

DRAFT



Prudential Standard APS 001

Definitions

Objective and key requirements of this Prudential Standard

This Prudential Standard defines key terms referred to in other Prudential Standards applicable to authorised deposit-taking institutions (ADIs) and authorised non-operating holding companies (authorised NOHCs). All Prudential Standards applicable to ADIs and authorised NOHCs must be read in conjunction with this Prudential Standard.

Authority

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

Application

2. This Prudential Standard takes effect from 1 January 2013.
3. Unless the contrary intention appears, definitions in this Prudential Standard apply to this Prudential Standard and other Prudential Standards made under section 11AF of the Act (collectively, **ADI Prudential Standards**) and to all prudential practice guides relating to ADIs (collectively, **ADI Prudential Practice Guides**) made by APRA.

Interpretation

4. Certain terms referred to in the ADI Prudential Standards are defined in the Act. By operation of subsection 13(1) of the *Legislative Instruments Act 2003*, terms not defined in the ADI Prudential Standards or the ADI Prudential Practice Guides but that are defined in the Act have the same meaning as in the Act.

Key terms

5. Key terms referred to in the ADI Prudential Standards are defined as follows:

AASB refers to the Australian Accounting Standards Board.

Account-holder has the meaning in subsection 5(1) of the Act.

Additional Tier 1 Capital is as defined in *Prudential Standard APS 111 Capital Adequacy: Measurement of Capital (APS 111)*.

ADI means a body corporate authorised under section 9 of the Act, to carry on banking business in Australia (e.g. a bank, building society or credit union).

AIFRS refers to the Australian equivalents of International Financial Reporting Standards.

AIRB refers to an advanced internal-ratings based approach to credit risk, as defined in *Prudential Standard APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk (APS 113)*.

AMA refers to an advanced approach used to measure an ADI's regulatory capital for operational risk that has been approved by APRA in accordance with *Prudential Standard APS 115 Capital Adequacy: Advanced Measurement Approaches to Operational Risk (APS 115)*.

APCA refers to the Australian Payments Clearing Association.

APCS refers to the Australian Paper Clearing System.

API refers to the Australian Property Institute.

Appointed auditor means an auditor appointed for the purposes of *Prudential Standard APS 310 Audit and Related Matters*.

AUASB refers to the Auditing and Assurance Standards Board.

Australian Accounting Standards is a reference to the Australian Accounting Standards issued by the AASB as may be amended from time to time.

Australian Auditing and Assurance Standards is a reference to the Australian Auditing and Assurance Standards issued by the AUASB as may be amended from time to time.

Australian-owned ADI refers to an ADI that is not a foreign-owned ADI.

Authorised NOHC has the same meaning as in the Act.

Banking Act refers to the *Banking Act 1959*.

BCM refers to Business Continuity Management.

BCP refers to a Business Continuity Plan.

BIA refers to Business Impact Analysis.

Board refers to the Board of directors of an institution.

Business day has the same meaning as in the Act.

CBD refers to Central Business District.

CCR refers to Counterparty Credit Risk.

CEO refers to the Chief Executive Officer of an institution.

Cheques Act refers to the *Cheques Act 1966*.

Common Equity Tier 1 Capital is as defined in APS 111.

Corporate finance activities includes underwriting and any holdings of equity or debt arising from underwriting, arranging, facilitation, and management activities such as those associated with securitisation, mergers and acquisitions or privatisations and syndication activities that are undertaken, predominantly, with the intention of earning a fee. Corporate finance activities also includes longer term positions in equities that are held for strategic reasons and holdings in equity instruments, or in instruments that exhibit characteristics that are more like equity than debt, that arise as a consequence of loan restructurings.

Corporations Act refers to the *Corporations Act 2001*.

Credit rating grades means grades of credit ratings to which **ECAI** ratings are mapped, and that correspond to relevant asset risk weights.

Declared ADI has the meaning in subsection 5(1) of the Act.

End-of-Day means 9.00 am on the day following the date on which the Minister's declaration is made under section 16AD of the Act in relation to an ADI or, for testing purposes, 9.00 am on the day following the date on which APRA requests that the information be generated.

Extended Licensed Entity (ELE) is comprised of an ADI and each subsidiary of an ADI as specified in any approval granted by APRA in accordance with *Prudential Standard APS 222 Associations with Related Entities (APS 222)*.

External Credit Assessment Institution (ECAI) means an entity that assigns credit ratings designed to measure the creditworthiness of a counterparty or certain types of debt obligations of a counterparty.

FCS refers to the Financial Claims Scheme under the Act.

Financial institution includes any institution engaged substantively in one or more of the following activities – banking; leasing; issuing credit cards; portfolio management (including asset management and funds management); management of securitisation schemes; equity and/or debt securities, futures and commodity trading and broking; custodial and safekeeping services; insurance (both general and life) and similar activities that are ancillary to the conduct of these activities. A financial institution includes any authorised NOHC or overseas equivalent.

FIRB refers to Foundation IRB, as defined in APS 113.

Fit and proper assessment means an assessment of a person's fitness and propriety in accordance with *Prudential Standard CPS 520 Fit and Proper (CPS 520)*.

Fit and proper policy means a written policy relating to the fitness and propriety of an ADI's responsible persons that meets the requirements of CPS 520.

Foreign ADI has the meaning in section 5 of the Act.

Foreign-owned ADI means an ADI in relation to which an approval has been given, under section 14 of the *Financial Sector (Shareholdings) Act 1998*, for a bank that is not locally incorporated to hold a stake of more than 15 per cent in the ADI.

FSCODA refers to the *Financial Sector (Collection of Data) Act 2001*.

General market risk means the risk of loss owing to changes in the general level of market prices or interest rates. It arises from positions in interest rate, equities, foreign exchange and commodities.

Gross income means total operating income from continuing operations.

Group refers to a corporate group that comprises more than one company that are related bodies corporate within the meaning of section 50 of the Corporations Act.

Internal Capital Adequacy Assessment Process (ICAAP) , as defined in *Prudential Standard APS 110 Capital Adequacy (APS 110)*.

Internal model is the model central to the **IRRBB** measurement system that is used by the ADI to quantify its IRRBB capital requirement.

IRB approach refers to the Internal Ratings-based approach to credit risk, as defined in APS 113.

IRB approval refers to the written approval from APRA for an ADI to adopt the IRB approach.

IRRBB means interest rate risk in the banking book: the risk of loss in earnings or in the economic value on banking book items as a consequence of movements in interest rates.

Level 1 means either the ADI itself or the ELE.

Level 2 means either:

- (a) if the ADI is not a subsidiary of an authorised NOHC and the ADI has subsidiaries in addition to those included in its ELE, the consolidation of the ADI and all its subsidiary entities other than non-consolidated subsidiaries; or
- (b) if the ADI is a subsidiary of an authorised NOHC, the consolidation of the immediate parent NOHC of the ADI and all the immediate parent NOHC's subsidiary entities (including any ADIs and their subsidiary entities) other than non-consolidated subsidiaries;

unless APRA otherwise determines, in writing, a different Level 2 composition for a group of companies of which the ADI is a member.

Level 3 means the conglomerate group at the widest level.

Limited assurance is defined in accordance with the Framework for Assurance Engagements issued by the AUASB.

Listed refers to an institution admitted to, and not removed from, a stock exchange.

LMI refers to lenders mortgage insurer or lenders mortgage insurance.

Locally-incorporated ADI refers to an ADI that is incorporated in Australia or in a State or Territory of Australia, by or under Commonwealth, State or

Territory legislation.

Marking-to-model refers to any valuation that has to be benchmarked, extrapolated or otherwise calculated from a market input.

Material currency means a currency for which the total book value of an ADI's banking book items in that currency is more than five per cent of the total book value of all banking book items. In determining whether a currency is material, the effect of currency hedges that reduce foreign currency exposure may be taken into account, provided those hedges are effective.

Model approval refers to the written approval from APRA to an ADI to adopt an internal model approach to a particular risk.

Net credit balance has the meaning in section 5 of the Act.

Netting refers to 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.

Non-consolidated subsidiaries is as defined in Attachment A.

Non-Operating Holding Company (NOHC) has the same meaning as in the Act.

Normal settlement period means a contractual settlement period that is equal to or less than the market standard for the instrument underlying the transaction and, in any case, less than five business days.

OECD refers to the Organisation for Economic Co-operation and Development.

Offshoring means the outsourcing by an ADI of a material business activity associated with its Australian business to a service provider (including a related body corporate) where the outsourced activity is to be conducted outside Australia.

Operational risk means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk¹ but excludes strategic and reputational risks.

PCR means the minimum amount of regulatory capital that an ADI or NOHC must hold, as defined in APS 110.

¹ Legal risk includes, but is not limited to, exposure to fines, penalties or punitive damages resulting from supervisory actions as well as ordinary damages in civil litigation, related legal costs and private settlements.

PPF provider or **purchased payment facility provider** refers to an ADI with authority to provide purchased payment facilities.

Protected account has the meaning in section 5 of the Act.

Privacy Act refers to the *Privacy Act 1988*.

Prudential disclosures means the minimum requirements relating to the disclosure by an ADI of information about its capital adequacy under *Prudential Standard APS 330 Capital Adequacy: Public Disclosure of Prudential Information*.

Prudential requirements includes requirements imposed by the Act, prudential standards made under the Act, reporting standards made under FSCODA, conditions on the ADI's authorisation and any other requirements imposed by APRA in writing.

Reasonable assurance is defined in accordance with the Framework for Assurance Engagements issued by the AUASB.

Related body corporate, or **related company**, has the same meaning as in section 50 of the Corporations Act.

Relevant group of bodies corporate has the same meaning as in the Act.

SCCI or **specialist credit card institution** refers to an ADI that engages in credit card issuing and/or credit card acquiring within the meaning of Regulation 2(2) of the *Banking Regulations 1966* and does not carry on any other form of banking business.

Securitisation is a structure where the cash flow from a pool is used to service obligations to at least two different tranches or classes of creditors (typically holders of debt securities), with each class or tranche reflecting a different degree of credit risk (i.e. one class of creditors is entitled to receive payments from the pool before another class of creditors).

Senior manager has the meaning in subsection 5(1) of the Act.

Senior officer outside Australia is the senior nominated officer of a foreign ADI (whether a director or senior executive) outside Australia with delegated authority from the Board to be responsible for overseeing the Australian branch operation.

SMEs refers to small and medium-sized enterprises.

Subsidiary has the meaning in the Corporations Act.

Tier 1 Capital is as defined in APS 111.

Tier 2 Capital is as defined in APS 111.

Third party means an entity that is not the ADI or a related body corporate of the ADI.

Total Capital is as defined in APS 111.

Attachment A

Non-consolidated subsidiaries

1. For the purposes of determining an ADI's capital adequacy at Level 2, all banking and other financial activities (subject to paragraph 2 of this Attachment), both regulated and unregulated, conducted within the banking group must be consolidated.
2. Consolidation at Level 2 must cover the global operations of an ADI and its subsidiary entities, as well as any other controlled banking entities, securities entities and other financial entities, except for entities involved in the following business activities:
 - (a) insurance (including friendly societies and health funds);
 - (b) acting as manager, responsible entity, approved trustee, trustee or similar role in relation to funds management;
 - (c) non-financial (commercial) operations; and
 - (d) securitisation special purpose vehicles to which assets have been transferred in accordance with the requirements of *Prudential Standard APS 120 Securitisation*.

Attachment B

List of ADI Prudential Standards, Prudential Practice Guides and Guidance Notes

AGN refers to Guidance Note made under the Act and used by APRA to set prudential rules for ADIs.

APG refers to Prudential Practice Guide released as guidance aimed at assisting ADIs in complying with requirements outlined in the Prudential Standards. More generally, they outline prudent practices in relation to certain elements of an institution's business.

APS refers to Prudential Standard made under the Act and used by APRA to set prudential rules for ADIs.

APS 001 refers to *Prudential Standard APS 001 Definitions*.

APS 110 refers to *Prudential Standard APS 110 Capital Adequacy*.

APS 111 refers to *Prudential Standard APS 111 Capital Adequacy: Measurement of Capital*.

APS 112 refers to *Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk*.

APS 113 refers to *Prudential Standard APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk*.

APS 114 refers to *Prudential Standard APS 114 Capital Adequacy: Standardised Approach to Operational Risk*.

APS 115 refers to *Prudential Standard APS 115 Capital Adequacy: Advanced Measurement Approaches to Operational Risk*.

APS 116 refers to *Prudential Standard APS 116 Capital Adequacy: Market Risk*.

APS 117 refers to *Prudential Standard APS 117 Capital Adequacy: Interest Rate Risk in the Banking Book (Advanced ADIs)*.

APS 120 refers to *Prudential Standard APS 120 Securitisation*.

APS 160 refers to *Prudential Standard APS 160 Capital Adequacy: Basel III Transitional Arrangements*.

APS 210 refers to *Prudential Standard APS 210 Liquidity*.

APS 220 refers to *Prudential Standard APS 220 Credit Quality*.

APS 221 refers to *Prudential Standard APS 221 Large Exposures*.

APS 222 refers to *Prudential Standard APS 222 Associations with Related Entities*.

CPS 231 refers to *Prudential Standard CPS 231 Outsourcing*.

CPS 232 refers to *Prudential Standard CPS 232 Business Continuity Management*.

APS 240 refers to *Prudential Standard APS 240 Risk Management of Credit Card Activities*.

APS 310 refers to *Prudential Standard APS 310 Audit and Related Matters*.

APS 330 refers to *Prudential Standard APS 330 Capital Adequacy: Public Disclosure of Prudential Information*.

CPS 510 refers to *Prudential Standard CPS 510 Governance*.

CPS 520 refers to *Prudential Standard CPS 520 Fit and Proper*.

APS 610 refers to *Prudential Standard APS 610 Prudential Requirements for Providers of Purchased Payment Facilities*.

APS 910 refers to *Prudential Standard APS 910 Financial Claims Scheme*.

AGN 210.1 refers to *ADI Guidance Note Liquidity Management Strategy*.

AGN 210.2 refers to *ADI Guidance Note Scenario Analysis*.

AGN 210.3 refers to *ADI Guidance Note Minimum Liquidity Holdings*.

AGN 220.1 refers to *ADI Guidance Note Impaired Facility Definitions*.

AGN 220.2 refers to *ADI Guidance Note Impairment, Provisioning and the General Reserve for Credit Losses*.

AGN 220.3 refers to *ADI Guidance Note Prescribed Provisioning*.

AGN 220.4 refers to *ADI Guidance Note Credit Risk Grading Systems*.