

Financial Sector (Collection of Data) (reporting standard) determination No. 16 of 2009 – Reporting standard ARS 117.1 – Interest Rate Risk in the Banking Book (IRRBB)

EXPLANATORY STATEMENT

Prepared by the Australian Prudential Regulation Authority (APRA)

Financial Sector (Collection of Data) Act 2001, (the Act) subsection 13(1)

Under subsection 13(1) of the Act APRA has the power to determine reporting standards that are required to be complied with by financial sector entities. When APRA has determined a reporting standard, it has the power at any time to revoke or vary the standard (refer subsection 33(3) of the *Acts Interpretation Act 1901*).

Financial Sector (Collection of Data) (reporting standard) determination No. 16 of 2009 determines *Reporting standard ARS 117.1 Interest Rate Risk in the Banking Book (IRRBB) (the instrument)*. Reporting standard ARS 117.1 Interest Rate Risk in the Banking Book (IRRBB) (**ARS 117.1**) is to take effect on the later of 1 August 2009 and the date of registration of this instrument on the Federal Register of Legislative Instruments.

1. Background

Banking (prudential standard) determination No. 10 of 2007 determines *Prudential Standard APS 117 Capital Adequacy: Interest Rate Risk in the Banking Book (Advanced ADIs) (APS 117)*, which sets out the requirements that an authorised deposit-taking institution (ADI) that has approval to use an internal model for interest rate risk in the banking book must meet both at the time of initial implementation, and on an ongoing basis for regulatory capital purposes.

Reporting standard ARS 117.1 Interest Rate Risk in the Banking Book (IRRBB) captures the capital requirements for interest rate risk in the banking book in accordance with APS 117.

An error has been identified in the way one of the tables in the reporting form collates the data submitted by ADIs. The result is an incorrect calculation (resulting in an overstatement) in certain cases of the IRRBB requirement for ADIs. In order to correct this error amendments are required to the instructions to ARS 117.1.

2. Purpose of the instrument

The purpose of the instrument is to amend the reporting instructions to ARS 117.1. The proposed changes do not alter the underlying requirements of ARS 117.1. ADIs will still provide the same data as they currently do. Amending the instructions will ensure that an ADI's capital requirement in relation to IRRBB will be calculated as originally consulted on with industry.

3. Operation of the Instrument

The purpose of determination No.16 of 2009 is to make the *Reporting standard ARS 117.1 Interest Rate Risk in the Banking Book (IRRBB)*.

4. Consultation

APRA has not consulted with industry on these changes, as the original intention of the standard as previously consulted with industry has not changed.