



Reporting Standard ARS 112.2

Standardised Credit Risk – Off-balance Sheet Exposures

Objectives of this Reporting Standard

This Reporting Standard requires an authorised deposit-taking institution to submit information to APRA relating to off-balance sheet exposures.

It includes *Reporting Form ARF 112.2A Standardised Credit Risk – Off-balance Sheet Exposures* and associated instructions and should be read in conjunctions with *Prudential Standard APS 112 Capital Adequacy: Standardised 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 112.2A Standardised Credit Risk – Off-balance Sheet Exposures* is used by APRA for the purpose of prudential supervision. It may also be used by the Reserve Bank of Australia (RBA) and the Australian Bureau of Statistics (ABS).

Application

3. This Reporting Standard applies to an authorised deposit-taking institution (ADI) that satisfies the following criteria:
 - (a) it is applying the standardised approach to credit risk to all or part of its off-balance sheet exposures for capital adequacy (refer to *Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk* (APS 112) or *Prudential Standard APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk* (APS 113), as appropriate); and
 - (b) it is not a provider of purchased payment facilities.

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

Commencement

4. This Reporting Standard applies for reporting periods commencing on or after 1 January 2019.

Information required.

5. An ADI to which this Reporting Standard applies must submit to APRA the information required by ARF 112.2A 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 submit to APRA the information required by the version of ARF 112.2A 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 submit to APRA 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 paragraph 5) as if it were the relevant ADI.

Forms and method of submission

7. The information required by this Reporting Standard must be submitted to APRA in electronic format using the 'Direct to APRA' application or by a method notified by APRA, in writing, prior to submission.

Note: The 'Direct to APRA' application software (also known as 'D2A') may be obtained from APRA.

Reporting periods and due dates

8. Subject to paragraphs 9 and 10, an ADI to which this Reporting Standard applies must submit the information required by this Reporting Standard within 28 calendar days after the end of each quarter based on the ADI's financial year (within the meaning of the *Corporations Act 2001*).
9. APRA may, by notice in writing, vary the reporting periods or specified reporting periods for a particular ADI to require it to submit 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 RBA or the ABS.
10. APRA may, by notice in writing, extend the due date by which an ADI must submit the information required by this Reporting Standard, in which case the new due date will be the date specified on the notice of extension.

Quality control

11. All information submitted by an ADI under this Reporting Standard must be the product of processes and controls that have been reviewed and tested by the external auditor of the ADI. *Guidance Statement 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.¹ 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.
12. All information submitted by an ADI under this Reporting Standard must be subject to systems, processes and controls developed by the ADI for the internal review and authorisation of that information. These systems, processes and controls must assure the completeness and reliability of the information submitted.

Authorisation

13. When an officer of an ADI submits information under this Reporting Standard using the D2A software, or other method notified by APRA, it will be necessary for the officer to digitally sign the relevant information using a digital certificate acceptable to APRA.

Minor alterations to forms and instructions

14. APRA may make minor variations to:
 - (a) a form that is part of this Reporting Standard to correct technical, programming or logical errors, inconsistencies or anomalies; or
 - (b) the instructions to a form, to clarify their application to the formwithout changing any substantive requirement in the form or instructions.
15. If APRA makes such a variation it will notify, in writing, each ADI that is required to report under this Reporting Standard.
16. APRA may determine, in writing, that an individual ADI of one class of ADI is to be treated, for the purposes of this Reporting Standard, as though it was an ADI of another class of ADI.

Interpretation

17. In this Reporting Standard:

ADI means an authorised deposit-taking institution within the meaning of the *Banking Act 1959*.

Applicant IRB ADI means an ADI that has applied for APRA's approval to use an internal ratings-based approach to credit risk.

¹ As it exists at the time of the commencement of this Reporting Standard.

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*.

Bank means a locally incorporated ADI that is authorised under section 66 of the *Banking Act 1959* to use the word 'bank' in its name.

Branch of a foreign bank means a foreign ADI as defined in the *Banking Act 1959*.

Credit conversion factor (CCF) means the percentage value used to convert an off-balance sheet exposure into an on-balance sheet equivalent (i.e. the credit equivalent amount).

Credit equivalent amount (CEA) means the on-balance sheet equivalent of an off-balance sheet exposure.

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

IRB ADI means an ADI with approval from APRA to use an internal ratings-based (IRB) approach to credit risk.

Level 1 has the meaning given to that expression in APS 001.

Level 2 has the meaning given to that expression in APS 001.

Netting means 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 (refer to Attachment J of APS 112).

Notional principal amount means the face value or gross amount of a given off-balance sheet transaction and not the fair value.

Off-balance sheet exposures are exposures that need to be converted to a CEA before they can be risk-weighted. Prior to the adoption of International Financial Reporting Standards (IFRS) for reporting periods beginning on or after 1 January 2005 some items, e.g. derivatives for accounting purposes, were treated as off-balance sheet. After the adoption of IFRS some of these items for accounting purposes were brought on-balance sheet. For the purposes of this APRA reporting form continue to report items that were off-balance sheet before the adoption of IFRS as off-balance sheet.

Provider of purchased payment facilities means an ADI that is subject to a condition on its authority under section 9 of the *Banking Act 1959* confining the banking business that the ADI is authorised to carry on to providing purchased payment facilities.

Reporting period means a period mentioned in paragraph 8 or, if applicable, as varied by paragraph 9.

Risk-weighted exposure (RWE) means, for a given off-balance sheet transaction that gives rise to credit exposure, the amount calculated by multiplying the CEA of a transaction by the risk-weight applicable to the counterparty or type of assets as detailed in Attachment A of APS 112.

Where a transaction is secured by eligible collateral or there is an eligible guarantee, credit derivative or netting arrangement in place, the ADI may use the credit risk mitigation (CRM) techniques, detailed in Attachments G, H, I and J of APS 112, to reduce the capital requirement of that exposure.

Standardised ADI means an ADI other than an IRB ADI.

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

18. Unless the contrary intention appears, references to Acts and Prudential Standards are references to those instruments as in force from time to time.

ARF_112_2A: Standardised credit risk - Off-balance sheet exposures

Australian Business Number	Institution Name
Reporting Period	Scale Factor
Quarterly	Millions to one decimal place for banks Whole dollars no decimal place for other ADIs
Reporting Consolidation	
Level 1 / Level 2	

Section A: Non-market-related off-balance sheet exposures

Notional principal amount (1)	Credit conversion factor % (2)	Credit equivalent amount (3)	RWE (4)
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1. Nature of transaction

1.1. Direct credit substitutes

1.1.1. Guarantees

1.1.2. Credit derivatives - sold protection in the banking book

1.1.3. Standby letters of credit

1.1.4. Bill endorsements

1.1.5. Other

1.2. Performance-related contingencies

1.3. Trade-related contingencies

1.4. Lending of securities or posting of securities as collateral

1.5. Assets sold with recourse

1.6. Forward asset purchases				
1.7. Partly paid shares and securities				
1.8. Placements of forward deposits				
1.9. Note issuance and underwriting facilities				
1.10. Credit derivatives used for acquiring credit risk exposure				
1.11. Other commitments				
1.11.1. Commitments with certain drawdown of which: Loans approved but not yet advanced				
1.11.1.1. Loans supported by eligible residential mortgages				
1.11.1.2. Other loans				
1.11.2. Commitments with an original maturity of one year or less				
1.11.2.1. of which: Balances available for redraw under redraw facilities of term loans				
1.11.3. Commitments with an original maturity of over one year				
1.11.3.1. of which: Balances available for redraw under redraw facilities of term loans				
1.11.4. Commitments that can be unconditionally cancelled at any time without notice				
1.11.5. Irrevocable standby commitments provided under APRA approved industry support arrangements				
1.11.6. Total				
1.12. All other non-market-related off-balance sheet transactions				

1.13. Total non-market-related off-balance sheet risk-weighted credit exposures

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Section B: Market-related off-balance sheet exposures

2. Total market-related off-balance sheet risk-weighted credit exposures

RWE (4)

Section C: Total off-balance sheet risk-weighted credit exposures (non-market-related and market-related)

3. Total off-balance sheet risk-weighted credit exposures

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Reporting Form ARF 112.2A

Standardised Credit Risk – Off-balance Sheet Exposures

Instructions

These instructions are designed to assist in the completion of *Reporting Form ARF 112.2A Standardised Credit Risk – Off-balance Sheet Exposures*. This form captures an ADI's off-balance sheet exposures under the standardised approach to credit risk. In completing this form, ADIs should refer to APS 112.

Terms highlighted in ***bold italics*** are defined in paragraph 17 of this Reporting Standard.

Reporting entity

This form must be completed at ***Level 1*** and ***Level 2*** by each ***ADI*** that:

- (a) is applying the standardised approach to credit risk to all or part of the ***ADI's off-balance sheet exposures*** for capital adequacy purposes (refer to APS 112 or APS 113); and
- (b) is not a ***provider of purchased payment facilities***.

If an ***ADI*** is a ***subsidiary*** of an ***authorised NOHC***, the report at ***Level 2*** must be submitted by the ***ADI's immediate parent NOHC***.

A ***branch of a foreign bank*** is only required to complete column 1 ***Notional principal amount*** in all sections of this reporting form.

Application to an applicant IRB ADI

In the following cases an ***ADI*** (other than a ***branch of a foreign bank***) must meet reporting requirements applicable to both an ***IRB ADI*** and a ***Standardised ADI***:

- (a) where the ***ADI*** is operating under the standardised approach to credit risk under APS 112, but has applied for IRB approval under APS 113; and
- (b) where the ***ADI*** has received IRB approval under APS 113 in respect of most (but not all) of its operations, and has approval for partial use of the standardised approach under APS 112 for the remainder of its operations.

Such an ***ADI*** must report under ARF 112.2A (the form) as follows:

Description of ADI	Reporting requirement
<i>ADI</i> is operating under APS 112 standardised approach, but has applied to adopt IRB approach for <u>all</u> its operations	Report under the form (for purposes of calculating credit risk component of regulatory capital for all of its operations)

<p><i>ADI</i> is operating under APS 112 standardised approach, but has applied to adopt IRB approach for <u>most (but not all)</u> of its operations (or <i>APRA</i> has indicated that it does not propose to grant IRB approval in respect of all of the <i>ADI</i>'s operations)</p>	<p>Report under the form (for purposes of calculating credit risk component of regulatory capital for all of its operations)</p> <p>Separately report under the form in respect of assets that will remain under the standardised approach (i.e. partial use) after IRB approval given (for purposes of assessing prospective credit risk component of regulatory capital calculation after IRB approval (i.e. 'parallel run' of data)</p>
<p><i>ADI</i> has IRB approval, but some operations remain under the standardised approach</p>	<p>Report under the form in respect of operations that will remain under standardised approach (for purposes of calculating partial use credit risk component of regulatory capital)</p>

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 assets (i.e. the pool) under such a securitisation may be excluded from the calculation of the *ADI*'s regulatory capital (refer to APS 120). However, the *ADI* must still hold regulatory capital for the securitisation exposures that it retains or acquires and such exposures are to be reported in *Reporting Form ARF 12.1 Securitisation – Regulatory Capital*. The risk-weighted assets relating to such securitisation exposures must also be reported in *Reporting Form ARF 110.0 Capital Adequacy* (ARF 110.0).
2. Where an *ADI* (or a member of its *Level 2* consolidated group) participates in a securitisation that does not meet *APRA*'s operational requirements for regulatory capital relief under APS 120, or the *ADI* undertakes a funding-only securitisation or synthetic securitisation, such assets are to be reported as on-balance sheet in *APRA*'s regulatory reporting returns. In addition, these assets must also be reported as a part of the *ADI*'s total securitised assets within *Reporting Form ARF 120.2 Securitisation – Supplementary Items*.

Reporting basis and units of measurement

Report all items on ARF 112.2A in accordance with Australian Accounting Standards unless otherwise specified.

Items on ARF 112.2A must be completed as at the last day of the stated *reporting period* (i.e. the relevant quarter) and submitted to *APRA* within 28 calendar days of the end of the relevant *reporting period*.

All items must be reported in Australian dollars (AUD) and in millions of dollars rounded to one decimal place for a *bank* and whole dollars with no decimal place for all other *ADIs*.

An *immediate parent NOHC* must complete this form in AUD and in accordance with the same units as its *subsidiary ADI*.

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

Scope

The risk-weighting process used for measuring the off-balance sheet credit exposures of an *ADI* covers all or part of the *ADI's off-balance sheet exposures*, including both market-related and non-market related transactions that are subject to the standardised approach to credit risk, except the following specifically excluded items:

- (a) securitisation exposures, which are subject to the requirements of APS 120; and
- (b) items subject to capital requirements under *Prudential Standard APS 116 Capital Adequacy: Market Risk*. However, the trading book exposures that expose the *ADI* to counterparty credit risk must be included in this form.

Specific instructions

Column 1	Report the <i>notional principal amount</i> . Absolute values should be reported.
Column 2	Report the <i>CCF</i> . <i>CCFs</i> are generally pre-defined in the form and correspond to the <i>CCFs</i> detailed in Attachment B of APS 112 for non-market-related and market-related <i>off-balance sheet exposures</i> . Where <i>CCFs</i> have not been pre-defined in the form, the <i>ADI</i> does not need to report a <i>CCF</i> as more than one <i>CCF</i> may have been used in relation to that exposure type (see the section below for column 3).
Column 3	Report the <i>CEA</i> . In relation to a non-market-related off-balance sheet transaction, <i>CEA</i> is calculated by multiplying the <i>notional principal amount</i> of a particular transaction by the relevant <i>CCF</i> . Generally, the <i>CEA</i> is a derived field in the form. In some cases, however, the <i>CEA</i> must be entered by the <i>ADI</i> . The <i>CEA</i> for some

	<p><i>off-balance sheet exposure</i> types may consist of several discrete exposures, each potentially attracting different <i>CCFs</i>. The <i>ADI</i> must, by reference to Attachment B of APS 112, determine the appropriate <i>CCF</i>(s) to be applied to the exposure(s) to calculate the <i>CEA</i> for that <i>off-balance sheet exposure</i> type and report the total as a single <i>CEA</i>.</p> <p>Credit derivative transactions in the banking book are classified as non-market-related off-balance sheet transactions.</p>
Column 4	<p>Report the <i>RWE</i>.</p> <p>Generally, the <i>RWE</i> is a derived field in the form. In some cases, however, the amount must be entered by the <i>ADI</i>. The <i>RWE</i> amount for some <i>off-balance sheet exposure</i> types may consist of several discrete exposures, each potentially attracting different risk-weights. The <i>ADI</i> must, by reference to Attachment A of APS 112, determine the appropriate risk-weight(s) to be applied to the exposure(s) to calculate the <i>RWE</i> for that <i>off-balance sheet exposure</i> type and report the total as a single <i>RWE</i> amount.</p>

Section A: Non-market-related off-balance sheet exposures

Refer to Attachment B of APS 112 and *Prudential Practice Guide APG 112 Standardised Approach to Credit Risk* (APG 112) for further details of the definitions of the following non-market related transactions.

Item 1.1	<p>Include:</p> <ul style="list-style-type: none"> (a) potential credit exposures arising from the issue of guarantees and credit derivatives; (b) confirmation of letters of credit; (c) issue of standby letters of credit serving as financial guarantees for loans, securities and any other financial liabilities; (d) bills endorsed under bill endorsement lines; and (e) any other direct credit substitutes.
Item 1.2	<p>Include:</p> <ul style="list-style-type: none"> (a) issue of performance bonds; (b) bid bonds; (c) warranties;

	<p>(d) indemnities; and</p> <p>(e) standby letters of credit in relation to a non-monetary obligation of a counterparty under a particular transaction.</p>
Item 1.3	<p>Include:</p> <p>(a) documentary letters of credit issued;</p> <p>(b) acceptances on trade bills;</p> <p>(c) shipping guarantees issued; and</p> <p>(d) any other trade-related contingencies.</p>
Item 1.4	<p>Include:</p> <p>(a) repurchase/reverse repurchase agreements; and</p> <p>(b) securities lending/borrowing transactions.</p>
Item 1.5	<p>Include any asset sales (to the extent that such assets are not included on-balance sheet) by an <i>ADI</i> where the holder of the asset is entitled to 'put' the asset back to the <i>ADI</i> within an agreed period or under certain prescribed circumstances, e.g. deterioration in the value or credit quality of the asset concerned.</p> <p>These transactions are risk-weighted according to the type of assets or the issuer of securities (as appropriate) and not according to the counterparty with whom the transaction is made, where the credit risk associated with the underlying asset which has been sold (temporarily with recourse) or purchased, remains with the <i>ADI</i>.</p>
Item 1.6	<p>Include:</p> <p>(a) commitments to purchase at a specified future date and on pre-arranged terms; and</p> <p>(b) a loan, security or other asset from another party, including written put options on specified assets with the character of a credit enhancement.</p> <p>Exclude written put options expressed in terms of market rates for currencies or financial instruments bearing no credit risk.</p>
Item 1.7	<p>Include:</p> <p>(a) any amounts owing on the uncalled portion of partly paid shares; and</p>

	(b) securities held by an <i>ADI</i> that represent commitments with certain drawdown by the issuer at a future date.
Item 1.8	Include any amounts relating to placements of forward deposits. Placements of forward deposits include any agreement between an <i>ADI</i> and another party whereby the <i>ADI</i> will place a deposit at an agreed rate of interest with that party at a predetermined future date.
Item 1.9	Include any note issuance and underwriting facilities. These involve arrangements whereby a borrower may drawdown funds up to a prescribed limit over a predefined period by making repeated note issues to the market and where, should the issue prove unable to be placed in the market, the unplaced amount is to be taken up or funds made available by an <i>ADI</i> being committed as an underwriter of the facility.
Item 1.10	Include any other credit derivatives used by the <i>ADI</i> for acquiring credit risk exposure that are not already included in item 1.1.2 Credit derivatives – sold protection in the banking book.
Item 1.11	<p>The guidance in this section is applicable to the following items:</p> <ul style="list-style-type: none"> (a) 1.11.1 Commitments with certain drawdown; (b) 1.11.2 Commitments with an original maturity of one year or less; (c) 1.11.3 Commitments with an original maturity of over one year; (d) 1.11.4 Commitments that can be unconditionally cancelled at any time without notice; and (e) 1.11.5 Irrevocable standby commitments provided under <i>APRA</i> approved industry support arrangements. <p>Where the non-market-related off-balance sheet transaction is an undrawn or partially undrawn facility, the <i>ADI</i> is to include the maximum unused portion of the commitment that could be drawn during the remaining period to maturity for the calculation of the <i>CEA</i>. Any drawn portion of a commitment forms part of an <i>ADI</i>'s on-balance sheet credit exposure.</p> <p>With regard to irrevocable commitments to provide off-balance sheet facilities, the original maturity will be measured from the commencement of the commitment up until the time the associated facility expires. For example, an irrevocable commitment, with an original maturity of six months, to provide finance with a nine-month term, is deemed to have an original maturity of 15 months.</p>

	<p>Irrevocable commitments to provide off-balance sheet facilities are to be assigned the lower of the two applicable <i>CCFs</i>. For example, an irrevocable commitment with an original maturity of six months to provide a guarantee in support of a counterparty for a period of nine months attracts the 50% <i>CCF</i> applicable to the commitment, as opposed to the 100% <i>CCF</i> applicable to the guarantee.</p> <p>Undrawn balances of revolving facilities (e.g. credit cards, overdrafts) are to be reported in item 1.11.4 Commitments that can be unconditionally cancelled at any time without notice.</p> <p>All commitments are to be included in the capital calculation regardless of whether or not they contain ‘material adverse change’ clauses or any other provisions that are intended to relieve an <i>ADI</i> of its obligations under certain conditions.</p>
Item 1.12	Include any other non-market-related off-balance sheet transactions that give rise to credit risk but are not specifically identified in Attachment B of APS 112. For any such transaction, an <i>ADI</i> must consult <i>APRA</i> on the appropriate <i>CCF</i> to be used for calculating the <i>CEA</i> of that particular transaction for capital adequacy purposes (refer to Attachment B of APS 112).
Item 1.13	Derived field calculated as the sum of the <i>CEA</i> (column 3) and the <i>RWE</i> (column 4) for all of the different transaction types in section A of this form.

Section B: Market-related off-balance sheet exposures

Item 2	<p>For a <i>Standardised ADI</i>, report the total <i>RWE</i> for market-related off-balance sheet credit exposures (including default risk <i>RWE</i>, trade exposure <i>RWE</i> and default fund <i>RWE</i>) plus 12.5 times the sum of CVA capital charge and default fund capital charge, all determined in accordance with APS 180.</p> <p>For an <i>IRB ADI</i> approved for ‘partial use’ in accordance with APS 113, report the total <i>RWE</i> for market-related off-balance sheet non-IRB credit exposures (including non-IRB default risk <i>RWE</i>, trade exposure <i>RWE</i> and default fund <i>RWE</i>) plus 12.5 times the sum of CVA capital charge and default fund capital charge, all determined in accordance with APS 180.</p>
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Section C: Total off-balance sheet risk-weighted credit exposures (non-market-related and market-related)

Item 3	Derived field calculated as the sum of the <i>RWE</i> (column 4) for all of the different transaction types in sections A and B of this form.
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