

Authority

1. This Prudential Standard is made under section 11AF of the *Banking Act 1959* (**Banking Act**).

Application

2. This Prudential Standard applies to **authorised deposit-taking institutions (ADIs)** that are seeking, or have been given approval, to use an internal ratings-based approach to credit risk for the purpose of determining **Regulatory Capital**.
3. A reference to an ADI in this Prudential Standard, unless otherwise indicated, is a reference to:
 - (a) an ADI on a **Level 1** basis; and
 - (b) a **group** of which an ADI is a member on a **Level 2** basis.
4. If an ADI to which this Prudential Standard applies is:
 - (a) the holding company for a group, the ADI must ensure that the requirements in this Prudential Standard are met on a Level 2 basis, where applicable; or
 - (b) a subsidiary of an **authorised non-operating holding company (authorised NOHC)**, the authorised NOHC must ensure that the requirements in this Prudential Standard are met on a Level 2 basis, where applicable.

Interpretation

5. Terms that are defined in *Prudential Standard APS 001 Definitions* (APS 001) appear in bold the first time they are used in this Prudential Standard.

Scope

6. Subject to paragraphs 7 and 8, this Prudential Standard applies to all on-balance sheet assets held by an ADI and all its off-balance sheet exposures.
7. The following items are excluded from the scope of this Prudential Standard:
 - (a) assets or investments that are required to be deducted from **Tier 1 Capital** or **Tier 2 Capital** under *Prudential Standard APS 111 Capital Adequacy: Measurement of Capital* (APS 111);
 - (b) securitisation exposures which are subject to the requirements of *Prudential Standard APS 120 Securitisation* (APS 120); and
 - (c) liabilities of a covered bond special purpose vehicle to an issuing ADI as specified in *Prudential Standard APS 121 Covered Bonds* (APS 121).