Reporting Standard ARS 731.3B

International Banking Statistics – Immediate and Ultimate Risk Exposures – Foreign Entity

Objective of this Reporting Standard

This reporting standard outlines the requirements for the provision of information to APRA relating to a foreign subsidiary bank's, or a branch of a foreign bank's, international exposures.

It includes *Reporting Form ARF 731.3B International Banking Statistics – Immediate and Ultimate Risk Exposures – Foreign Entity* (ARF 731.3B) and the associated specific instructions.

Authority

1. This Reporting Standard is made under section 13 of the *Financial Sector (Collection of Data) Act 2001*.

Purpose

2. Information collected by this Reporting Standard is used by APRA for the purposes of satisfying Australia's obligations in providing aggregate international banking statistics to the Bank for International Settlements, and may be used by APRA for prudential regulation purposes. It may also be used by the Reserve Bank of Australia.

Application and commencement

~~3.~~ This reporting standard applies to foreign subsidiary banks and branches of a foreign bank. ~~This reporting standard applies to an authorised deposit-taking institution (ADI) as set out in the table below.~~

~~Class of ADI~~	~~Applicable~~
~~Australian-owned Bank~~	~~No~~
~~Foreign Subsidiary Bank~~	~~Yes~~
~~Branch of a Foreign Bank~~	~~Yes~~
~~Building Society~~	~~No~~
~~Credit Union~~	~~No~~
~~Other ADIs~~	~~No~~

~~4.~~3. This Reporting Standard applies for reporting periods ending on or after ~~31 December~~1 October 20~~1~~27.

Information required

~~5.~~4. An ADI, to which this Reporting Standard applies, must provide APRA with the information required by ARF 731.3B on a domestic books basis in respect of each reporting period.

Forms and method of submission

5. The information required by this Reporting Standard must be given to APRA:

(a) in electronic format using an electronic method available on APRA's website; or~~the 'Direct to APRA' application or~~

~~(a)~~(b) 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

6. Subject to paragraph 9, an ADI to which this Reporting Standard applies must provide the information required by this Reporting Standard in respect of each quarter ending 30 September, 31 December, 31 March and 30 June.

7. The information required by this Reporting Standard must be provided to APRA within 35~~28~~ calendar days after the end of the reporting period to which the information relates.

8. APRA may, by notice in writing, change the reporting periods, or specified reporting periods, for a particular ADI, to require it to provide 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 Bank for International Settlements or the Reserve Bank of Australia.

9. APRA may grant an ADI an extension of a due date, in writing, in which case the new due date for the provision of the information will be the date on the notice of extension.

Note: for the avoidance of doubt, if the due date for a particular reporting period falls on a day other than a usual business day, an ADI is nonetheless required to submit the information required no later than the due date.

Quality control

10. The information provided 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. 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.

11. All information provided by an ADI under this Reporting Standard must be subject to processes and controls developed by the ADI for the internal review and authorisation of that information. These systems, processes and controls are to assure the completeness and reliability of the information provided.

Authorisation

12. When an officer or agent of an ADI ~~submits~~ provides the information ~~under~~ required by this Reporting Standard using ~~the D2A software or, other method as notified by APRA in writing~~an electronic format, ~~it will be necessary for an~~ the officer or agent ~~of the ADI to~~ must digitally sign~~, authorise and encrypt~~ the relevant information~~. For this purpose, APRA's certificate authority will issue 'digital certificates', for use with the software, to officers of the ADI who have authority from the ADI to transmit the information~~ using a digital certificate acceptable to APRA.

Minor alterations to forms and instructions

13. APRA may make minor variations to:

    (a) a form that is part of this Reporting Standard, and the instructions to such a form, to correct technical, programming or logical errors, inconsistencies or anomalies; or

    (b) the instructions to a form, to clarify their application to the form

    without changing any substantive requirement in the form or instructions.

14. If APRA makes such a variation it must notify in writing each ADI that is required to report under this reporting standard.

Transitional

~~15.~~ An ADI must report under the ~~old~~ reporting standard revoked by the determination that makes this Reporting Standard in respect of any reporting periods ending before 1 October 2027~~in respect of a transitional reporting period. For these purposes:~~

~~16. ***old reporting standard*** means the reporting standard revoked in the determination making this reporting standard (being the reporting standard which this reporting standard replaces).~~

~~17. ***transitional reporting period*** means a reporting period under the old reporting standard:~~

~~18. which ended before the date of revocation of the old reporting standard; and~~

~~19. in relation to which the ADI was required, under the old reporting standard, to report by a date on or after the date of revocation of the old reporting standard.~~

~~20.~~15. ~~*Note:* for the avoidance of doubt, if an ADI was required to report under an old reporting standard, and the reporting documents were due before the date of revocation of the old reporting standard, the ADI is still required to provide the overdue reporting documents in accordance with the old reporting standard~~.

Interpretation

~~21.~~16. In this reporting standard:

AASB has the meaning in section 9 of the *Corporations Act 2001*.

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

APRA means the Australian Prudential Regulation Authority established under the *Australian Prudential Regulation Authority Act 1998*.

Australian-owned bank means a locally incorporated ADI that assumes or uses the word 'bank' in relation to its banking business and is not a foreign subsidiary bank.

branch of a foreign bank means a 'foreign ADI' as defined in section 5 of the *Banking Act 1959*.

building society means a locally incorporated ADI that assumes or uses the expression 'building society' in relation to its banking business.

~~***class of ADI*** means each of the following:~~

~~(i) Australian-owned bank;~~

~~(ii) foreign subsidiary bank;~~

~~(iii) branch of a foreign bank;~~

~~(iv) building society;~~

~~(v) credit union; and~~

~~(vi) other ADI.~~

credit union means a locally incorporated ADI that assumes or uses the expression 'credit union' in relation to its banking business.

due date means the last day of the 35~~28~~ calendar days provided for in paragraph 8 or, if applicable, paragraph 10.

foreign subsidiary bank means a locally incorporated ADI in which a bank that is not locally incorporated has a stake of more than 15 per cent.

locally incorporated means incorporated in Australia or in a State or Territory of Australia, by or under a Commonwealth, State or Territory law.

~~***other ADI*** means an ADI that is not an Australian-owned bank, a branch of a foreign bank, a building society, a credit union or a foreign subsidiary bank.~~

reporting period means a quarter of a year as provided for in paragraph 7 or, if applicable, paragraph 9.

17. Unless the contrary intention appears, a reference to an Act, Regulation, Prudential Standard, Reporting Standard, Australian Accounting Standing or Auditing Standard is a reference to the instrument as in force or existing from time to time.

18. Where this Reporting Standard provides for APRA to exercise a power or discretion, this power or discretion is to be exercised in writing.

ARF_731_3B: International Banking Statistics - Immediate and Ultimate Risk Exposures - Foreign Entity

Australian Business Number	Institution Name

Reporting Period	Scale Factor
Quarterly	Millions to three decimal places

Reporting Consolidation
Domestic book

1. Claims on an immediate borrower basis: by remaining maturity and country

Vis-à-vis country (1)	<=3 mths (2)	>3 mths <=12 mths (3)	>1yr <=2 yrs (4)	>2yrs <=5 yrs (5)	>5 yrs (6)	Unallocated (7)	Total (8)
Country list							
1.1. Total							

2. Claims on an immediate borrower basis: by sector of borrower and country

Vis-à-vis country (1)	Banking institutions (2)	Central banks (3)	General government (4)	Non-banking financial institutions (5)	Non-financial corporations (6)	Households and non-profits (7)	Unallocated (8)	Total (9)
Country list								
2.1. Total								

3. Risk transfers

Vis-à-vis country (1)	Outward risk transfer (2)	Inward risk transfer (3)	Net transfer of risk to the ultimate borrower (4)
Country list			
3.1. Total			

4. Claims on an ultimate risk basis

Vis-à-vis country (1)	Banking institutions (2)	Central banks (3)	General government (4)	Non-banking financial institutions (5)	Non-financial corporations (6)	Households and non-profits (7)	Unallocated (8)	Total (9)
Country list								
4.1. Total								

5. Derivative contracts, guarantees and credit commitments

Vis-à-vis country (1)	Derivative contracts (2)	Guarantees (3)	Credit commitments (4)
Country list			
5.1. Total			

Reporting Form ARF 731.3B

International Banking Statistics – Immediate Risk Exposures – Foreign Entity

Instructions

These instructions assist in the completion of *Reporting Form ARF 731.3B International Banking Statistics- Immediate Risk Exposures – Foreign Entity* (ARF 731.3B) and is based on the Bank for International Settlements (BIS) *Guidelines for reporting the BIS international banking statistics* (BIS Guide). Reporting entities are encouraged to consult the BIS Guide for a detailed discussion of the rationale for, and uses of, the international banking statistics: ~~http://www.bis.org/statistics/bankstatsguide.htm~~http://www.bis.org/statistics/bankstatsguide.htm

ARF 731.3B has two purposes:

- to provide information on the international exposures of foreign banks operating in Australia; and

- to satisfy Australia's obligation to the BIS in providing aggregate international banking statistics for Australia. These are available, along with statistics from other countries, on the BIS website (~~http://www.bis.org/statistics/index.htm~~https://www.bis.org/statistics/dataportal/index.htm).

ARF 731.3B is part of the international exposures forms. The four forms (listed below) make up the suite of international exposures forms:

- *Reporting Form ARF 731.1 International Banking Statistics - Locational Data* (ARF 731.1) collects data on ***claims*** and ***liabilities*** broken down by currency, counterparty sector, and ***counterparty country*** on a domestic books basis.

- *Reporting Form ARF 731.3A International Banking Statistics - Immediate and Ultimate Risk Exposures - Domestic Entity* (ARF 731.3A) collects data on ***claims*** and ***liabilities*** broken down by ***counterparty country, maturity***, ***counterparty sector*** and ***country*** on the greater of ***Level 1*** or ***Level 2*** basis.

- ARF 731.3B collects data on claims broken down by ***counterparty country, maturity***, ***counterparty sector*** and ***country*** on domestic book basis.

- *Reporting Form ARF 731.4 International Banking Statistics - Balance Sheet Items* (ARF 731.4) collects a small number of balance sheet items for ***Australian-owned banks*** on the greater of ***Level1*** or ***Level 2*** basis.

Australian-owned banks complete ARF 731.1, ARF 731.3A and ARF 731.4.

Foreign subsidiary banks and ***branches of foreign banks*** complete ARF 731.1 and ARF 731.3B.

Reporting level

ARF 731.3B is to be completed by all ***foreign subsidiary banks*** and ***foreign branch banks***. Data is to be reported on a domestic book basis.

Domestic books means an unconsolidated report of positions, transactions and other information recorded on the Australian books of the body corporate authorised by ***APRA*** to carry on banking business as per the *Banking Act 1959*. Includes transactions and positions with both ***residents*** and ***non-residents*** that are recorded on the Australian books of these entities.

Do not consolidate positions, transactions and other information recorded on the books of Extended Licensed Entities (ELEs), of any other entity not consolidated at Level 1 (for example, ***related parties*** such as subsidiaries, special purpose vehicle~~SPV~~s or parent entities) and of overseas-based entities (e.g. overseas-based branches and offshore banking units (within the meaning of section 128AE of the *Income Tax Assessment Act 1936*)).

Reporting basis and unit of measurement

ARF 731.3B should be completed as at the last day of the stated quarter (i.e. March, June, September and December). ***Foreign subsidiary banks*** and ***branches of foreign banks*** should submit the completed return to APRA within 28 calendar days after the end of the reporting quarter.

Foreign subsidiary banks and ***branches of foreign banks*** are to complete the return in AUD millions to three (3) decimal places ~~(with the data formatted to the nearest million)~~.

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

Report all items on ARF 731.3B in accordance with Australian Accounting Standards unless otherwise specified.

Netting of assets and liabilities

Positions should generally be reported on a gross basis. However, reporting entities that are head offices exclude their claims on affiliates in any other country (as the data is reported on a consolidated basis).

This does not apply to ***derivative contracts***.

Valuation

Assets and ***liabilities*** should be measured in accordance with Australian accounting standards.

Note: International ~~financial~~ ***claims*** should be reported gross of specific provisions and General Reserve for Credit Losses as defined by *Prudential Standard APS 220 Credit ~~Quality~~Risk Management*. Provisions and reserves are not to be included in ARF 731.1, ARF 731.3A or ARF 731.3B.

When reporting the data, reporting entities should also ensure that all figures be prepared in accordance with applicable Australian accounting principles.

As a general rule, it is recommended that ~~financial~~ ***claims*** belonging to the banking book be valued at face values or cost prices and ~~financial~~ ***claims*** belonging to the trading book be valued at market or fair values which is largely consistent with *AASB 139 Financial Instruments: Recognition and Measurement.*

~~Financial c~~***Claims*** resulting from ***derivative contracts*** should be valued at fair values (i.e. current credit exposure calculated as the sum of all positive fair values of ***derivative contracts*** outstanding after taking account of legally enforceable bilateral netting agreements) as this ensures consistency not only with the BIS OTC derivatives statistics but also with the valuation principles for all other on- and off-balance sheet items in the BIS international financial statistics. Unlike ARF 731.1, netting can take place across assets and ***liabilities*** (not just across "two legs" of a given swap) and can occur for all types of ***derivative contracts*** (including swaps), provided there is a legally enforceable agreement. Negative fair values of ***derivative contracts*** (after appropriate netting) are considered to represent ~~financial~~ ***liabilities*** and are therefore by definition excluded from the reporting of ~~financial~~ ***claims***.

Contingent ***liabilities*** resulting from ***guarantees*** and ***credit commitments*** should be valued at face values or the maximum possible exposure.

Standard Business Reporting (SBR)

The accounting type (i.e. credit or debit) is stated for all monetary items and represents the natural accounting type of the item collected.

Background to the international exposures forms

There are two main sets of international banking data: the locational and consolidated banking statistics.

The ***locational statistics*** (collected on ARF 731.1) collect data on the domestic book international financial ***claims*** (assets) and ***liabilities*** of ***resident*** banks.

The ***consolidated statistics*** (collected on ARF 731.3A, ARF 731.3B and ARF 731.4) collect data on the international on-balance sheet (and selected off-balance sheet) financial ***claims*** (i.e. contractual lending) of banks vis-à-vis Australia and the rest of the world and provides a measure of the risk exposure of lenders' national banking systems. The data mainly cover contractual lending by the head office and all its branches and subsidiaries on a global consolidated basis, net of inter-office accounts. These statistics also provide information on the ***maturity*** (i.e. liquidity) and sector risk distribution of reporting entities' contractual lending.

As reporting entities' country risk exposures can differ substantially from that of contractual lending, information on ***claims*** on an ***ultimate risk*** basis is also collected. ***Claims*** on an ***ultimate risk*** basis factor in ***risk transfers*** such as ***guarantees*** and collateral.

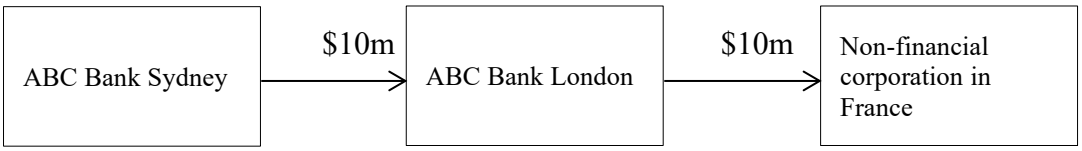
The key difference between the two sets of BIS banking data is based upon the concept of

residency. ***Locational statistics*** show the ***claims*** and ***liabilities*** of banks located in Australia vis-à-vis entities located in Australia and all other countries, including inter-office positions, and domestic entities.

The ***consolidated statistics*** show the total ***claims*** of a reporting entity group's global offices, including the ***claims*** of their domestic and foreign affiliates. ***Claims*** between offices of the same entity group are netted out.

The differences between ***locational*** and ***consolidated*** ~~data~~ ***statistics*** are highlighted in an example in Figure 1. ABC Bank (headquartered in Sydney) has lent $10 million to a non-financial corporation located in France routed via its branch office in London.

Figure 1: Flow of funds and BIS locational and consolidated statistics



The implications of this transaction for the BIS data are as follows:

Locational statistics:
Australian ***resident*** bank (i.e. ABC Bank Sydney) will report to APRA a $10 million increase in locational ***claims*** on UK ***resident*** banks (ABC Bank London).

The UK ***resident*** bank will report to the UK regulator a $10 million increase in locational ***claims*** on a non-financial corporation ***resident*** in France.

Consolidated statistics:
Australian ***resident*** reporting entities (i.e. ABC Bank, Sydney) will report a $10 million increase in consolidated ***claims*** on a non-financial corporation ***resident*** in France.

Specific instructions

Terms highlighted in ***bold italics*** indicate that the definition is provided in these instructions.

1. Claims on an immediate borrower basis: by remaining maturity and counterparty country

SBR: submit item 1 and item 2 with accounting type of debit (assets).

Item 1	The ***counterparty country*** of the ***immediate borrower claims*** to be reported in item 1 column 1. In item 1 column 2, report the ***immediate borrower claims*** for the selected ***counterparty country*** with a residual ***maturity*** of less than or equal to three months. In item 1 column 3, report the ***immediate borrower claims*** for the selected ***counterparty country*** with a residual ***maturity*** of greater than three months and less than or equal to 1 year. In item 1 column 4, report the ***immediate borrower claims*** for the selected ***counterparty country*** with a residual ***maturity*** of greater than 12 months and less than or equal to 2 years. In item 1 column 5, report the ***immediate borrower claims*** for the selected ***counterparty country*** with a residual ***maturity*** of greater than 2 years and less than or equal to 5 years. In item 1 column 6, report the ***immediate borrower claims*** for the selected ***counterparty country*** with a residual ***maturity*** of greater than 5 years. Item 1 column 7 represents the ***cross-border*** or ***foreign currency immediate borrower claims*** where the residual ***maturity*** is unknown or does not exist (e.g. equities and participations) and is derived as: • column 8 total ***immediate borrower claims***; less • the sum of columns 2-6. In item 1 column 8, report the total ***immediate borrower claims*** for the selected ***counterparty country***.

	Item 1.1 column 2 is derived as the total ***immediate borrower claims*** with a residual ***maturity*** of less than or equal to three months for all ***counterparty countries***. Item 1.1 column 3 is derived as the total ***immediate borrower claims*** with a residual ***maturity*** of greater than three months and less than or equal to 12 months for all ***counterparty countries***. Item 1.1 column 4 is derived as the total ***immediate borrower claims*** with a residual ***maturity*** of greater than 1 year and less than or equal to 2 years for all ***counterparty countries***. Item 1.1 column 5 is derived as the total ***immediate borrower claims*** with a residual ***maturity*** of greater than 2 years and less than or equal to 5 years for all ***counterparty countries***. Item 1.1 column 6 is derived as the total ***immediate borrower claims*** with a residual ***maturity*** of greater than 5 years for all ***counterparty countries***. Item 1.1 column 7 is derived as the total ***immediate borrower claims*** ~~with an unallocated~~, where the residual ***maturity***~~. Avoid reporting large amounts a~~ is unallocated (i.e. it is unknown or does not exist), for all ***counterparty countries***. Item 1.1 column 8 is derived as the total ***immediate borrower claims*** for all ***counterparty countries*** for all ***counterparty countries***.

2. Claims on an immediate borrower basis: by sector of borrower and counterparty country

Item 2	In item 2 column 1, report the ***counterparty country*** of the ***immediate borrower claims***. In item 2 column 2, report the ***immediate borrower claims*** on ***banking institutions*** for the selected ***counterparty country***. In item 2 column 3, report the ***immediate borrower claims*** on ***central bank*** counterparties for the selected ***counterparty country***. In item 2 column 4, report the ***immediate borrower claims*** on ***general government*** counterparties for the selected ***counterparty country***. In item 2 column 5, report the ***immediate borrower claims*** on ***non-banking financial institutions*** for the selected ***counterparty country***.

	In item 2 column 6, report the ***immediate borrower claims*** on ***non-financial corporations*** for the selected ***counterparty country***. In item 2 column 7, report the ***immediate borrower claims*** on ***households and NPISHs*** for the selected ***counterparty country***. Item 2 column 8 is derived as: • column 9 total ***immediate borrower claims***; less • the sum of columns 2-7. In item 2 column 7, report the total ***immediate borrower claims*** for the selected ***counterparty country***.
	Item 2.1 column 2 is derived as the total ***immediate borrower claims*** on ***banking institutions*** for all ***counterparty countries***. Item 2.1 column 3 is derived as the total ***immediate borrower claims*** on ***central bank*** counterparties for all ***counterparty countries***. Item 2.1 column 4 is derived as the total ***immediate borrower claims*** on ***general government*** counterparties for all ***counterparty countries***. Item 2.1 column 5 is derived as the total ***immediate borrower*** on ***non-banking financial institutions*** for all ***counterparty countries***. Item 2.1 column 6 is derived as the total ***immediate borrower claims*** on ***non-financial corporations*** for all ***counterparty countries***. Item 2.1 column 7 is derived as the total ***immediate borrower claims*** on ***households and NPISHs*** for all ***counterparty countries***. Item 2.1 column 8 is derived as the total ***immediate borrower claims*** with an unallocated ***counterparty sector*** for all ***counterparty countries***. Avoid reporting large amounts as unallocated. Item 2.1 column 9 is derived as the total ***immediate borrower claims*** for all ***counterparty countries*** for all ***counterparty countries***.

3. Risk transfers

SBR: submit item 3 column 2 accounting type of credit (negative asset), submit item 3 column 3 with accounting type of debit (asset).

Item 3	In item 3 column 1, report the ***counterparty country*** of the ***risk transfer***. In item 3 column 2, report the ***outward risk transfers*** for the selected ***counterparty country***.

	In item 3 column 3, report the ***inward risk transfers*** for the selected ***counterparty country***. Item 3 column 4 is derived as the net of ***outward risk transfer*** and ***inwards risk transfer*** for the selected ***counterparty country***.
	Item 3.1 column 2 is derived as the total ***outward risk transfers*** for all ***counterparty countries***. Item 3.1 column 3 is derived as the total ***inward risk transfers*** for all ***counterparty countries***. Item 3.1 column 4 is derived as the total ***net transfer of risk*** for all ***counterparty countries***.

4. Claims on an ultimate risk basis

In case of holdings of credit linked notes, collateral debt obligations and asset-backed securities a 'look-through' approach should be adopted. The country of ultimate risk is defined as the country where the debtor of the underlying credit, security or ***derivative contract*** resides.

It is recognised that this 'look-through' approach might not always be possible for practical reasons. Accordingly, reporting entities might only be able to provide estimates for the allocation of ***claims*** to the country where the debtor of the underlying risk resides or to allocate the ***claims*** to the country of the immediate borrower that is the country where the issuer of the securities resides. If this is not possible, then report the ***claims*** under ***unallocated sector*** and country as appropriate.

SBR: submit item 4 with accounting type of debit (assets)

Item 4	In item 4 column 1, report the ***counterparty country*** of the ***ultimate risk claims***. In in item 4 column 2, report the ***ultimate risk claims*** on ***banking institutions*** for the selected ***counterparty country***. In item 4 column 3, report the ***ultimate risk claims*** on ***central banks*** for the selected ***counterparty country***. In item 4 column 4, report the ***ultimate risk claims*** on ***general government*** counterparties for the selected ***counterparty country***. In item 4 column 5, report the ***ultimate risk claims*** on ***non-banking financial institutions*** for the selected ***counterparty country***. In item 4 column 6, report the ***ultimate risk claims*** on ***non-financial corporations*** for the selected ***counterparty country***.

	In item 4 column 7, report the ***ultimate risk claims*** on ***households and NPISHs*** for the selected ***counterparty country***. Item 4 column 8 is derived as: • column 9 total ***ultimate risk claims***; less • the sum of columns 2-7. In item 4 column 9, report the total ***ultimate risk claims*** for the selected ***counterparty country***.
	Item 4.1 column 2 is derived as the total ***ultimate risk claims*** on ***banking institutions***. Item 4.1 column 3 is derived as the total ***ultimate risk claims*** on ***central banks***. Item 4.1 column 4 is derived as the total ***ultimate risk claims*** on ***general government*** counterparties. Item 4.1 column 5 is derived as the total ***ultimate risk claims*** on ***non-banking financial institutions***. Item 4.1 column 6 is derived as the total ***ultimate risk claims*** on ***non-financial corporations***. Item 4.1 column 7 is derived as the total ***ultimate risk claims*** on ***households and NPISHs***. Item 4.1 column 8 is derived as the total ***ultimate risk claims*** with an unallocated counterparty ***sector.*** Avoid reporting large amounts as unallocated. Item 4.1 column 9 is derived as the total ***ultimate risk claims.***

5. Derivative contracts, guarantees and credit commitments

SBR: submit item 5 with accounting type of debit (assets)

Item 5	In item 5 column 1, report the ***counterparty country*** of the position the ***derivative contracts, guarantees*** and/or ***credit commitments***. In item 5 column 2, report the total of net asset positions of ***derivative contracts*** ~~in a net asset position~~ vis-à-vis the selected ***counterparty country***. In item 5 column 3, report the ***guarantees*** vis-à-vis the selected ***counterparty country***.

	Report in item 5 column 4 the ***credit commitments*** vis-à-vis the selected ***counterparty country***.

	Item 5.1 column 2 is derived as the total of net asset positions of ***derivative contracts*** ~~in a net asset position~~ for all ***counterparty countries.*** Item 5.1 column 3 is derived as total ***guarantees*** for all ***counterparty countries***. Item 5.1 column 4 is derived as total ***credit commitments*** for all ***counterparty countries***.

Definitions

Banking institutions refers to financial institutions whose business it is to receive deposits or close substitutes for deposits and to grant credits or invest in securities on their own account, including credit unions and building societies. Money market funds, investment funds and pension funds are excluded from this category. For the purposes of ARF 731.3B, exclude ***central banks*** and international organisations (including multilateral development banks). These should be classified as ***central banks*** and ***general government*** respectively.

Central banks refers to ***central banks***, including the RBA, BIS, the European Central Bank, and other official monetary authorities. A complete list of ***central banks*** is maintained on the BIS website at ~~http://www.bis.org/statistics/bankstatsguide.htm~~http://www.bis.org/statistics/bankstatsguide.htm.

Claims refers to:

1. Australian offices' financial ***local claims*** on Australian ***residents*** in ***foreign currency*** - for example, any financial ***local claim*** of the Sydney office of a bank on a borrower ***resident*** in Australia; and

2. Australian offices' financial ***cross-border claims*** on ***non-residents*** in any currency - for example, any ***claim*** of the Sydney office of a bank on a borrower ***resident*** in New Zealand.

The data on ~~financial~~ ***claims*** should comprise all those on-balance sheet financial items, which represent ***claims*** on ***residents*** in other individual countries or economies. As in the ***locational statistics***, the principal items are deposits and balances placed with banks, loans and advances to banks and non-banks, holdings of securities (including credit linked notes and other collateral debt obligations and asset-backed securities) and participations. Report derivatives booked as on-balance sheet items separately under ***derivative contracts***. Do not report them as part of on-balance sheet ***claims***.

~~Exclude derivative contracts.~~

Consolidated statistics – See section *Background to the international exposures forms*.

Counterparty sector refers to the economic sector of the counterparty of the financial instrument. There are six counterparty sectors to be reported:

- ***Banking institutions***;
- ***Central banks;***
- ***General government;***
- ***Non-banking financial institutions;***
- ***Non-financial corporations***;
- ***Households and non-profit institutions serving households (NPISHs)***; and
- ***Unallocated sector***.

Counterparty ~~***Country***~~ ***country*** refers to where the counterparty of the financial instrument is

domiciled.

Countries ~~are~~ include the countries listed as per ISO 3166, available at ~~http://www.iso.org/iso/country_codes~~http://www.iso.org/iso/country_codes, as well as the BIS ***counterparty country*** classifications *International Organisations* and *Unallocated*. ***Claims*** on and ***liabilities*** due to international organisations should not be allocated to an ISO 3166 country code, but should instead be reported under *International Organisations*.

Credit commitments represent arrangements that irrevocably obligate an institution, at a client's request, to extend credit in the form of loans, participation in loans, lease financing receivables, mortgages, overdrafts, other loan substitutes, commitments to extend credit in the form of the purchase of loans, securities or other assets, such as back-up facilities including those under note issuance facilities and revolving underwriting facilities.

Cross-border claims refers to ***claims*** of an Australian office on ***non-residents***, and offshore offices on counterparties which are not ***residents*** of the host country (for example, the ***claims*** of a New Zealand domiciled subsidiary on both Australian ***residents*** and ***residents*** of any other country).

Derivative contracts includes all derivatives instruments with a positive fair value, independent of whether the ***derivative contracts*** are booked as off- or on-balance sheet items. The data should be reported on a level 2 consolidated and ***ultimate risk*** basis i.e. inter-office positions should be netted out and the positions should be allocated to the country where the final risk lies.

However, credit derivatives, such as credit default swaps and total return swaps, should only be reported under the ***derivative contracts*** item if they belong to the trading book of a protection buying reporting entity. Credit derivatives which belong to the banking book should be reported as ***risk transfers*** by the protection buyer and, all credit derivatives should be reported as ***guarantees*** by the protection seller.

~~Financial c~~***Claims*** resulting from ***derivative contracts*** should be valued at fair values (i.e. current credit exposure calculated as the sum of all positive fair values of ***derivative contracts*** outstanding after taking account of legally enforceable bilateral netting agreements) as this ensures consistency not only with the BIS OTC derivatives statistics but also with the valuation principles for all other on- and off-balance sheet items in the BIS international financial statistics. Unlike ARF 731.1, netting can take place across assets and ***liabilities*** (not just across "two legs" of a given swap) and can occur for all types of ***derivative contracts*** (including swaps), provided there is a legally enforceable agreement. Negative fair values of ***derivative contracts*** are considered to represent financial ***liabilities*** and are therefore by definition excluded from the reporting of ***claims***.

Note: This definition of ***derivative contracts*** differs to that used in ARF 731.1.

Foreign currency refers to ***claims*** or ***liabilities*** of an Australian office not in AUD, and ***claims*** of offshore offices not in the currency of the host country (for example, ***claims*** of a New Zealand domiciled subsidiary denominated in AUD or USD).

General government refers to federal, state and local government and social security funds both in Australia and overseas ~~(the general government sector)~~, international organisations

(including multilateral development banks), and non-profit institutions financed by general government. Exclude public ***non-banking financial institutions*** and public ***non-financial corporations.*** These should be classified as ***non-banking financial institutions*** or ***non-financial corporations***, respectively. Exclude ~~central banks and international organisations (including multilateral development banks). These should be classified as~~ ***central banks***.

Guarantees represent contingent ***liabilities*** arising from an irrevocable obligation to pay to a third party beneficiary when a client fails to perform some contractual obligations. They include secured, bid and performance bonds, warranties and indemnities, confirmed documentary credits, irrevocable and stand-by letters of credits, acceptances and endorsements. ***Guarantees*** also include the contingent ***liabilities*** of the protection seller of credit ***derivative contracts***.

Guarantees should be reported to the extent that they represent the unutilised portions of both binding contractual obligations and any other irrevocable commitments. Performance bonds and other forms of ***guarantee*** should only be reported if, in the event of the contingency occurring, the resulting ***claim*** would have an impact on total ***cross-border claims*** and ***local claims*** in any currency.

Households and non-profit institutions serving households (NPISHs) refers to households, non-profit entities such as charities, religious institutions, trade unions and consumer associations. Also include unincorporated enterprise owned by households.

Immediate borrower claims refers to all on-balance sheet ~~financial~~ ***claims***, excluding ***derivative contracts*** and lending of securities, gold and other precious metals without cash collateral.

Inwards risk transfer is a ***risk transfer*** that reallocates the ***claim*** into the country being reported. Examples of ***risk transfers*** are shown in the attachment.

Liabilities includes all on-balance sheet financial ***liabilities*** in all currencies vis-à-vis all counterparty countries, and ***trustee business***.

Local claims refers to ***claims*** of an Australian office on Australian ***residents***, and ***claims*** of offshore offices on ***residents*** of the host country (for example, the ***claims*** on New Zealand ***residents*** of a New Zealand domiciled subsidiary).

Locational statistics – See section *Background to the international exposures forms*.

Maturity refers to the residual ***maturity*** of on-balance ***claims***.

- ***Claims*** are to be entered according to their remaining ***maturity***.
- Deposits that are repayable on demand should be allocated to the shortest ***maturity*** bracket.
- Overdue items should be allocated to the shortest ***maturity*** bracket (i.e. '< 3 months').
- ***Claims*** that cannot be classified by ***maturity***, such as equity and participations, should be assigned to the~~a~~ residual category 'unallocated'.
- Remaining maturities should be defined on the basis of the time to final payment of the relevant ***claim***.

- The ***maturity*** classification of revolving credit facilities should be based on the term to loan rollover, which would typically be in the '< 3 months' ***maturity*** bracket.
- Overdrafts should be allocated to the shortest ***maturity*** bracket (i.e. '< 3 months').

Net transfer of risk is the net of ***outwards risk transfer*** and ***inwards risk transfer*** for a given country.

Non-banking financial institutions refers to private or public financial institutions which are not ***banking institutions***, and are engaged primarily in the provision of financial services and activities auxiliary to financial intermediation, such as fund management. Include special purpose vehicles, hedge funds, securities brokers, money market funds, pension funds, insurance companies, financial leasing corporations, central clearing counterparties, unit trusts, other financial auxiliaries and other captive financial institutions. Also include any public financial institutions such as unilateral or bilateral development banks and export credit agencies.

Non-financial corporations refers to both public and private ***non-financial corporations*** and unincorporated enterprise, such as partnerships and branches of foreign corporations.

Non-residents of Australia are ~~any~~ entities~~y~~ whose centre of predominant economic interest is outside Australia's economic territory.

For Australian-***resident*** banks, ***non-residents*** should ~~I~~include:
- households whose principal place of residence is overseas; and
- foreign branches and foreign subsidiaries of Australian enterprises, for example, a foreign branch of an Australian bank.

For Australian-***resident*** banks, ***non-residents*** should ~~E~~exclude:
- Australian-based branches and subsidiaries of foreign enterprises, for example, Australian branches of foreign banks.

Outwards risk transfer is a ***risk transfer*** that reallocates the ***claim*** from the country being reported. Examples of risk transfers are shown in the attachment.

Residents of Australia are ~~any~~ entities~~y~~ whose centre of predominant economic interest is within Australia's economic territory.

For Australian-***resident*** banks, ***residents*** should ~~I~~include:
- households whose principal place of residence is in Australia; and
- Australian branches and Australian subsidiaries of foreign enterprises, for example, Australian branches of foreign banks.

For Australian-***resident*** banks, ***residents*** should ~~E~~exclude:
- foreign branches and foreign subsidiaries of Australian enterprises, for example, foreign branches of Australian banks.

Risk transfers refers to where ***claims*** that have been reallocated from the country of the ***immediate borrower*** to the country of ***ultimate risk*** as a result of ***guarantees***, collateral, and credit derivatives which are part of the banking book. This includes ***risk -transfers*** between

different economic sectors in the same country.

Further information on reporting ***risk transfers*** (including examples) is available in the attachment.

Ultimate risk claims refers to ***claims*** allocated to the country where the final risk lies. That is, the country in which the guarantor of a financial ***claim*** resides and/or the country in which the head office of a legally dependent branch is located.

Unallocated sector refers to where the ***counterparty sector*** is unknown.

Attachment: Examples of reporting of risk transfers and ultimate risk claims

Risk transfers

The information on the reallocation of ***claims*** should be reported as net ***risk transfers***, i.e. the difference of reallocated ***claims*** that increase the exposure (***inward risk transfers***) and those, which reduce the exposure (***outward risk transfers***) vis-à-vis a given country. All ***outward*** and ***inward risk transfers*** should add up to the same total.

Risk transfers can be used to derive ***claims*** on an ***ultimate risk*** basis from ***claims*** on an ***immediate risk*** basis, although differences in reporting areas may result in discrepancies.

The risk reallocation should also cover loans to domestic borrowers that are guaranteed by foreign entities that therefore represent ***inward risk transfers*** and increase the exposure to the country of the guarantor. Equally foreign lending that is guaranteed by Australian entities (e.g. a domestic export credit agency such as the Export Finance and Insurance Corporation) should be reported as an ***outward risk transfer***, which reduces the exposure to the country of the foreign borrower.

In summary, there are four potential forms of risk reallocation:

i. Lending to a ***non-resident*** that is guaranteed by a ***non-resident*** third party.

   In this case both the ***outward risk transfer*** from the original borrower and the ***risk transfer*** to the guarantor have to be reported.

ii. Lending to a ***non-resident*** that is guaranteed by an Australian ***resident*** third party.

   In this case both the ***outward risk transfer*** from the original ***non-resident*** borrower has to be reported as well as the ***inward risk transfer*** to Australia.

iii. Lending to a ***resident*** that is guaranteed by a ***non-resident*** third party.

   In this case, report the ***outward risk transfer*** from Australia as well as the ***inward risk transfer*** to the ***non-resident*** guarantor.

iv. Lending to a ***non-resident*** where the exposure is extinguished by receiving a cash collateral.

   In this case the outward risk transfer from the original ***non-resident*** borrower has to be reported (but nocash collateral holder is the bank itself, and as a result, an ***inward risk transfer*** to Australia (***banking institutions***) should be reported as well as the ***outward risk transfer*** from the original ***non-resident*** borrower).

   Examples of risk transfers are shown in the attachment.

Ultimate risk claims refers to ***claims*** allocated to the country where the final risk lies. That is, the country in which the guarantor of a financial claim resides and/or the country in which the head office of a legally dependent branch is located. Collateral may be considered as an

~~indicator of where the final risk lies to the extent that is recognised as a risk mitigant under the Basel Committee on Banking Supervision's capital framework.~~

~~Similarly, if credit derivatives are used to cover the counterparty risk of financial claims in the banking book, the country of ultimate risk of these positions is defined as the country in which the counterparty to the credit derivative contract resides.~~

~~In case of holdings of credit linked notes, collateral debt obligations and asset-backed securities a 'look-through' approach should be adopted. The country of ultimate risk is defined as the country where the debtor of the underlying credit, security or derivative contract resides.~~

~~It is recognised that this 'look-through' approach might not always be possible for practical reasons. Accordingly, reporting entities might only be able to provide estimates for the allocation of claims to the country where the debtor of the underlying risk resides or to allocate the claims to the country of the immediate borrower that is the country where the issuer of the securities resides.~~

~~The issuer (or protection buyer) of credit linked notes, collateral debt obligations and asset backed securities should regard the issuance of a security backed by financial claims, and sale to investors, as a cash collateral which extinguishes the exposure of the issuer to the underlying claim.~~

~~Claims on separately capitalised subsidiaries can only be considered as being guaranteed by the head office if the parent has provided an explicit guarantee. In contrast, any claims on non-incorporated branches should for the purposes of the ***consolidated statistics*** always be considered as guaranteed by the respective head office, even if there is no legal guarantee.~~

~~***Unallocated sector*** refers to where the counterparty sector is unknown.~~

~~Attachment: Examples of reporting of *risk transfers*~~

Example 1
An Australian ***resident*** has granted a loan of AUD 10 million to a manufacturer in Hong Kong, which is guaranteed by a bank in Japan. The Australian ***resident*** bank should report the ***claim*** as ***an outward risk transfer*** from Hong Kong and an ***inward risk transfer*** to Japan. In ARF 731.3A, this example will look as follows:

	Immediate risk	Outward risk transfers	Inwards risk transfers	Net risk transfers	Ultimate risk
Hong Kong	10	10		-10	
Japan			10	10	10

Example 2
If in example 1, an Australian ***resident*** bank guarantees the ***claim*** instead, the ***claim*** should be reported as an ***outward risk transfer*** from Hong Kong and an ***inward risk transfer*** to Australia.

	Immediate risk	Outward risk transfers	Inwards risk transfers	Net risk transfers	Ultimate risk
Australia			10	10	10
Hong Kong	10	10		-10	

Example 3
If in example 1, the manufacturer were ***resident*** in Australia, the ***claim*** would have to be reported as an ***outward risk transfer*** from Australia and an ***inward risk transfer*** to Japan.

	Immediate risk	Outward risk transfers	Inwards risk transfers	Net risk transfers	Ultimate risk
Australia	10	10		-10	
Japan			10	10	10

Example 4
If in example 1, the manufacturer were ***resident*** in Japan, the ***claim*** would have to be reported as an ***outward risk transfer*** from the ***non-financial corporations*** sector in Japan and an ***inward risk transfer*** to the ***banking institutions*** sector in Japan.

	Immediate risk	Outward risk transfers	Inwards risk transfers	Net risk transfers	Ultimate risk
Japan		10	10	0	10

As a result, the data in item 5.1 column 2 ~~-~~***Claims*** on an ***ultimate risk***~~-~~ basis should be $10 million higher than the amount in item 2 column ~~8~~ 6 ***Claims*** on an ***immediate risk*** basis by ***sector***. Item 5 column 6~~8~~ ***Claims*** on an ***ultimate risk*** basis worksheet should be $10 million lower than the amount in item 2 column 6~~8~~ for Japan.

Example 5
If in example 4, the loan were granted by a subsidiary of an Australian-owned bank in Hong Kong, the ***claim*** would have to be reported as an ***outward risk transfer*** from Hong Kong and an ***inward risk transfer*** to Japan (remembering that the loan is guaranteed by a bank in Japan).

	Immediate risk	Outward risk transfers	Inwards risk transfers	Net risk transfers	Ultimate risk
Hong Kong		10		-10	
Japan			10	10	10

As a result, the data in item 5 columns 2, 9 and ~~7~~10 ***Claims*** on an ***ultimate risk*** basis for Japan will be $10 million higher than the corresponding columns in item 2 ~~columns 2~~ or item ~~3~~9 ***Claims*** on an ***immediate risk*** basis by ***sector***, depending on whether the ***claim*** was denominated in Hong Kong dollars or any other currency. In addition, the data in item 5 columns 6 and 9 ***Claims*** on an ***ultimate risk*** basis for Hong Kong would be $10 million lower than the corresponding columns in item 2 ~~columns 6~~ or ~~9 ***Claims*** on an ***immediate risk*** basis by ***sector***~~item 3.

Example 6
An Australian ***resident*** bank makes an AUD 10 million loan to the Wellington branch of a US bank. The loan should be reported as a ***claim*** against New Zealand in items 1 and 2 (***Claims*** on an ***immediate borrower*** basis), as an ***outward risk transfer*** from New Zealand, and as an ***inward risk transfer*** to USA.

	Immediate risk	Outward risk transfers	Inwards risk transfers	Net risk transfers	Ultimate risk
New Zealand	10	10		-10	
USA~~Australia~~			10	10	10

Example 7
An AUD 10 million ***claim*** on the Wellington branch of another Australian-incorporated bank should be included against New Zealand in items 1 and 2 (***Claims*** on an ***immediate borrower*** basis), as an ***outward risk transfer*** from New Zealand, and as an ***inward risk transfer*** to~~for~~ Australia.

	Immediate risk	Outward risk transfers	Inwards risk transfers	Net risk transfers	Ultimate risk
Australia			10	10	10
New Zealand	10	10		-10	

Example 8
A ***claim*** in AUD or any other currency on the Sydney office of a US bank (or on an Australian company with a US guarantor), is included in in items 1 and 2 (***Claims*** on an ***immediate***

borrower basis). An ***outward risk transfer*** in respect of such a ***claim*** should be reported against Australia and ***an inward risk transfer*** to USA.

	Immediate risk	Outward risk transfers	Inwards risk transfers	Net risk transfers	Ultimate risk
Australia	10	10		-10	
USA			10	10	10

Ultimate risk claims

Collateral may be considered as an indicator of where the final risk lies to the extent that is recognised as a risk mitigant under the Basel Committee on Banking Supervision's capital framework.

Similarly, if credit derivatives are used to cover the counterparty risk of financial ***claims*** in the banking book, the country of ultimate risk of these positions is defined as the country in which the counterparty to the credit ***derivative contract*** resides.

The issuer (or protection buyer) of credit linked notes, collateral debt obligations and asset backed securities should regard the issuance of a security backed by financial ***claims***, and sale to investors, as a cash collateral which extinguishes the exposure of the issuer to the underlying ***claim***.

Claims on separately capitalised subsidiaries can only be considered as being guaranteed by the head office if the parent has provided an explicit ***guarantee***. In contrast, any ***claims*** on non-incorporated branches should for the purposes of the ***consolidated statistics*** always be considered as guaranteed by the respective head office, even if there is no legal ***guarantee***.