



Prudential Standard APS 221

Large Exposures

Objectives and key requirements of this Prudential Standard

This Prudential Standard requires authorised deposit-taking institutions to implement prudent measures and to set prudent limits to monitor and control their large exposures and risk concentrations, on both a Level 1 and Level 2 basis.

The key requirements of this Prudential Standard are that an authorised deposit-taking institution must:

- have a Board-approved policy that governs its large exposures and risk concentrations;
- have adequate systems and controls to identify, measure, monitor and report large exposures and risk concentrations;
- identify large exposures, including identifying a group of connected counterparties;
- ensure its large exposures meet the large exposure limits; and
- measure exposure values for large exposure purposes using specified treatments.

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Authority

1. This Prudential Standard is made under section 11AF of the *Banking Act 1959* (**Banking Act**).

Application

2. This Prudential Standard applies to all authorised deposit-taking institutions (**ADIs**), subject to paragraph 3.
3. This Prudential Standard does not apply to:
 - (a) **purchased payment facility providers**; or
 - (b) **foreign ADIs** that are subject to consolidated supervision by their home country supervisors in respect of credit concentrations and large exposure limits. However, foreign ADIs must detail their large exposure and risk concentration policies as well as the relevant high level controls in the **risk management strategy** required under *Prudential Standard CPS 220 Risk Management* (CPS 220). As part of its prudential oversight of the Australian operations of a foreign ADI, APRA may discuss with the foreign ADI's parent and home supervisor any undue credit risk concentrations associated with the foreign ADI's Australian operations.
4. A reference to an ADI in this Prudential Standard, unless otherwise indicated, is a reference to:
 - (a) an ADI on a **Level 1** basis; and
 - (b) a **group** of which an ADI is a member on a **Level 2** basis.
5. If an ADI to which this Prudential Standard applies is:
 - (a) the holding company for a group, the ADI must ensure that the requirements in this Prudential Standard are met on a Level 2 basis, where applicable; or
 - (b) a subsidiary of an authorised **non-operating holding company** (**authorised NOHC**), the authorised NOHC must ensure that the requirements in this Prudential Standard are met on a Level 2 basis, where applicable.

Interpretation

6. Terms that are defined in *Prudential Standard APS 001 Definitions* appear in bold the first time they are used in this Prudential Standard.
7. Where this Prudential Standard provides for APRA to exercise a power or discretion, this power or discretion is to be exercised in writing. In this Prudential Standard, unless the contrary intention appears, a reference to an Act, Regulations or Prudential Standard is a reference to the Act, Regulations or Prudential Standard as in force from time to time.

Definitions

8. The following definition is used in this Prudential Standard:
- (a) government-related entity – an entity controlled (whether directly or indirectly) by any level of government (including central, state or regional governments), central banks, or public sector entities which includes entities such as state owned enterprises.

Large exposures and risk concentrations

9. An ADI is exposed to various forms of risk concentration with the potential to incur significant losses that could materially threaten the ADI's financial strength. Risk concentrations may arise from excessive exposures to individual counterparties, groups of connected counterparties, groups of counterparties with similar characteristics (e.g. counterparties in specific geographical regions or industry sectors) or to particular asset classes (e.g. property holdings or other investments).¹
10. Safeguarding against large exposures and risk concentrations to particular counterparties,² industries, countries and asset classes must form part of an ADI's risk management strategy and **risk management framework** required under CPS 220.

The role of the Board

11. The Board of directors (**Board**) of an ADI is ultimately responsible for the oversight of the ADI's large exposures and risk concentrations and for approving policies governing large exposures and risk concentrations of the ADI. The Board must **ensure** that these policies are reviewed regularly (at least annually) and that they remain adequate and appropriate for the ADI's risk appetite, risk profile, capital and balance sheet size.

Control of large exposures and risk concentrations

12. An ADI must have Board-approved policies on large exposures and risk concentrations, which form part of its risk management framework, and at a minimum, cover:
- (a) exposure limits for:
 - (i) various types of counterparties (including, but not limited to, governments, government-related entities, ADIs and foreign equivalents, and corporate and individual borrowers);
 - (ii) a group of connected counterparties. Where an ADI's exposure to a group of connected counterparties exists according to paragraph 20,

¹ Risk concentrations may also arise from reliance on concentrated funding sources, significant net short positions in securities as well as other sources.

² As a general rule, unlimited exposure to any individual counterparty (e.g. a general guarantee of the obligations of a counterparty) is not permitted.

the ADI is to treat the exposure to the group of connected counterparties as a single counterparty which is subject to large exposure limits;

- (iii) individual industry sectors (where applicable);
- (iv) individual countries (where applicable). The limits for individual countries should consider, amongst other things, any potential transfer risks, where a borrower is not able to convert local currency into foreign exchange and consequently would be unable to make debt service payments to the ADI. The risk can arise from exchange restrictions imposed by the government in the borrower's country; and
- (v) various asset classes (e.g. property holdings and other investments)

that are commensurate with the ADI's risk appetite, risk profile, capital and balance sheet size;

- (b) the circumstances in which the exposure limits may be exceeded and the authority and processes required for approving such excesses (e.g. by the ADI's Board or a board committee);
- (c) the process for identifying, measuring, evaluating, monitoring, controlling and reporting large exposures and risk concentrations of the ADI; and
- (d) stress testing and scenario analysis of the ADI's large exposures and risk concentrations to assess the impact of changes in market conditions and key risk factors (e.g. economic cycles, interest rates, liquidity conditions or other market movements) on its risk profile, capital and earnings.

13. The ADI must ensure that:

- (a) adequate systems and controls are in place to identify, measure, monitor and report large exposures and risk concentrations of the ADI in a timely manner; and
- (b) large exposures and risk concentrations of the ADI are regularly reviewed (at least annually).

14. Certain types of exposure and counterparties are excluded from the prudential limits in paragraph 29. An ADI must have adequate processes and controls in place to monitor these excluded exposures. An ADI is expected to consider how the risks arising from these types of exposures are incorporated into its risk management framework under CPS 220, including establishing internal limits or triggers commensurate with its risk appetite.

Identifying large exposures

15. A large exposure is one form of exposure that contributes to an ADI's risk concentrations. Exposures to other sources of risk concentrations (e.g.

commodities, currencies, sectors, geographies, funding sources) are not subject to the large exposure requirements in paragraphs 16 to 38.

16. A large exposure is an exposure to an individual counterparty³ or a group of connected counterparties (defined in paragraphs 20 to 28) which is greater than, or equal to, 10 per cent of an ADI's **Tier 1 Capital**. The 10 per cent limit applies to an ADI's exposure at both Level 1 and Level 2.
17. An exposure to an individual counterparty or a group of connected counterparties is the aggregate of all claims, commitments and contingent liabilities arising from on- and off-balance sheet transactions (in both the banking and trading books) with the individual counterparty or group of connected counterparties and is measured in accordance with paragraphs 31 to 33.
18. A large exposure excludes:
 - (a) exposures deducted from an ADI's Regulatory Capital (in accordance with *Prudential Standard APS 111 Capital Adequacy: Measurement of Capital (APS 111)*);
 - (b) exposures to the extent that they have been written off;
 - (c) exposures to the Australian Government or any Australian dollar exposure to the Reserve Bank of Australia (RBA);
 - (d) exposures to governments or central banks held for Liquidity Coverage Ratio purposes;
 - (e) intra-day interbank exposures;
 - (f) exposures to qualifying central counterparties (QCCPs) relating to clearing activities (where QCCPs are defined in paragraph 9 of *Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk (APS 112)*); and
 - (g) exposures to **LMI** arising from insured mortgages.⁴
19. Where an exposure that has been excluded is hedged by a credit derivative, an ADI must recognise an exposure to the counterparty providing the credit protection in line with paragraph 5 of Attachment A.

Connected counterparties

20. An ADI may have exposures to a group of counterparties which have specific relationships or dependencies such that the default of one individual counterparty is likely to cause the other counterparties to default. Such a group of

³ For the avoidance of doubt, a reference to a counterparty includes a structured vehicle.

⁴ In the case of an ADI using the Standardised Approach to Credit Risk, insured mortgages are those subject to risk-weights for residential mortgages under paragraph 5 of Attachment D of APS 112.

counterparties is referred to as a group of connected counterparties and must be treated as if the group is a single counterparty.

21. A group of connected counterparties is deemed to exist if:
 - (a) two or more individual counterparties are linked by:
 - (i) a control relationship (refer to paragraph 22 and 23);
 - (ii) an economic interdependence relationship (refer to paragraph 24);
 - (iii) other connections or relationships which, according to an ADI's assessment, identifies the counterparties as constituting a single risk;
or
 - (b) in relation to investments in structured vehicles, an ADI identifies a third party which contributes to an additional risk factor inherent in multiple structured vehicles under paragraphs 26 to 29 of Attachment A.
22. A control relationship exists between two counterparties if one of the counterparties, directly or indirectly, has control over the other counterparty. A control relationship is deemed to exist if a counterparty owns more than 50 per cent of the voting rights of the other counterparty. In addition, at a minimum, a control relationship exists if any of the following apply:
 - (a) there are voting agreements with other shareholders resulting in control of voting rights;
 - (b) one counterparty has a significant influence on the appointment or dismissal of the other counterparty's administrative functions, management, board committees or Board e.g. the right to appoint or remove a majority of members in those functions, or a majority of members have been appointed solely due to the other counterparty exercising its voting rights; or
 - (c) one counterparty has a significant influence on a **senior manager** or senior management of the other counterparty (e.g. the power to exercise rights controlling influence over the management or policies of the other counterparty).
23. In determining whether a control relationship exists, an ADI must also refer to the criteria in relevant **Australian Accounting Standards** as in force from time to time.
24. If an ADI's exposure to a counterparty exceeds five per cent of the ADI's Tier 1 Capital, the ADI must identify all counterparties linked by an economic interdependence relationship to that counterparty. An economic interdependence relationship exists between two counterparties if the financial soundness of a counterparty may affect the financial soundness of the other counterparty, for example funding or repayment difficulties of one counterparty results in the other(s) also being likely to encounter similar difficulties. At a minimum, an economic interdependence relationship exists if:

- (a) 50 per cent or more of a counterparty's annual gross receipts or gross expenditures is derived from transactions with the other counterparty;
 - (b) one counterparty has fully or partly guaranteed the exposure of the other counterparty, or is liable by other means, and the exposure is significant, such that the guarantor is likely to default if a claim occurs;
 - (c) a significant part of a counterparty's business is sold to the other counterparty, which cannot be easily replaced by business from other customers;
 - (d) the expected source of funds to repay the loans of both counterparties is the same and neither counterparty has another independent source of income from which the loans may be fully repaid;
 - (e) it is likely that the financial difficulties of a counterparty would cause difficulties for the other counterparty in terms of full and timely repayment of liabilities;
 - (f) the insolvency or default of one counterparty is likely to be associated with the insolvency or default of the other counterparties; or
 - (g) two or more counterparties rely on the same source for the majority of their funding and, in the event of the common funds provider's default, it is expected that an alternative funds provider cannot be found.
25. Family members are not required to be treated as connected where they have independent retail relationships with an ADI (although an ADI may choose to treat the counterparties involved as connected if it is considered appropriate to do so).⁵
26. Exposures to central counterparties (CCPs) that are specifically related to clearing activities are excluded from being included in a group of connected counterparties.
27. Governments and central banks must not be treated as connected to government-related entities.⁶
28. Where an ADI is of the view that certain counterparties should be exempt from being deemed under paragraphs 22 and 24 to be a group of connected counterparties or part of a group of connected counterparties it must demonstrate to APRA why these counterparties should be exempt from being connected. APRA may exempt these counterparties from being treated as connected.

⁵ Independent retail relationships mean, in this context, documented legally binding agreements involving retail banking products.

⁶ For the avoidance of doubt, paragraphs 22 and 24 apply to relationships and links between government-related entities and other counterparties.

Large exposure limits

29. The aggregate large exposures of an ADI to a counterparty or a group of connected counterparties must not exceed 25 per cent of the ADI's Tier 1 Capital, except:
- (a) exposures to foreign governments or central banks which receive a zero per cent risk-weight in accordance with Attachment A of APS 112, which must not exceed 50 per cent of the ADI's Tier 1 Capital. This does not apply to a government-related entity (or the group of connected counterparties to which it belongs);⁷
 - (b) exposures where the ADI's counterparty is a global systemically important bank, which must not exceed 15 per cent of the ADI's Tier 1 Capital;
 - (c) exposures where the ADI has been determined by APRA to be a domestic systemically important bank (D-SIB) and the other counterparty is also a D-SIB, which must not exceed 15 per cent of the ADI's Tier 1 Capital; and
 - (d) where APRA has approved the exposures under paragraph 36.

These limits apply to an ADI's large exposures at both Level 1 and Level 2 net of eligible CRM techniques and excluded exposures under paragraph 18.⁸

30. Notwithstanding paragraph 29, APRA may set specific limits on an ADI's exposures to particular counterparties, groups of connected counterparties, industry sectors, countries or asset classes, including property holdings and any other investments, on a case-by-case basis, having regard to the ADI's individual circumstances.

Measuring large exposure values

31. In determining large exposures, an ADI must consider all on-balance sheet exposures and off-balance sheet exposures in both the banking book and trading book, and instruments with counterparty credit risk (CCR) under *Prudential Standard APS 180 Capital Adequacy: Counterparty Credit Risk* (APS 180) [consultation draft released 15 September 2016]. An ADI must measure exposure values in accordance with Attachment A.
32. Where an exposure amount is deducted from Regulatory Capital in accordance with Attachment D of APS 111, it is not required to be added to other exposures to that counterparty for the purpose of applying a large exposure limit.⁹

⁷ Paragraph 29(a) includes exposures guaranteed by, or secured against securities issued by, foreign governments or central banks which receive a zero per cent risk weight under Attachment A of APS 112 provided the criteria for recognition of the credit risk mitigation in paragraphs 2 to 3 of Attachment A are met.

⁸ Prudential limits on an ADI's exposures to related entities are set out in *Prudential Standard APS 222 Associations with Related Entities*.

⁹ Exposures which are 1250 per cent risk-weighted under APS 112 are required to be subject to the large exposure limits.

33. APRA may determine the exposure value of a particular on-balance sheet or off-balance sheet exposure of an ADI if APRA considers that the ADI has not appropriately assessed the exposure.

Prior consultation requirements

34. An ADI must consult with APRA prior to committing to any proposed large exposures at Level 1 and Level 2.
35. APRA may set a higher consultation threshold or waive the prior consultation requirements for individual ADIs on a case-by-case basis, having regard to the robustness of the ADI's credit risk management framework.

Approval requirements

36. An ADI must obtain approval from APRA prior to undertaking any proposed exposures which will be in excess of the large exposure limits under paragraph 29 or any specific limits determined under paragraph 30. Such approval will be granted on an exceptions basis based on the assessments undertaken by an ADI and the specific circumstances of the ADI, and:
 - (a) the ADI must assess the concentration risks involved with exceeding the large exposure limits, demonstrate why the proposed exposures will not unreasonably expose the ADI to excessive risk, and provide the assessment to APRA as part of its approval request; and
 - (b) the ADI must be able to demonstrate that the proposed exposures are consistent with its large exposures and risk concentrations policies.

Notification requirements

37. An ADI must notify APRA immediately of any breach of the large exposure limits under paragraph 29 (other than those where APRA has provided an approval under paragraph 36) or any specific limits determined by APRA under paragraph 30, including how the breach arose and remedial actions taken or planned to be taken to deal with the breach.
38. An ADI must notify APRA immediately where it has concerns that its large exposures or risk concentrations have the potential to have a material impact on its capital adequacy, including proposed measures to address these concerns.

Significant risk concentrations

39. Where an ADI has a number of large exposures or where APRA is of the view that the ADI is exposed to a significant level of risk concentration, APRA may:
 - (a) require the ADI to maintain higher **Prudential Capital Requirements (PCRs)** at Level 1 and/or Level 2. In considering whether an ADI's PCRs should be increased, APRA will take into account:
 - (i) consistency of the ADI's exposures with the ADI's large exposures and risk concentrations policies;

- (ii) the number of exposures, their individual size and nature; and
 - (iii) the characteristics of the ADI, including the nature of its business and the experience of its management; or
- (b) require an ADI to take measures to reduce its level of risk concentration.

Adjustments and exclusions

- 40. APRA may adjust or exclude a specific prudential requirement in this Prudential Standard in relation to one or more specified ADIs or authorised NOHCs.¹⁰
- 41. An ADI must not place reliance, for the purposes of complying with this Prudential Standard, on a previous exemption or other exercise of discretion by APRA under a previous version of this Prudential Standard.

¹⁰ Refer to subsection 11AF(2) of the Banking Act.

Attachment A

Measuring large exposure values

1. The exposure value to be used in measuring large exposures is:
 - (a) for banking book on-balance sheet non-derivative assets, the accounting value of the exposure that is net of specific provisions and value adjustments. An ADI may use exposure values gross of specific provisions and value adjustments with prior agreement from APRA;
 - (b) for instruments that give rise to CCR held in the banking book and trading book (excluding securities financing transactions (SFTs)),¹¹ the exposure at default as measured under APS 180;
 - (c) for SFTs, the exposure value calculated using Attachments H and J of APS 112; and
 - (d) for banking book commitments, all committed exposures i.e. drawn on-balance sheet commitments and undrawn off-balance sheet commitments. Off-balance sheet commitments are to be converted into credit equivalent amounts by applying a 100 per cent conversion factor.

Credit risk mitigation

2. Eligible CRM techniques for large exposure purposes are those which are allowed in APS 112. Forms of collateral that are only eligible under the internal ratings-based approach in *Prudential Standard APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk* are not permitted to be used in reducing exposure values for large exposure purposes.
3. An ADI must recognise an eligible CRM technique in measuring exposures if the eligible CRM technique has been used in calculating the ADI's capital requirements.
4. An ADI must reduce the exposure value to a counterparty by the amount of the eligible CRM technique, being:
 - (a) for guarantees and credit derivatives, the value of the protected amount;
 - (b) when the ADI uses the simple approach to the recognition of collateral in Attachment H of APS 112, the value of the part of the claim collateralised by the market value of the recognised eligible collateral;
 - (c) for any instruments with CCR, the value of the collateral as recognised in the calculation of the CCR exposure value; and
 - (d) in the case of eligible collateral when the ADI applies the comprehensive approach to the recognition of collateral in Attachment H of APS 112, the

¹¹ SFTs are defined in paragraph 9 of APS 112.

value of the collateral adjusted after applying supervisory haircuts. ADIs must not use internally modelled haircuts.

5. When the exposure value to a counterparty is reduced due to an eligible CRM technique, an ADI must also recognise an exposure to the CRM provider equal to the amount that the exposure value to the original counterparty was reduced (except for credit protection in the form of a credit default swap (CDS), which must be treated in accordance with paragraph 17(b) of this Attachment).
6. If there is a maturity mismatch in respect of credit risk mitigants, the credit protection, for the purpose of calculating an ADI's large exposures, must be adjusted using the requirements in Attachments G, H and I of APS 112.¹²

On-balance sheet netting

7. Where an ADI has legally enforceable netting arrangements in place for loans and deposits, an ADI must use net credit exposures subject to the requirements for on-balance sheet netting for loans and deposits under Attachment J of APS 112.

Exposure values for trading book positions

8. An ADI must aggregate banking book and trading book exposures to determine its total exposure to an individual counterparty.
9. The exposure value for non-derivative debt instruments and equity instruments is the accounting value of the exposure i.e. the market value.
10. The exposure value for swaps, futures, forwards and credit derivatives is calculated by converting the exposures into their component positions under *Prudential Standard APS 116 Capital Adequacy: Market Risk (APS 116)* such that these instruments are decomposed into their individual legs, and an ADI is to recognise only those transaction legs for which exposures are not excluded under paragraph 18.
11. For credit derivatives that represent sold protection, the exposure to the referenced name is the amount due in the case that the referenced name triggers the instrument less the absolute market value of the credit protection.¹³ For credit-linked notes, the protection seller must consider positions in the bond of the note issuer as well as in the underlying credit referenced by the note.

¹² Attachments G, H and I of APS 112 only recognise CRM with maturity mismatches when their original maturities are greater than or equal to 12 months, and the residual maturity of the CRM is more than three months.

¹³ Where the market value of the credit derivative is positive for the protection seller, the positive market value must be added to the exposure of the protection seller to the protection buyer, such as in the case where the present value of already agreed but not yet paid periodic premiums exceed the absolute market value of the credit protection.

12. For the purposes of this Prudential Standard, options are to be recognised as the change in the option value that would result from a default of the respective underlying instrument as follows:¹⁴
- (a) for a call, the exposure is the market value of the option. For a long call this is a positive value whereas for a short call this is a negative value; and
 - (b) for a put, the exposure value is the option's strike price less the market value of the option. For a short put this is a negative value whereas for a long put this is a positive value.

An ADI must aggregate the resulting option exposures to each underlying counterparty. If there is a negative net exposure after aggregation of all option exposures, the option exposure must be set to nil.

13. The exposure value of an ADI's investment in transactions (e.g. index positions, securitisations, hedge funds, investment funds) must be calculated according to the requirements for similar instruments in paragraphs 21 to 29 of this Attachment. This may result in the exposure value being assigned to a structured vehicle itself and treated as a distinct counterparty, to counterparties corresponding to the underlying assets, or to an aggregated exposure amount (which is treated as applying to a distinct counterparty to the ADI) when the ADI is unable to identify underlying assets.

Offsetting long and short positions in the trading book in the same issue

14. An ADI may offset long and short positions in the same issue i.e. if the issuer, coupon, currency and maturity are identical resulting in a net position in that specific issue in order to calculate its exposures to a particular issuer.

Offsetting long and short positions in the trading book in different issues

15. An ADI may offset positions in different issues from the same issuer only when the short position is junior to, or pari passu with, the long position. An ADI may allocate securities into broad categories of seniority (e.g. equity, subordinated debt, and senior debt) to determine the relative seniority of positions.
16. An ADI must not recognise offsetting of long and short positions in different issues relating to the same issuer in calculating its exposures if it determines that allocation by seniority is not feasible.
17. For positions hedged by credit derivatives:
- (a) the hedge may be recognised provided the underlying of the hedge and the position hedged satisfy the requirement in paragraph 15 of this Attachment; and
 - (b) any reduction in exposure to the original counterparty must result in a new exposure to the credit protection provider (in accordance with paragraph 5

¹⁴ The treatment of options for large exposure purposes is different to the exposure values used for options in calculating capital requirements in APS 116.

of this Attachment), except where the credit protection is in the form of a CDS and either the CDS provider, or the entity to which the credit protection applies, is not a **financial institution**. In this situation, the amount assigned to the CDS provider is the CCR exposure calculated under APS 180.

18. An ADI is not permitted to net trading book positions against banking book positions.
19. When the result of offsetting in the trading book is a net short position with an individual counterparty, this net short position does not need to be considered as an exposure for the purposes of this Prudential Standard.

Exposure values for covered bonds

20. An ADI must recognise an exposure to a covered bond using the full (i.e. 100 per cent) nominal value of its covered bond holding.¹⁵ The counterparty to which the exposure value is assigned is the issuer of the covered bond.

Exposure values for structured vehicles

21. An ADI must consider an exposure that arises from investment in structured vehicles or vehicles (e.g. funds, securitisation vehicles, structured finance products) which invest in other assets. Exposures to RBA repo-eligible residential mortgage-backed securities are excluded from being treated as exposures to structured vehicles. Where an ADI has an exposure to a structured vehicle:
 - (a) if each of the underlying assets of the structured vehicle is less than 0.25 per cent of the ADI's Tier 1 Capital, or the ADI can demonstrate that all the underlying assets of the structured vehicle are less than 0.25 per cent of the ADI's Tier 1 Capital, the exposure value may be assigned to the structured vehicle itself;¹⁶ or
 - (b) if an ADI's exposure value to at least one of the underlying assets of the structured vehicle is greater than or equal to 0.25 per cent of the ADI's Tier 1 Capital:
 - (i) where each underlying asset of the structured vehicle can be identified, which has an exposure value greater than or equal to 0.25 per cent of the ADI's Tier 1 Capital, the ADI must look through the structured vehicle and assign the exposure values to the counterparties for each of the underlying assets;
 - (ii) where each underlying asset of the structured vehicle cannot be identified, which has an exposure value greater than or equal to 0.25 per cent of the ADI's Tier 1 Capital, the ADI must assign the exposure value to an aggregated exposure amount which is treated as a distinct

¹⁵ Covered bonds are defined in *Prudential Standard APS 121 Covered bonds*.

¹⁶ In this case, an ADI is not required to look-through the structured vehicle to identify the underlying assets, and the structured vehicle is recognised as an individual counterparty to which the exposure value is applied.

counterparty to the ADI. An ADI must aggregate such unknown exposures as if they relate to an individual counterparty to which large exposure limits would apply under paragraph 29; or

- (iii) where each underlying asset of the structured vehicle has an exposure value less than 0.25 per cent of the ADI's Tier 1 Capital, the ADI may assign the exposure value of the underlying asset to the structured vehicle itself.
22. When the look-through approach is not required to be applied, an ADI must assign an exposure value to the structured vehicle equal to the nominal amount it invests in the structured vehicle.
 23. When an ADI has used look-through for a structured vehicle under paragraph 21 of this Attachment, and all investors rank *pari passu*, the exposure value assigned to each counterparty is equal to the pro rata share that the ADI holds in the structured vehicle multiplied by the value of the underlying assets.
 24. When an ADI has used look-through for a structured vehicle under paragraph 21 of this Attachment, and there are different seniority levels among investors, the exposure value to a counterparty must be measured for each tranche within the structured vehicle assuming a pro rata distribution of losses amongst investors in a single tranche. To measure the exposure value in the underlying assets, the ADI must:
 - (a) identify the lower of the value of the tranche in which an ADI has invested in and the nominal value of each underlying asset included in the underlying portfolio of assets; and
 - (b) apply the pro rata share of the ADI's investment in the tranche to the value determined in paragraph 21(b)(i) of this Attachment.
 25. When an ADI has not used look-through for investments in structured vehicles under paragraph 21 of this Attachment, it must be able to demonstrate to APRA that it has assessed the structured vehicle to ensure that the aggregate of exposures to identical underlying assets are immaterial in the context of the requirements of paragraph 21 of this Attachment.

Additional risk factor

26. An ADI must identify third parties which contribute to an additional risk factor inherent in the structured vehicle itself rather than in the underlying assets. Third parties may include, but are not limited to, fund managers, originators, liquidity providers and credit protection providers. This applies regardless of whether an ADI has used the look-through approach in paragraph 21 of this Attachment.

27. An ADI must add its investments in structured vehicles which share a common additional risk factor to form a group of connected counterparties.¹⁷
28. Where an ADI identifies more than one third party as a driver of a particular additional risk factor, the ADI must assign the exposure in the structured vehicles to each of the third parties.
29. An ADI must add its exposures in the structured vehicles associated with a third party deemed to contribute to a shared additional risk factor to other exposures the ADI has to that third party if:
 - (a) there is risk to the exposures in the structured vehicles associated with the third party should the third party default on a direct exposure to the ADI; or
 - (b) there is risk to a direct exposure to that third party should the third party default in its role in the structured vehicles.

Exposure values for non-qualifying central counterparties and clearing activity exposures

30. An ADI must measure its exposure to non-qualifying CCPs as the sum of clearing exposures (determined in accordance with paragraph 31 of this Attachment) and non-clearing exposures (determined in accordance with paragraph 33 of this Attachment). This aggregate exposure is subject to the large exposure limits in paragraph 29.
31. Clearing exposures to a non-qualifying CCP are:
 - (a) for trade exposures: the exposure measure corresponding to trading book exposure value determined in accordance with APS 112;
 - (b) for segregated initial margin: nil;
 - (c) for non-segregated initial margin: the nominal amount of initial margin posted;
 - (d) for pre-funded default fund contributions: the funded contribution;
 - (e) for unfunded default fund contributions: nil; and
 - (f) for equity stakes: the nominal amount.
32. When an ADI acts as a clearing member to a CCP or is a client of a clearing member, the counterparty to which exposures must be assigned is determined in accordance with APS 180.

¹⁷ A third party, such as a fund manager, may not contribute to an additional risk factor if the legal framework of the structured vehicle requires separation between the legal entity managing the fund and the legal entity that has custody of the fund's assets.

33. Non-clearing exposures to a non-qualifying CCP are all exposures to a non-qualifying CCP not directly related to the provision of clearing services (e.g. funding facilities, credit facilities, and guarantees).