



18 May 2007

Clarification note for the ADI industry on the completion of;

- ARF 220.5 - Movements in Provisions for Impairment (Licensed ADI/Consolidated Group)*
- ARF 320.0 - Statement of Financial Position (Domestic Books)*
- ARF 322.0 - Statement of Financial Position (Consolidated Group)*
- ARF 323.0 - Statement of Financial Position (Licensed ADI)*
- ARF 330.0 - Statement of Financial Performance (Licensed ADI/Consolidated Group)*

This note aims to correct inconsistencies within APRA reported data in relation to provisioning.

Please review the following note against your previously submitted returns. APRA will shortly be releasing data quality queries on these anomalies.

If you consider that a query is not applicable to your institution please advise APRA by 30 May 2007 of the reason.

Please note that there are some differences between the AIFRS accounting standards and APRA reporting requirements. Where possible, APRA has aligned reporting with the accounting standards. For example the completion of items 1.1 through to 2.9 of ARF 220.5 should in essence be in accordance with the ADI's (AIFRS based) Financial Accounts.

Information reported within *ARF 220.5 - Movements in Provisions for Impairment* must be on a quarterly basis and not on a year to date basis.

ARF 220.5 - Movements in Provisions for Impairment (Licensed ADI/Consolidated Group)

1. Collective provision

Paragraph 44 of APS 220 mandates that ADIs must classify their collective provisions reported to APRA into either:

- Specific provisions, recorded in Item 2.10; or
- General Reserves for Credit Losses, recorded in Item 3.2.

Item 1.1 - Opening balance

The balance at the beginning of the quarter must agree with the previous quarter's reported closing balance (item 1.9).

For the September 2006 quarter only, the opening balance should be reported as Nil. This item was introduced from 1 July, so there can be no reported opening balance in the September 2006 return.

Item 1.2 - Provisions created

Include the provisions acquired during the quarter as a result of the acquisition of any new business through transfers of business or mergers.

For the September 2006 quarter those institutions who apply the prescribed provisioning methodology to determine their collective provision are to report the value of the prescribed provision as reported in the June 2006 *ARF 220.3 - Prescribed Provision*, as provision created.

Entities that do not apply the prescribed provision methodology are to report the value of the collective provision created as the closing balance of general provision for doubtful debts from 30 June 2006.

Item 1.3 - Charge for doubtful debts (P and L)

Include the changes to collective provisions arising from charges to profit and loss, and/or the write back of collective provision not required back to profit and loss during the quarter (do not record movements between collective provision and the General Reserve for Credit Losses).

Increases to collective provision directly from profit and loss should be reflected in the charge for bad and doubtful debts on form *ARF 330.0 - Statement of Financial Performance*.

Item 1.4 - Transfer to specific provision

Include the transfer of collective provision during the quarter for facilities reassessed following an assessment of impairment from a collective basis to an individual basis (i.e. a specific provision).

This item should align with the amount reported at Item 2.5 'Transfer from Collective Provision' for the quarter.

Do not report collective provision treated as specific provisions for prudential purposes. These are reported at Item 2.10 'Portion of collective provision treated as specific provision for regulatory purposes'.

Item 1.5 - Transfer from specific provision

Include the transfer of specific provision during the quarter for facilities reassessed following an assessment of impairment from an individual basis to a collective basis.

This item should align with the amounts reported at Item 2.4 'Transfer to Collective Provision' for the quarter.

Item 1.6 - Bad debts written-off

Include the provisions assessed on a collective basis that were used over the quarter to fund the write-off of individual or groups of facilities deemed to be bad debts.

These debts have not been transferred to individually assessed provisions (i.e. specific provision) and have not been written off directly to profit and loss.

Item 1.7 - Bad debts recovered

Include the funds that have been recovered during the quarter from bad debts that were written back to collective provision.

Item 1.8 - Foreign currency translation adjustments

Include the changes in the value of provisions over the quarter arising from movements in the AUD value of foreign currency denominated collective provisions. This should be reported as either a positive or a negative number.

Item 1.9 - Closing balance

Represents the balance of collective provision at the end of the quarter and is recorded in the financial accounts of the ADI. This amount should equate to the sum of Items 1.1 through to 1.8.

For ADIs subject to the Prescribed Provisioning requirements in accordance with APS 220, the closing balance should agree with the total of the Prescribed Provision reported in *ARF 220.3 - Prescribed Provision*.

In accordance with paragraph 44 of Prudential Standard APS 220 the collective provision must be classified into specific provision and/or the General Reserve for Credit Losses for prudential purposes. The collective provision classified as specific provision for regulatory purposes should be reported at item 2.10. The balance reported as part of the 'General Reserve for Credit Losses' at item 3.2 is to be reported net of associated deferred tax assets.

2. Specific provision on an individual basis

ADIs subject to the prescribed provisioning requirements in accordance with APS 220, do not report any prescribed provisions in Items 2.1 to 2.9. Such amounts should be recorded in item 1 'Collective Provision'. However, a reporting ADI that is subject to prescribed provisioning may nevertheless have separate individually assessed specific provisions for financial accounting purposes that are reported in Items 2.1 to 2.9.

Item 2.1 - Opening balance

The balance at the beginning of the quarter must agree with the previous quarter's reported closing balance (item 2.9).

For the September 2006 quarter those institutions who apply the prescribed provisioning methodology and have additional specific provisions, are to report the difference between the prescribed provision and the specific provision reported in the June 2006 returns as the opening balance in the September 2006 return.

Entities not applying the prescribed provisioning approach that can clearly identify provisioning on an individual basis from the previous period's specific provision should report an opening balance equal to the previous periods closing balance.

Item 2.2 - Provisions created

Include the provisions acquired during the quarter as a result of the acquisition of new business through transfers of business or mergers.

Item 2.3 - Charge for doubtful debts (P and L)

Include the changes to specific provisions arising from charges to profit and loss and the write back of specific provision not required back to profit and loss during the quarter.

Increases to specific provision directly from profit and loss should be reflected in the charge for bad and doubtful debts on form *ARF 330.0 - Statement of Financial Performance*.

Item 2.4 - Transfer to collective provision

Include the transfer of specific provision during the quarter for facilities reassessed following an assessment of impairment from an individual basis to a collective basis (i.e. a collective provision).

This item should align with the amount reported at Item 1.5 'Transfer from Specific Provision' for the quarter.

Item 2.5 - Transfer from collective provision

Include the transfer of collective provision during the quarter for facilities reassessed following an assessment of impairment from a collective basis to an individual basis.

This item should align with the amounts reported at Item 1.4 'Transfer to Specific Provision' for the quarter.

Do not report collective provision treated as specific provisions for prudential purposes. These are reported at Item 2.10 'Portion of collective provision treated as specific provision for regulatory purposes'.

Item 2.6 - Bad debts written-off

Include the provisions assessed on an individual basis that were used over the quarter to fund the write-off of individual facilities deemed to be bad debts.

These debts have not been transferred to collectively assessed provisions (i.e. collective provision) and have not been written off directly to profit and loss.

Item 2.7 - Bad debts recovered

Include those funds that have been recovered during the quarter from bad debts that were written back to specific provision.

Item 2.8 - Foreign currency translation adjustments

Include changes in the value of provisions over the quarter arising from movements in the AUD value of foreign currency denominated specific provisions. This should be reported as either a positive or a negative number.

Item 2.9 - Closing balance

Represents the balance of specific provision at the end of the quarter and is recorded in the financial accounts of the ADI. This amount should equate to the sum of Items 2.1 through to 2.8.

Item 2.10 - Portion of collective provision treated as specific provision for regulatory purposes

In accordance with Paragraph 44 of APS 220 ADIs must classify their collective provisions reported to APRA into either:

- Specific provisions, recorded in Item 2.10; or
- General Reserves for Credit Losses, recorded in Item 3.2.

For ADIs subject to prescribed provisioning requirements, the amount of prescribed provisions reported by the ADI as part of its collective provisions in Item 1 'Collective Provision' should also be reported in Item 2.10.

Item 2.11 - Closing balance specific provision for regulatory purposes

The balance of the specific provision for regulatory purposes at the end of the quarter. The value of the closing of balance must reconcile with the value reported within the Statement of Financial Position forms (ARF 322.0 and ARF 323.0), as specific provision.

3. General Reserve for Credit Losses (Regulatory)

Item 3.1 - Opening balance

The balance at the beginning of the quarter must agree with the previous quarter's reported closing balance (item 3.4).

For the September 2006 quarter only, the opening balance is reported as Nil. This item was introduced from 1 July, so there can be no reported opening balance in the September 2006 return.

Item 3.2 - Net transfers from/to collective provision

Include the portion of collective provision (net of associated deferred tax assets) that has been deemed eligible to be classified as a General Reserve for Credit Losses, in accordance with paragraph 44 of APS 220. This should be reported as either a positive or a negative number.

Item 3.3 - Net transfers from/to retained earnings

In accordance with paragraph 55 of APS 220, where an ADI does not hold sufficient eligible General Reserves for Credit Losses made up of eligible collective provisions (recorded in Item 1), the ADI is required to deduct any additional amount from Tier 1 capital. This should be reported as either a positive or a negative number.

Note: A notional journal entry for this top up will need to be passed. This journal entry will have an impact on the Statement of Financial Performance and the Statement of Financial Position. The notional journal entry would be recorded as follows:

- *ARF 330.0 - Statement of Financial Performance* (Licensed and Consolidated) at, Section B item 7 - 'Aggregate of amounts transferred to reserves'; and
- *ARF 320.0, ARF 322 .0 & ARF 323.0 - Statement of Financial Position* against the General Reserve for Credit Losses and Retained Earnings.

Item 3.4 - Closing balance

The balance of the General Reserve for Credit Losses at the end of the quarter.

This amount must be at least equal to the amount of a General Reserve for Credit Losses which an ADI should hold in accordance with paragraph 53 of APS 220.

Item 3.4 must reconcile with the General Reserve for Credit Losses reported within the Statement of Financial Position, forms ARF 320.0, ARF 322.0 and ARF 323.0.

Note: Not all collective provisions (and movements in such provisions) are necessarily eligible to be reported as part of General Reserves for Credit Losses in Item 3. Only those which satisfy the provisions of paragraphs 44 and 45 of APS 220 are eligible to be included.

Where an ADI establishes for financial accounting purposes a reserve, where this reserve is deemed eligible to be treated as a General Reserve for Credit Losses for regulatory purposes then the opening and closing balances of this reserve should be included in Items 3.1 and 3.4 respectively.

Net changes in the reserve for APRA purposes should be included in Items 3.2 and 3.3. It is not expected that ADIs will establish such a General Reserve for Credit Losses in their published financial accounts.

ARF 320.0 Statement of Financial Position (Domestic Books)

Item 6 - 'Loans and Advances - Specific Provision' must agree with the closing balance of Specific Provision reported at item 2.11 of *ARF 220.5 - Movements in Provisions for Impairment*.

Item 6 - 'Loans and Advances - General Reserve for Credit Losses' must agree with the closing balance of the General Reserve for Credit Losses reported at item 3.4 of *ARF 220.5 - Movements in Provisions for Impairment*.

ARF 322.0 - Statement of Financial Position (Consolidated Group)

Item 6 - 'Loans and Advances - Specific Provision' must agree with the closing balance of Specific Provision reported at item 2.11 of *ARF 220.5 - Movements in Provisions for Impairment*.

Item 6 - 'Loans and Advances - General Reserve for Credit Losses' must agree with the closing balance of the General Reserve for Credit Losses reported at item 3.4 of *ARF 220.5 - Movements in Provisions for Impairment*.

Section D additional information required by APRA

Item 6.1 - IFRS specific provisions

Column 2 - The value reported must agree with the amount reported at item 2.9 of *ARF 220.5 - Movements in Provisions for Impairment*.

Column 3 - The value reported must agree with the closing balance reported at item 2.9 of *ARF 220.5 - Movements in Provisions for Impairment*.

Item 6.2 - Collective provisions

Column 1 - The portion of collective provision (net of associated deferred tax assets) classified as General Reserve for Credit Losses in accordance with paragraph 44 of Prudential Standard APS 220.

Column 2 - The portion of collective provision classified as specific provision in accordance with paragraph 44 of Prudential Standard APS 220. The value reported must agree with the amount reported at item 2.10 of *ARF 220.5 - Movements in Provisions for Impairment*.

Item 6.3 - General reserve for credit losses established for prudential purposes.

Column 1 - The value of the general reserve for credit losses must agree with the value of the reserve established in excess of the portion associated to the collective provision.

Item 6.4 Total

Column 1 - The total of column 1 must agree with the total 'General Reserve for Credit Losses' reported at item 6 - 'Loans and Advances'.

Column 2 - The total of column 2 must agree with the total specific provision reported at item 6 - 'Loans and Advances'.

ARF 323.0 Statement of Financial Position (Licensed ADI)

Item 6 - 'Loans and Advances - Specific Provision' must agree with the closing balance of specific provision reported at item 2.11 of *ARF 220.5 - Movements in Provisions for Impairment*.

Item 6 - 'Loans and Advances - General Reserve for Credit Losses' must agree with the closing balance of the General Reserve for Credit Losses reported at item 3.4 of *ARF 220.5 - Movements in Provisions for Impairment*.

ARF 330.0 - Statement of Financial Performance (Licensed ADI/Consolidated Group)

Item 6 - 'Charge for bad and doubtful debts' should reflect the year to date new funding for collective provision and specific provision, also include write off of bad debts directly to profit and loss.

Increases to the General Reserve for Credit Losses other than those related to collective provision should be reported within section B item 7 - 'Aggregate of amounts transferred to reserves'.