-payment transactions			
1.7.2.1 0 to 4 days	CS16571	CS16572	CS16573
1.7.2.1 5 days or more			
1.8 Related party exposures (Level 1 only)	CS18394		CS18395
1.9 Fixed assets	CS16574	CS16575	CS16576
1.10 All other exposures	CS16577	CS16578	CS16579
1.11 Total other assets, claims and exposures	CS16580		CS16581

Reporting Form ARF 113.4

IRB – Other Assets, Claims and Exposures

Instruction Guide

This instruction guide is designed to assist in the completion of the reporting form *IRB - Other Assets, Claims and Exposures*. This form captures the credit risk-weighted assets (**RWA**) for cash items, equity exposures, margin lending, certain kinds of leases, unsettled and failed transactions, related party exposures, fixed assets and all other exposures that are not otherwise defined in *Prudential Standard APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk (APS 113)*. In completing this form, authorised deposit-taking institutions (**ADIs**) should refer to APS 113.

General directions and notes

Reporting entity

This form is 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 the internal ratings-based (**IRB**) approach to credit risk for capital adequacy purposes, in accordance with APS 113.

If an ADI is a subsidiary of an authorised NOHC, the report at Level 2 is to be provided by the ADI's immediate parent NOHC².

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;
 - (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

¹ Level 1 and Level 2 are defined in accordance with *Prudential Standard APS 001 Definitions*.

² Refer to paragraph 5 of *Reporting Standard ARS 113.4 Internal Ratings-based (IRB) Approach to Credit Risk – Other Assets, Claims and Exposures*.

securitisation exposures³ that it retains or acquires, and such exposures are to be reported in *Form ARF 120.0 Standardised – Securitisation* or *Forms ARF 120.1A to ARF 120.1C IRB – Securitisation* (as appropriate). The RWA relating to such securitisation exposures must also be reported in *Form ARF 110.0 Capital Adequacy*.

2. Where an ADI (or a member of its Level 2 consolidated group) participates in a securitisation that does not meet APRA's operational requirements for regulatory capital relief under APS 120, or the ADI elects to treat the securitised assets as on-balance sheet assets under *Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk (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

This form is 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 form

The following particular requirements apply to certain ADIs:

Description of ADI	Reporting requirement	Timeframe for lodgement
ADI is operating under the APS 112 standardised approach to credit risk, 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 113.4 (the form) in respect of relevant operations to be covered by the IRB approach (for purposes of assessing prospective credit risk component of regulatory capital calculation 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 the standardised approach	Report under the form in respect of relevant operations that are covered by the IRB approach (for purposes of calculating credit risk component of regulatory capital)	Within 30 business days of end of reporting period

These ADIs will also have certain reporting obligations under *Form ARF 112.1A Standardised Credit Risk – On-balance Sheet Assets* and *Form ARF 112.2A Standardised Credit Risk – Off-balance Sheet Exposures*.

³ Securitisation exposures are defined in accordance with APS 120.

Unit of measurement

This form is 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*.

Specific instructions

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

1.1 Notes and coins

Include:

- (a) all notes and coins irrespective of currency of issue; and
- (b) notes and coins in transit between any branches or offices of the ADI.

1.2 Gold bullion

Include:

- (a) gold bullion held in the ADI's own vaults or on an allocated basis by another party to the extent that it is backed by gold bullion liabilities (gold bullion liabilities include gold borrowings, gold futures and forward sales of gold); and
- (b) all claims collateralised by gold to the extent that the underlying claim being collateralised is denominated in gold.

Exclude:

- (a) gold held in safe custody for other institutions; and
- (b) gold held on an unallocated basis by another party (although gold held on an unallocated basis by another party may be backed by gold bullion liabilities, it is weighted as a claim on the counterparty unless a lower risk weight is approved by APRA).

1.3 Cash items in the process of collection

Include:

- (a) the amount of cheques, draft and other items drawn on other ADIs or overseas banks that are payable immediately upon presentation and that are in the process of collection; and
- (b) overnight settlement balances relating to Clearing House and Austraclear transactions.

Exclude import and export trade bills held by the ADI that are in the process of collection. These should be included in the IRB asset class relevant to the counterparty.

1.4 Equity exposures **that are not deducted from capital**

For item 1.4.1 *Listed on a recognised exchange* and item 1.4.2 *All other equity exposures*, the following applies:

- (a) equity exposures include both direct and indirect ownership interests⁴, whether voting or non-voting, in the assets and income of a commercial enterprise or financial institution, and holdings of units in unit trusts that are not required to be deducted under the requirements of *Prudential Standard APS 111 Capital Adequacy: Measurement of Capital (APS 111)*. Equity exposures are defined according to the economic substance of the instrument (refer to APS 113 for further guidance);
- (b) all equity exposures that are held in an ADI's banking book are to be included in section 1.4. The equity exposures that are held in the trading book are to be treated in accordance with *Prudential Standard APS 116 Capital Adequacy: Market Risk (APS 116)*, with the exception of those exposures that give rise to counterparty credit risk, which are to be included in section 1.4 (refer to APS 113);
- (c) equity interests are to be valued in accordance with the current book value, including revaluations, net of any specific provisions; and
- (d) short positions held in the banking book are to be treated in accordance with Attachment E to APS 113.

1.4.1 Listed on a recognised exchange

Include:

- (a) equity exposures that are listed on a recognised exchange and are not deducted from capital; and
- (b) all securities (stock) lent or sold under repurchase agreements.

Exclude:

- (a) equity exposures that are deducted from capital in accordance with APS 111; and
- (b) all securities borrowed or purchased under resale agreements.

⁴ Indirect equity interests include holdings of derivative instruments tied to equity interests and holdings in corporations, partnerships, limited liability companies, or other types of entities that issue ownership interests and are engaged principally in the business of investing in equity instruments.

1.4.2 All other equity exposures

Include:

- (a) all equity exposures that are not listed on a recognised exchange and are not deducted from capital; and
- (b) all securities (stock) lent or sold under repurchase agreements.

Exclude:

- (a) equity exposures that are deducted from capital in accordance with APS 111; and
- (b) all securities borrowed or purchased under resale agreements.

1.5 Margin lending

1.5.1 Against listed instruments on recognised exchanges

Include all margin lending exposures against listed instruments on recognised exchanges listed in Table 4 of Attachment B to APS 116. The amount to be recorded is the current book value net of any specific provisions.

Do not include margin lending exposures subject to regulatory adjustment as per APS 111.

1.5.2 Against unlisted instruments

Include all margin lending exposures against instruments that are unlisted on recognised exchanges. The amount to be recorded is the current book value net of any specific provisions. The risk-weighted asset amount is to be calculated in accordance with APS 112 on the basis that the exposure is a secured loan.

Do not include margin lending exposures subject to regulatory adjustment as per APS 111.

1.6 Residual value for leases

Include the nominal residual value of leases with corporate counterparties that expose the ADI to residual value risk (refer to Attachment E to APS 113).

Exclude:

- (a) the discounted lease payment streams of leases that expose the ADI to residual value risk. These are to be reported in *Form ARF 113.0A FIRB – Corporate (ARF 113.0A)* or *Form ARF 113.1A AIRB – Corporate (ARF 113.1A)*, depending on whether the ADI uses the foundation IRB (**FIRB**) or advanced IRB (**AIRB**) approach to corporate exposures, respectively (refer to Attachment E to APS 113); and

- (b) leases that do not expose the ADI to residual value risk. These leases are to be treated in the same manner as exposures secured by the relevant collateral in accordance with Attachment E to APS 113 and are to be reported in ARF 113.0A or ARF 113.1A, as appropriate.

1.7 Unsettled and failed transactions

1.7.1 Delivery-versus-payment transactions

Include the positive current exposure amount for unsettled and failed transactions (refer to Attachment E to APS 113) that are undertaken through a delivery-versus-payment (**DvP**) system, in the relevant rows, based on the number of days the transactions remain unsettled after their due delivery dates (i.e. 5 to 15 days, 16 to 30 days, 31 to 45 days, 46 days or more).

Exclude all repurchase and reverse-repurchase agreements as well as securities lending and borrowing transactions (refer to Attachment E to APS 113).

1.7.2 Non-delivery-versus-payment transactions

1.7.2.1 Non-delivery-versus payment transactions 0-4 days

There are two options for the treatment of non-DvP transactions that remain unsettled for up to, and including, four business days after their due delivery dates:

- (a) such transactions are to be treated as exposures, in accordance with Attachment E to APS 113 and reported in the relevant FIRB or AIRB suite of forms; or
- (b) where the exposures are not material, the ADI may choose to apply a 100 per cent risk-weight to all exposures in accordance with Attachment E to APS 113, in which case, all such exposures are to be reported under this item.

Exclude from this item, the value transferred and the positive current exposure of non-DvP transactions that remain unsettled for five business days or more after their due delivery dates, which are to be risk-weighted at 1250 per cent, in accordance with Attachment E to APS 113.

1.7.2.2 Non-delivery-versus payment transactions 5 days or more

Include in this item, the value transferred and the positive current exposure of non-DvP transactions that remain unsettled for five business days or more after their due delivery dates, which are to be risk-weighted at 1250 per cent, in accordance with Attachment E to APS 113.

1.8 Related party exposures (Level 1 only)

Include for Level 1 purposes only, exposures to entities that are wholly owned or effectively controlled by the ADI and that are consolidated at Level 2 for capital adequacy purposes. Exposures are based on the current book value, including accrued

interest and net of any specific provisions. RWA are to be determined in accordance with the risk-weights detailed in Attachment A to APS 112.

Exclude assets included within the equity IRB asset class.

This item is not required to be completed on a Level 2 basis and should be left blank.

1.9 Fixed assets

Include all investments in premises, plant and equipment, and all other fixed assets, including those under an operating lease.

1.10 All other exposures

Include all other exposures and claims that are not otherwise defined in APS 113.