

# Reporting Form ARF AAA

## Financial Claims Scheme Data Collection

### Instruction Guide

This instruction guide (which forms part of Reporting Standard ARS AAA) is designed to assist in the completion of *Reporting Form ARF AAA Financial Claims Scheme Data Collection (ARF AAA)*. The form captures deposit data required by APRA should the Financial Claims Scheme (FCS) be declared in relation to an ADI and to assist with payout of eligible accounts held by account-holders.

### General directions and notes

#### Reporting entity

All ADIs, except foreign ADIs, are required to complete and submit the data in the form specified when requested to do so by APRA.

#### Reporting period and timeframe for lodgement

The data required by this reporting standard must be provided within 48 hours after the End-of-Day (EOD) on which APRA requests, in writing, that an ADI provide the data.

#### Reporting of data

All deposit data is to be reported without rounding (i.e. in dollars and cents) in the currency in which it is denominated and recorded in an ADI's accounts.

### Instructions for completing form

#### Section 1 Account-holder information

##### 1. Account-holder identifier

1.1 Enter the identifier used to identify the account-holder.

Each account-holder needs to be identified. For this purpose an ADI will need to have some form of unique account-holder identifier that can be used for the purpose of aggregating protected accounts for an account-holder. The account-holder identifier will form the basis for the payment of balances held in eligible deposit products.

1.2 Indicate whether a tax file number is held for the account-holder. Enter y (yes) or n (no).

##### 2. Account-holder details

2.1 Enter the type of account-holder consistent with the definition in subsection 5(1) of the Banking Act (e.g. individual, body corporate, body politic, trustee).

2.1.1 Enter the name of the entity – individual’s name; or company name; or trustee name etc.

2.2.1 Only complete for individuals. Enter the title of the person (e.g. Mr, Mrs, Ms, Dr).

2.2.2 Only complete for individuals. Enter the surname of the person.

2.2.3 Only complete for individuals. Enter the middle name or initial of the person if known.

2.2.4 Only complete for individuals. Enter the first name or initial of the person.

2.3 Only complete for individuals. Enter the person’s date of birth if known.

2.4 This is the address field. Header only – leave this field blank.

2.4.1 Enter the unit number (if applicable) and/or street number for the account-holder.

2.4.2 Enter the street name.

2.4.3 Enter the town or city.

2.4.4 Enter the state.

2.4.5 Enter the postcode.

2.4.6 Enter the country. This field can be left blank if Australia or reported as Australia.

2.5 Enter items 2.5.1 to 2.5.6 if the postal address of the account-holder is different to their street address.

2.5.1 Enter the unit number (if applicable) and/or street number for the account-holder.

2.5.2 Enter the street name.

2.5.3 Enter the town or city.

2.5.4 Enter the state.

2.5.5 Enter the postcode.

2.5.6 Enter the country. This field can be left blank if Australia or reported as Australia.

2.6 Enter the email address(es) of the account-holder if available.

2.7 Telephone field. Header only –leave this field blank.

2.7.1 Enter the home telephone number for account-holders who are individuals.

2.7.2 Enter the business telephone number for all types of account-holders.

2.7.3 Enter the mobile telephone number for all types of account-holders.

### **3. Account details**

This section is to be completed for each account that attaches to an account-holder as represented by the account-holder identifier at item 1.1.

Item 3 of the reporting form requires an ADI to provide the account balance and associated details for each protected account. Item 3 and the sub-items are not aggregation fields. For example, if an account-holder holds five protected accounts then each of sub-items 3.1 to 3.5.5 would be reported separately for each of the five accounts.

3.1 Enter the name of the account.

3.2 Enter the Bank/State/Branch identifier.

3.3 Enter the account number.

3.4 Enter the type of protected account by reference to the list of financial products in the Treasurer's declaration (refer to Appendix A).

3.5 Enter the account balance for each account reported at item 3.1 at the end-of-day on the day the FCS is declared.

3.5.1 This is a sub-balance of the balance reported at item 3.5 that represents funds that have cleared and are available to the account-holder.

3.5.2 This is a sub-balance of the balance reported at item 3.5 that represents funds that have not cleared and are therefore not yet available to the account-holder.

3.5.3 This is a sub-balance of the balance reported under item 3.5 that represents the principal.

3.5.4 This is a sub-balance of the balance reported under item 3.5 that represents the interest accrued up to the EOD on the date in question.

3.5.5 This is a sub-balance of the balance reported under item 3.5 that represents the fees and charges accrued up to the EOD on the date in question.

### **4. Account-holder aggregate account details**

All protected accounts are to be aggregated in their entirety for FCS reporting purposes.

Item 4 of the form represents aggregated data.

4.1 This is the aggregate of all items for each account-holder reported at 3.5.

4.1.1 This is the aggregate of all items for each account-holder reported at 3.5.1.

4.1.2 This is the aggregate of all items for each account-holder reported at 3.5.2.

4.1.3 This is the aggregate of all items for each account-holder reported at 3.5.3.

4.1.4 This is the aggregate of all items reported for each account-holder at 3.5.4.

4.1.5 This is the aggregate of all items reported for each account-holder at 3.5.5.

## **Section 2 ADI summary deposit data**

### **5. Aggregate ADI deposit data**

Item 5 represents ADI summary deposit data. It is an aggregation of all account-holder data for FCS purposes and is designed to assist APRA to establish the overall liability of the FCS should an ADI fail.

5.1 This is the sum total of all items reported at item 4.1.

5.1.1 This is the sum total of all items reported at item 4.1.1.

5.1.2 This is the sum total of all items reported at item 4.1.2.

5.1.3 This is the sum total of all items reported at item 4.1.3.

5.1.4 This is the sum total of all items reported at item 4.1.4.

5.1.5 This is the sum total of all items reported at item 4.1.5.

5.2 This is the total of all deposits held by an ADI (it includes all eligible deposits covered by the FCS as well as deposits not covered by the FCS).

## **Principles for account aggregation**

1. The account aggregation principles are designed to assist an ADI with the treatment of balances in deposit accounts. How an account is treated will depend on the entity type (as defined in section 960-100 of the *Income Tax Assessment Act 1997*) and whether the account is held in a single name or in multiple names.
  - (a) All protected accounts attributable to each account-holder are to be aggregated for the purpose of establishing an account-holder's balance.
  - (b) Account aggregation will include all protected accounts in an account-holder's name including protected joint accounts, business accounts, prescribed accounts and all other protected accounts held by an account-holder, whether individually or jointly.
  - (c) Sub-aggregation will be required for prescribed accounts, since all such accounts must be transferred to 'like' accounts at another ADI to preserve their status.
  - (d) Joint accounts are to be split on a proportionate basis between all account-holders named on that account (e.g. for a joint account with four named

account-holders, each account-holder would have one quarter of the total account balance included as part of their protected aggregated account balance).

- (e) In the case of business accounts, where the account is held in a business name, the balance will be treated as belonging to a single account-holder, being the person (including corporations, etc) named as the account holder. If a business account is held in multiple individual names (as may be the case with partnership accounts), the rules for joint accounts will apply.
  - (f) As for joint accounts, any balance in partnership accounts are to be split proportionately among all named account-holders.
2. Note that trust accounts must be flagged and identified as trust accounts. Due to the nature of these accounts they must be reported and identified separately.

## **Calculation of End-of-Day deposit balances**

3. The amount repayable to an account-holder of a protected account must be calculated as the sum of the EOD deposit balances held in all protected accounts in an account-holder's name on the day the FCS is declared. As EOD deposit balances could include both cleared and uncleared funds, payments will only be made on the basis of deposit balances comprising cleared funds. Uncleared funds in protected accounts on the day the FCS is declared must clear before being eligible to be paid out.
4. A failed ADI is likely to be withdrawn from the payments system as soon as a decision is made to declare the FCS in relation to that ADI. It will be necessary to ensure the correct posting to accounts of all unsettled<sup>1</sup> payments exchanged between the failed ADI and other ADIs on the day of the failure. These payments could include direct entry credits, cheques and EFTPOS transactions.
5. There is to be no netting or set-off against balances held in accounts protected as part of the FCS. All payments are to be on a gross basis adjusting for interest, fees and charges. Overdrafts and other forms of debt are not to be set off against deposit accounts.

### **Process for determining EOD position**

#### **Failure by a direct participant**

6. The Australian Payments Clearing Association's (APCA's) Australian Paper Clearing System (APCS) has been determined to be "a recognised settlement system" under the *Cheques Act 1986* (Cheques Act) by the Reserve Bank of Australia. The effect of this is that all cheques drawn on a failed ADI and not settled prior to the ADI's failure are taken to be dishonoured. Accordingly, for the purpose of calculating an EOD balance, any debits posted to an account by a failed ADI in connection with unsettled cheques must be reversed. Similarly,

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<sup>1</sup> Settlement refers to the extinguishment of obligations arising between payments system participants (including ADIs) using Exchange Settlement Accounts at the Reserve Bank of Australia.

credit entries made by other ADIs to an account arising from unsettled cheques drawn on the failed ADI must also be reversed;

7. Cheques drawn on an ADI, other than the failed ADI, and deposited into accounts at a failed ADI prior to the commencement of statutory management remain obligations due to the failed ADI, by the ADI on whom the cheque is drawn. When calculating the EOD aggregate deposit balance, the failed ADI must ensure that credits associated with these cheques are posted to accounts as they normally would be. However, these deposits would remain subject to the standard APCS rules on cleared funds (i.e. cheques drawn on an ADI, and deposited at the failed ADI, could be dishonoured by an ADI if, for example, the drawer had insufficient funds in their account). As a result, EOD aggregate deposit balances provided to APRA by a failed ADI will need to distinguish between 'cleared' and 'uncleared' funds. APRA will only make FCS payments to account-holders in respect of cleared funds;
8. Legislation similar to the Cheques Act does not exist in respect of other payments instruments. Treatment of accounts in respect of non-cheque payments instruments may be influenced by non-APCA contractual requirements (e.g. BPAY, Cashcard, Visa, Mastercard). To the extent that contractual requirements are either silent, or allow discretion to be exercised, ADIs will need to adopt uniform accounting treatments in dealing with a failed ADI;
9. The exchange of direct entry credit and debit files would cease from the time that an ADI is withdrawn from the payments system. Specifically, for files that had been exchanged prior to the ADI's withdrawal:
  - (a) unsettled direct entry credit files received from a failed ADI would be returned to the failed ADI if they had not already been posted to accounts at another ADI. Unsettled direct entry credits that had been posted to accounts at other ADIs would stand. To ensure consistent treatment between accounts at a failed ADI and other ADIs, the failed ADI would need to explicitly identify which of its files had been processed by other ADIs and which had not;
  - (b) direct entry debit files that have not been settled by a failed ADI would be treated as if they had not been exchanged or dishonoured (and any account postings would be reversed by the receiving ADI as well as the failed ADI). ADIs may need to check their capacity to reverse provisional credits in terms of any contractual arrangements governing operation of accounts and general insolvency law;
  - (c) all direct entry credit and debit files exchanged on the day of failure, which require settlement payment from another ADI to the failed ADI, are to be processed as normal. As a result, the failed ADI would need to post incoming direct entry credit payments from other ADIs and include these transactions in its EOD aggregate deposit balance reported to APRA. The same would apply to direct debit files the failed ADI had exchanged with other ADIs.
  - (d) real-time gross settlement (RTGS) payments are settled at the time they are exchanged. As a result, RTGS payments exchanged between a failed ADI and

another ADI are irrevocable and these transactions must be included in the EOD balance.

- (e) a failed ADI's ATM network and EFTPOS banking channels would be closed from the time that the ADI is withdrawn from the payments system. Unsettled ATM and EFTPOS transactions would not be revoked because of the real-time nature of these transactions. APRA would also instruct the statutory manager, or request the liquidator, to close the payments functions associated with a failed ADI's internet and telephone banking facilities.

### **Accrued interest and fees**

- 10. Accrued interest must be calculated and paid at the relevant interest rate applicable to the deposit account in question, rather than a "break rate" that might apply if an account-holder withdraws funds before a certain time or subject to other restrictions. ADIs must ensure that their accounting systems are able to apply interest at the contractual rate applicable to each account in the event of the ADI failing.
- 11. For the purpose of reporting to APRA for testing of FCS data it will not be necessary, in calculating the EOD balance, for an ADI to run an accrual to determine interest, fees and charges applicable to an account, unless the accrual is normally run on a daily basis or where the reporting date selected by APRA coincides with month-end. An EOD figure based purely on the principal amounts held in each protected account will be sufficient for the initial EOD balance for testing purposes.
- 12. In an actual failure, APRA would work closely with an ADI to seek to obtain accrued interest, fees and charges for payout purposes and for this data to be available within 48 hours of the EOD on which the FCS is declared.
- 13. Where a contractual rate of interest is not identifiable or where the account is intended to be interest-bearing but where the contractual rate is uncertain (e.g. a floating rate that had not been determined by the ADI immediately before closure) then APRA may specify a rate of interest for accrual purposes.

### **Treatment of unsettled payments**

- 14. Depending on how account-holders are to be paid out, an ADI would either be suspended from the payments system and then reinstated for a limited period to facilitate payment to account-holders (if the ADI's own systems were used for payment), or terminated from the payments system, with APRA appointing a paying agent, such as the RBA or a designated ADI, to pay out balances in protected accounts up to the FCS limit to account-holders. In either case, the standard APCA failure-to-settle procedures would be applied in each payment system in which the ADI was a participant.
- 15. APCA rules distinguish between direct participants and indirect participants. The former assume responsibility for settlement of payments obligations drawn on indirect participants as well as their own settlement obligations. In the event that

an indirect participant fails, its representative direct participant remains responsible for settling the indirect participant's obligations. In these circumstances credits posted to accounts at a solvent ADI, and associated debits posted to accounts at the failed ADI, would stand even where the indirect participant had not settled for the resultant obligations with its representative direct participant (subject to the legitimate reversal of direct credits and the possibility of direct debits being dishonoured by the failed ADI). [Note - some ADIs are direct participants in one or more APCA payment systems while participating indirectly in others. Accordingly, the treatment of customer accounts may vary by payment instrument.]

### **Reversing a bank cheque drawn on a failed ADI**

16. Unsettled bank cheques, including personal cheques, drawn on a failed ADI would be dishonoured by other ADIs under existing APCA rules upon an ADI being wound up. In effect, surviving ADIs would need to identify the cheques drawn on the failed ADI that had been deposited to customer accounts that day (since the last interbank 9am settlement) and then debit them to the receiving customers' account balances. Equally, the failed ADI would need to be able to re-credit any cheque debits posted to its customers' accounts since the last interbank settlement occurred. Bank cheques (as distinct from customer cheques) would need to be re-credited to the bank cheque account held in the failed ADI's name they were drawn from.

## Appendix A - Protected Accounts

### COMMONWEALTH OF AUSTRALIA

*Banking Act 1959*

#### DECLARATION OF COVERED FINANCIAL PRODUCTS

I, WAYNE MAXWELL SWAN, Treasurer, pursuant to subsection 5(8) of the *Banking Act 1959* DECLARE that the financial products specified below are *covered financial products*.

- (a) Saving accounts
- (b) Call accounts
- (c) Term deposits
- (d) Current accounts
- (e) Cheque accounts
- (f) Debit card accounts
- (g) Transactions accounts
- (h) Personal basic account
- (i) Cash management accounts
- (j) Farm management deposits
- (k) Pensioner deeming accounts
- (l) Mortgage offset accounts, either 100 per cent or partial offset, that are separate deposit accounts
- (m) Trustee accounts
- (n) Retirement Savings Accounts
- (o) First home saver accounts that are deposit accounts
- (p) Other deposit accounts that meet the following conditions:
  - (i) the terms applicable to the deposit do not permit the amount from time to time standing to the credit of the facility to be reduced otherwise than as a result of one or more of the following:
    - a withdrawal, transfer or debit on the instruction of, or by authority of, the depositor, not being on account of entry fees, exit fees or charges for the

management of the funds (but this does not exclude charges for the maintenance of the facility itself);

- a payment of charges or duties on deposits into, or withdrawals from, the facility that are payable under a law of the Commonwealth or of a State or Territory;
- a payment that a law of the Commonwealth, or of a State or Territory, requires to be made out of the facility;
- a payment that an order of a court requires to be made out of the facility;
- the exercise of a right to combine accounts;
- the correction of an error; and

(ii) any return to be generated for the depositor on the amount from time to time standing to the credit of the deposit is an amount that is set out in, or that is calculated by reference to a rate or rates that are set out in, the governing terms.

Dated: 27 October 2008

Wayne Swan

Treasurer