

Financial Sector (Collection of Data) (reporting standard) determination No. 10 of 2018

Reporting Standard ARS 220.3 Prescribed Provisioning

Financial Sector (Collection of Data) Act 2001

I, Alison Bliss, delegate of APRA, under paragraph 13(1)(a) of the *Financial Sector (Collection of Data) Act 2001* (the Act) and subsection 33(3) of the *Acts Interpretation Act 1901:*

1. REVOKE Financial Sector (Collection of Data) (reporting standard) determination No. 20 of 2008, including *Reporting Standard ARS 220.3 Prescribed Provisioning* made under that Determination; and
2. DETERMINE *Reporting Standard ARS 220.3 Prescribed Provisioning,* in the form set out in the Schedule, which applies to the financial sector entities to the extent provided in paragraph 3 of the reporting standard.

Under section 15 of the Act, I DECLARE that the reporting standard shall begin to apply to those financial sector entities, and the revoked reporting standard shall cease to apply, on 1 April 2018.

This instrument commences on 1 April 2018.

Dated: 21 March 2018

[Signed]

Alison Bliss

General Manager

Data Analytics Division

**Interpretation**

In this Determination:

***APRA*** means the Australian Prudential Regulation Authority.

***financial sector entity*** has the meaning given by section 5 of the Act.

Schedule

*Reporting Standard ARS 220.3 Prescribed Provisioning* comprises the document commencing on the following page.

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## Reporting Standard ARS 220.3

# Prescribed Provisioning

### **Objective of this Reporting Standard**

This Reporting Standard is made under section 13 of the *Financial Sector (Collection of Data) Act 2001* and outlines the overall requirements for the provision of information to APRA relating to an authorised deposit-taking institution’s prescribed provisioning. It should be read in conjunction with:

* the versions of Reporting Form ARF 220.3 Prescribed Provisioning designated for a ‘Licensed ADI’ and ‘Consolidated Group’ and the associated instructions (all of which are attached and form part of this Reporting Standard); and
* Prudential Standard APS 220 Credit Quality.

**Authority**

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

# Purpose

1. Data collected in *Reporting Form ARF 220.3 Prescribed Provisioning* (ARF 220.3) is used by APRA for the purpose of prudential supervision including assessing compliance with *Prudential Standard APS 220 Credit Quality* (APS 220). It may also be used by the Reserve Bank of Australia (RBA) and the Australian Bureau of Statistics (ABS).

# Application and commencement

1. This Reporting Standard applies to an authorised deposit-taking institution (ADI) that applies the standardised provisioning methodology referred to in paragraph 13 of APS 220to determine its level of specific provisions.
2. This Reporting Standard commences on 1 April 2018.

# Information required

1. An ADI to which this Reporting Standard applies must provide APRA with the information required by the version of ARF 220.3 designated for a ‘Licensed ADI’ for each reporting period.
2. An ADI to which this Reporting Standard applies that is a highest parent entity in relation to a consolidated ADI group must also provide APRA with the information required by the version of ARF 220.3 designated for a ‘Consolidated Group’ for each reporting period.

# Form and method of submission

1. The information required by this Reporting Standard must be given 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

1. Subject to paragraph 9, an ADI to which this Reporting Standard applies must provide the information required by this Reporting Standard for each quarter based on the financial year (within the meaning of the *Corporations Act 2001*) of the ADI.
2. 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:
3. the particular circumstances of the ADI;
4. the extent to which the information is required for the purposes of the prudential supervision of the ADI; and
5. the requirements of the RBA or the ABS.
6. The information required by this Reporting Standard must be provided to APRA in accordance with the table below. The right hand column of the table sets out the number of business days after the end of the reporting period to which the information relates within which information must be submitted to APRA by an ADI in the classes set out in the left hand column.

|  |  |
| --- | --- |
| Class of ADI | Number of business days |
| Australian-owned Bank | 20 |
| Foreign Subsidiary Bank | 20 |
| Branch of a Foreign Bank | 20 |
| Building Society | 15 |
| Credit Union[[1]](#footnote-1) | 15 |
| Other ADI | 20 |

1. 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.

# Quality control

1. All information provided by an ADI under this Reporting Standard (except for the information required under paragraph 6) must be the product of systems, processes and controls that have been reviewed and tested by the external auditor of the ADI as set out in *Prudential Standards APS 310 Audit and Related Matters.* Relevant standards and guidance statements issued by the Auditing and Assurance Standards Board provide information 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 required by the external auditor to enable the external auditor to form an opinion on the accuracy and reliability of the information provided by an ADI under this Reporting Standard.
2. 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

1. When an officer of an ADI submits information under this Reporting Standard using the D2A application, 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

1. APRA may make minor variations to:
2. 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
3. the instructions to a form, to clarify their application to the form

without changing any substantive requirement in the form or instructions.

1. If APRA makes such a variation it must notify in writing each ADI that is required to report under this Reporting Standard.

# Interpretation

1. In this Reporting Standard:

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

***AASB 127*** means Australian accounting standard AASB 127 *Consolidated and Separate Financial Statements* made by the Australian Accounting Standards Board.

***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.

***business days*** means ordinary business days, exclusive of Saturdays, Sundays and public holidays.

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

1. Australian-owned bank;
2. foreign subsidiary bank;
3. branch of a foreign bank;
4. building society;
5. credit union; and
6. other ADI.

***consolidated ADI group*** means a group comprising:

* + 1. an ADI that is a highest parent entity; and
    2. each subsidiary (within the meaning of Accounting Standard AASB 127) of that ADI, whether the subsidiary is locally-incorporated or not, other than a subsidiary that is excluded by the instructions attached to this standard.

***credit union*** means a locally incorporated ADI that assumes or uses the expression ‘credit union’ in relation to its banking business and includes Cairns Penny Savings & Loans Limited.

***due date*** means the relevant due date under paragraph 10 or, if applicable, paragraph 11.

***foreign ADI*** has the meaning in section 5 of the *Banking Act 1959.*

***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.

***highest parent entity*** means an ADI that satisfies all of the following conditions:

1. it is locally-incorporated;
2. it has at least one subsidiary (within the meaning of AASB 127); and
3. it is not itself a subsidiary (within the meaning of AASB 127) of an ADI that is locally-incorporated.

***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 but does not include Cairns Penny Savings & Loans Limited.

***reporting period*** means a period mentioned in paragraph 8 or, if applicable, paragraph 9.

***stake*** means a stake determined under the *Financial Sector (Shareholdings) Act 1998*, as if the only associates that were taken into account under paragraph (b) of subclause 10(1) of the Schedule to that Act were those set out in paragraphs (h), (j) and (l) of subclause 4(1).

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









**Reporting Form ARF 220.3**

**Prescribed Provisioning**

# Instruction Guide

**General directions and notes**

**Reporting entity**

This form is to be completed by authorised deposit-taking institutions (ADIs) that are subject to the standardised prescribed provisioning approach in determining their level of specific provisions. ADIs are required to submit the completed form on both a licensed ADI and consolidated ADI group basis (where applicable).

#### Licensed ADI

This refers to the operations of the reporting ADI on a stand-alone basis.

**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):
2. 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;
3. 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
4. the underlying exposures (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[[2]](#footnote-2) that it retains or acquires and such exposures are to be reported in *Reporting Form ARF 120.1 Securitisation – Regulatory Capital*. The risk-weighted assets (RWA) relating to such securitisation exposures must also be reported in *Reporting Form ARF 110.0.1 Capital Adequacy* (Level 1) and *Reporting Form ARF 110.0.2 Capital Adequacy* (Level 2).
5. 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 exposures are to be reported as on-balance sheet assets in APRA’s regulatory reporting returns. In addition, these exposures must also be reported as a part of the ADI’s total securitised assets within *Reporting Form ARF 120.2 Securitisation – Supplementary Items*.

#### Consolidated ADI group

This refers to the consolidated group of the reporting ADI at Level 2 (i.e. the consolidated banking group level) defined in accordance with the ADI *Prudential Standard* *APS 110 Capital Adequacy*.

The basis of consolidation required in this form is in accordance with the prudential consolidated ADI group. The prudential consolidated group should also be determined in accordance with Australian accounting standards, notably *AASB 127 Consolidated and Separate Financial Statements* with the following modifications:

1. Include the following:

* all controlled banking entities, securities entities and other financial entities (e.g. finance companies, money market corporations, stockbrokers and leasing companies).

1. Exclude subsidiary entities involved in the following business activities:

* insurance businesses (including friendly societies and health funds);
* acting as manager, responsible entity, approved trustee, trustee or similar role in relation to funds management or the securitisation of assets;
* non-financial (commercial) operations; and
* SPVs that meet APRA’s operational requirements for regulatory capital relief under APS 120.

**Reporting period and timeframes for lodgement**

The form is to be completed as at the last day of the stated reporting quarter.

A relevant ADI that is a Credit Union, Cairns Penny Savings & Loans Limited, or Building Society must submit the completed form to APRA within 15 business days after the end of the relevant reporting quarter.

Other ADIs that apply the standardised provisioning methodology referred to in paragraph 11 of *Prudential Standard APS 220 Credit Quality* (APS 220) to determine its level of specific provisions must do so within 20 days after the end of the relevant quarter.

**Unit of measurement**

Use whole Australian dollars (no decimal place) when completing this form.

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).

The general requirements of AASB 121 for translation are:

1. foreign currency monetary items outstanding at the reporting date must be translated at the spot rate at the reporting date;[[3]](#footnote-3)
2. foreign currency non-monetary items that are measured at historical cost in a foreign currency must be translated using the exchange rate at the date of the transaction;[[4]](#footnote-4)
3. foreign currency non-monetary items that are measured at fair value will be translated at the exchange rate at the date when fair value was determined.

Transactions arising under foreign currency derivative contracts at the reporting date must be prepared in accordance with *AASB 139 Financial Instruments: Recognition and Measurement* (AASB 139). However, those foreign currency derivatives that are not within the scope of AASB 139(e.g. some foreign currency derivatives that are embedded in other contracts) remain within the scope of AASB 121*.*

For APRA purposes equity items must be translated using the foreign currency exchange rate at the date of investment or acquisition. Post acquisition changes in equity are required to be translated on the date of the movement.

As foreign currency derivatives are measured at fair value, the currency derivative contracts are translated at the spot rate at the reporting date.

Exchange differences should be recognised in profit and loss in the period which they arise. For foreign currency derivatives, the exchange differences would be recognised immediately in profit and loss if the hedging instrument is a fair value hedge. For derivatives used in a cash flow hedge, the exchange differences should be recognised directly in equity.

The ineffective portion of the exchange differences in all hedges would be recognised in profit and loss; and

1. translation of financial reports of foreign operations.

A foreign operation is defined in AASB 121 as meaning an entity that is a subsidiary, associate, joint venture or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.

* Exchange differences relating to foreign currency monetary items that form part of the net investment of an entity in a foreign operation, must be recognised as a separate component of equity.
* Translation of financial reports should otherwise follow the requirements in AASB 121.

**Scope**

*ARF 220.3 Prescribed Provisioning* (ARF 220.3)is to be completed by all ADIs applying the prescribed provisioning methodology outlined in Attachment C of APS 220. In general, those ADIs using the standardised provisioning approach will be those where APRA accepts that a more sophisticated approach is not warranted or it judges an ADI’s own provisioning practices to be inadequate in view of its credit risk profile and system capabilities. Those ADIs currently adopting this approach are at liberty to discuss any plans they might have to adopt an alternative methodology with APRA.

ADIs applying the prescribed provisioning methodology are asked to categorise their activities giving rise to credit risk into four categories (refer to below). Where an exposure maintained by an ADI does not fall into one of the four categories outlined and it is an impaired asset, the amount of specific provision to be held against this item shall be agreed with APRA. The prescribed provision attaching to each category is calculated by reference to the relevant provision percentages, and represents the minimum specific provision that is to be raised. Where the ADI believes that the prescribed provision raised does not adequately cover the expected loss outcome, further specific provisions should be raised.

Outstanding balances should be reported net of interest and other income not taken to profit, and net of any amounts written off. For overdraft facilities and revolving lines of credit, the outstanding balance is to be reported as the total amount of the facility outstanding, and not the amount that the facility exceeds the previously approved limit. For overdrawn savings accounts, the outstanding balance represents the debit balance of the account.

**Specific instructions**

A facility subject to a regular repayment schedule is regarded as “90 days past due” when: (a) at least 90 calendar days have elapsed since the due date of a contractual payment which has not been met in full; and(b) the total amount outside contractual arrangements is equivalent to at least 90 days worth of contractual payments. An item shall cease to be classified as 90 days past due when arrears have been reduced so that the exposure no longer represents 90 days’ worth of contractual payments outstanding post the date the facility becoming past due.

For other facilities (e.g. overdrafts, other items of a revolving nature and overdrawn savings accounts), the basis of determining the period of irregularity will be the number of consecutive days that the facility has been outside contracted arrangements. For example, an overdrawn savings account is to be regarded as say 16 days irregular when it has been overdrawn for 16 calendar days.

Category one facilities

Category one facilities include:

* 1. an exposure that is secured by a registered first mortgage against a residential property and is insured by an eligible lenders mortgage insurer for 100 per cent of the outstanding balance;
  2. an exposure that is secured by a registered first mortgage against a residential property, where the ratio of the outstanding balance, less the amount of mortgage insurance, to the valuation of the security is no more than 80 per cent (where the exposure is 6 months or more worth of payments past due, the valuation must be no older than 12 months); and
  3. an exposure that is secured by a qualifying registered second mortgage where:

1. the ratio of the outstanding balances of the facilities secured by both first and second mortgages to the valuation of the residential property does not exceed 80 per cent, and the first mortgage cannot be extended without it being subordinated to the second mortgage; or
2. where the ratio of the outstanding balances of the facilities secured by both first and second mortgages to the valuation of the residential property exceeds 80 per cent, and the first mortgage cannot be extended without it being subordinated to the second mortgage, and the outstanding balance is 100 per cent mortgage insured by an eligible lenders mortgage insurer.

Category two facilities

A category two facility is defined as an exposure that is secured by a registered first mortgage against a residential property, where the ratio of the outstanding balance, less the amount of mortgage insurance, to the valuation of the security is greater than 80 per cent but no more than 100 per cent (where the loan is 6 months or more worth of payments past due, the valuation must be no older than 12 months).

For category two facilities, the prescribed provision shall be a percentage of the balance outstanding, where the percentage depends upon the term of payments past due as outlined in the following table. The balance outstanding should not be adjusted for any collateral value.

|  |  |
| --- | --- |
| **Term of payments past due** | Amount of provision (%) |
| Less than 90 days | 0 |
| 90 days and less than 182 days | 5 |
| 182 days and less than 273 days | 10 |
| 273 days and less than 365 days | 15 |
| 365 days and over | 20 |

Where the provision calculated under category two facilities is greater than the provision that would have been calculated under category three facilities, the latter should be taken as the prescribed provision.

Category three facilities

This category applies to all facilities that do not fall into categories one and two above, or category four below. Category three facilities include personal and commercial loans (both secured and unsecured), and mortgage loans where the ratio of the outstanding balance, less the amount of mortgage insurance, to the valuation of the security is greater than 100 per cent.

The minimum provision for these items shall be a percentage of the balance outstanding, where the percentage depends upon the dollar equivalent of a given term of contracted payments being past due as detailed below:

|  |  |
| --- | --- |
| **Term of payments past due** | **Amount of provision (%)** |
| Less than 90 days | 0 |
| 90 days and less than 182 days | 40 |
| 182 days and less than 273 days | 60 |
| 273 days and less than 365 days | 80 |
| 365 days and over | 100 |

Where an exposure falling within this category is secured by a mortgage over a residential property, the provision may be adjusted to reflect a part of the collateral value. When this occurs, the minimum provision percentage in the table shall be applied to the difference between the outstanding balance (less any loan insurance) and 70 per cent of the security value (where the exposure is 6 months or more worth of payments past due, the valuation must be no older than 12 months). Where an exposure is secured by other than residential property, an ADI may approach APRA to discuss an appropriate basis upon which to value security held.

Where an exposure is otherwise secured by equivalent or better security arrangements than that described above, an ADI may, on application to APRA, seek to have the provision adjusted to reflect the whole or part of the collateral value. The following guidelines apply to these security arrangements:

1. guarantees provided by Commonwealth or State governments, or ADIs, may be deducted from the exposure at full value prior to applying the prescribed provisioning requirements;
2. crown leases involving property used for residential purposes may be adjusted in accordance with paragraph 7 of these instructions;
3. bank bills and Government Securities held as collateral if subject to enforceable security in favour of the ADI, may be deducted from the exposure at net current market value prior to applying the prescribed provisioning requirements; and
4. cash on deposit with the ADI may only be deducted for the purposes of prescribed provisioning where the deposits are secured by appropriate contractual arrangements that satisfy the eligible collateral provisions contained in *Prudential Standard APS 112 Capital A**dequacy: Standardised Approach to Credit Risk*. A right of offset is not considered to provide appropriate security per se.

Category four facilities

This category applies to overdrawn savings accounts and overdrawn limits on credit cards, overdrafts and line of credit advances. The minimum provision on these items shall be a percentage of the balance outstanding, where the percentage depends on the number of consecutive days the facility has been outside contracted arrangements (i.e. the period of irregularity). In calculating the minimum provision for each item, except for overdrawn savings accounts, the full amount of the credit drawn is to be included in the balance outstanding. For overdrawn savings accounts, the provision is only applied to the overdrawn amount.

The minimum provision for category four facilities will be set in accordance to the following table:

|  |  |
| --- | --- |
| Period of Irregularity | Amount of provision (%) |
| Less than 14 days | 0 |
| 14 days and less than 90 days | 40 |
| 90 days and less than 182 days | 75 |
| 182 days and over | 100 |

**Adjusted balances**

For category three facilities, where the collateral satisfies the requirements detailed under category three facilities, or APRA has agreed on an appropriate basis to ascribe value for security purposes, the net amount of the exposure is to be reported in the ‘Adjusted balances’ column.

For example, where there is an outstanding balance of $100,000, with an assessed security value of $70,000, the net amount of $30,000 is to be reported in the ‘Adjusted balances’ column. The outstanding balance of $100,000 should be reported in the ‘Outstanding balances’ column in these cases.

**Delinquency trends**

To provide APRA with greater insight into delinquency trends within ADIs applying the prescribed provisioning methodology, ADIs are required to separately report past due facilities in time buckets below that triggering prescribed provisioning. APRA is particularly interested in those category two and three facilities that are 30 days and less than 60 days and 60 and less than 90 days worth of payments past due and asks ADIs to report accordingly.

**Impaired facilities return**

From the cessation of the transition period following the harmonised prudential standards released in September 2000, all ADIs operating in Australia are required to complete *ARF 220.0 Impaired Facilities* (ARF 220.0). ADIs preparing ARF 220.3must ensure that data reported to APRA is consistent with that shown on ARF 220.0 for the relevant quarter. ADIs are advised to revisit APS 220which provides the key definitions of impairment to ensure that they operate in accordance with prudential reporting requirements.

ADIs applying the prescribed provisioning approach should be particularly alert to reporting requirement of a non-accrual item triggered as a consequence of a specific provision having been raised against that item. Given APRA defines all provisions prescribed in terms of APS 220.0as specific provisions for prudential supervisory purposes, ADIs must report items against which it holds a prescribed provision as non-accrual. Particular care needs to be taken to ensure that any category four facilities for which a provision is prescribed prior to it being 90 days irregular are reported as a non‑accrual item.

APRA also encourages ADIs to take particular care in reporting those facilities defined as being individually managed and 90 days worth of contracted payments are past due although these facilities might be regarded as well-secured. Such facilities need to be reported in Part B of ARF 220.0. Although not non‑accrual by definition, these items represent a higher risk of default than facilities operating within contractual terms. Facilities categorised as category one for prescribed provisioning purposes are potential candidates to be reported in Part B of ARF 220.0.

1. The definitions of ‘credit union’ and ‘other ADI’ in paragraph 17 of this Reporting Standard provide that Cairns Penny Savings & Loans Limited is to be treated in accordance with the reporting period requirements applicable to credit unions for the purposes of paragraph 10. [↑](#footnote-ref-1)
2. Securitisation exposures are defined in accordance with APS 120. [↑](#footnote-ref-2)
3. Monetary items are defined to mean units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency. Spot rate means the exchange rate for immediate delivery. [↑](#footnote-ref-3)
4. Examples of non-monetary items include amounts prepaid for goods and services (e.g. prepaid rent); goodwill; intangible assets; physical assets; and provisions that are to be settled by the delivery of a non-monetary asset. [↑](#footnote-ref-4)