



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)

Financial Sector (Collection of Data) Act 2001

I, Charles Littrell, a 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*:

- REVOKE *Reporting Standard ARS 117.1 Interest Rate Risk in the Banking Book (IRRBB)* made by Financial Sector (Collection of Data) (reporting standard) determination No. 13 of 2008; and
- DETERMINE *Reporting Standard ARS 117.1 Interest Rate Risk in the Banking Book (IRRBB)* in the form set out in the Schedule, which applies to financial sector entities to the extent provided in paragraph 2 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 the later of 1 August 2009 and the date of registration of this instrument on the Federal Register of Legislative Instruments.

Dated 24 July 2009

[Signed]

Charles Littrell
Executive General Manager
Policy, Research and Statistics

Interpretation

In this Determination

APRA means the Australian Prudential Regulation Authority.

Federal Register of Legislative Instruments means the register established under section 20 of the *Legislative Instruments Act 2003*.

Schedule

Reporting Standard ARS 117.1 Interest Rate Risk in the Banking Book (IRRBB) comprises the 13 pages commencing on the following page.



Reporting Standard ARS 117.1

Interest Rate Risk in the Banking Book (IRRBB)

Objective of this reporting standard

This reporting standard is made under section 13 of the *Financial Sector (Collection of Data) Act 2001*.

This reporting standard outlines the overall requirements for the provision of information to APRA in relation to an authorised deposit-taking institution's interest rate risk in the banking book regulatory capital. It should be read in conjunction with:

- the versions of *Form ARF 117.1 Interest Rate Risk in the Banking Book* designated for an authorised deposit-taking institution reporting at Level 1 and Level 2, and the associated instructions (all of which are attached and form part of this reporting standard); and
- *Prudential Standard APS 117 Capital Adequacy: Interest Rate Risk in the Banking Book (Advanced ADIs)*.

Purpose

1. Data collected in *Form ARF 117.1 Interest Rate Risk in the Banking Book (ARF 117.1)* is used by APRA for the purpose of prudential supervision, including assessing compliance with *Prudential Standard APS 117 Capital Adequacy: Interest Rate Risk in the Banking Book (Advanced ADIs) (APS 117)*. It may also be used by the Reserve Bank of Australia and the Australian Bureau of Statistics.

Application

2. This reporting standard applies to an authorised deposit-taking institution (ADI) that has APRA's approval or is seeking APRA's approval to use an internal model approach for the calculation of the ADI's interest rate risk in the banking book regulatory capital.

This reporting standard may also apply to the non-operating holding company (NOHC) of an ADI (refer to paragraph 4).

Information required

3. An ADI to which this reporting standard applies must provide APRA with the information required by the versions of ARF 117.1 designated for an ADI at Level 1 for each reporting period.
4. If an ADI to which this reporting standard applies is part of a Level 2 group, the ADI must also provide APRA with the information required by the versions of ARF 117.1 designated for an ADI at Level 2 for each reporting period, unless the ADI is a subsidiary of an authorised NOHC. If the ADI is a subsidiary of an authorised NOHC, the ADI's immediate parent NOHC must provide APRA with the information required by that form for each reporting period. In doing so, the immediate parent NOHC must comply with this reporting standard (other than paragraphs 3 and 10) as if it were the relevant ADI.

Forms and method of submission

5. The information required by this reporting standard must be given to APRA in electronic form, using one of the electronic submission mechanisms provided by the 'Direct to APRA' (also known as 'D2A') application.

Note: the Direct to APRA application software may be obtained from APRA.

Reporting periods and due dates

6. Subject to paragraph 7, 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.
7. 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 Reserve Bank of Australia or the Australian Bureau of Statistics.
8. The information required by this reporting standard must be provided to APRA within 30 business days after the end of the reporting period to which the information relates.

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.

Quality control

10. The information provided by an ADI under this reporting standard (except for the information required under paragraph 4) must be the product of processes and controls that have been reviewed and tested by the external auditor of the ADI. AGS 1008 'Audit Implications of Prudential Reporting Requirements for 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 data.
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. It is the responsibility of the board and senior management of the ADI to ensure that an appropriate set of policies and procedures for the authorisation of data submitted to APRA is in place.

Authorisation

12. When an ADI submits information under this reporting standard using the 'Direct to APRA' software, it will be necessary for an officer of the ADI to digitally sign, authorise and encrypt the relevant data. 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 data 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 formwithout 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.

Interpretation

15. In this reporting standard:

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*.

authorised NOHC has the meaning given in the *Banking Act 1959*

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

immediate parent NOHC means an authorised NOHC, or a subsidiary of an authorised NOHC, that is an immediate parent NOHC within the meaning of paragraph 10(b) of *Prudential Standard APS 110 Capital Adequacy (APS 110)*.

Level 1 has the meaning in APS 110.

Level 2 has the meaning in APS 110.

reporting period means a period mentioned in paragraph 6 or, if applicable, paragraph 7.

subsidiary has the meaning in the *Corporations Act 2001*.

ARF_117_1 Interest rate risk in the banking book

Australian Business Number	<input type="text"/>
Institution Name	<input type="text"/>
Reporting Period	<input type="text"/>
Scale Factor	<input type="text" value="Millions to one decimal place"/>
Reporting Consolidation	<input type="text" value="Level 1/Level 2"/>

Section A: Impact of standard interest rate shock on economic value of the banking book

Currency (1)	Description for composites of immaterial currencies (2)	200 basis point parallel increase (excluding earnings offset) (3)	200 basis point parallel decrease (excluding earnings offset) (4)	200 basis point parallel increase (including earnings offset) (5)	200 basis point parallel decrease (including earnings offset) (6)

	200 basis point parallel increase (excluding earnings offset) (2)	200 basis point parallel decrease (excluding earnings offset) (3)	200 basis point parallel increase (including earnings offset) (4)	200 basis point parallel decrease (including earnings offset) (5)
Total				

Federal Register of Legislative Instruments F2009L02980

Reporting Form ARF 117.1

Interest Rate Risk in the Banking Book (IRRBB)

Instruction Guide

This instruction guide is designed to assist in the completion of the *Interest Rate Risk in the Banking Book (IRRBB)* form. This form captures the capital requirement for interest rate risk in the banking book. In completing this form, authorised deposit-taking institutions (**ADIs**) should refer to *Prudential Standard APS 117 Capital Adequacy: Interest Rate Risk in the Banking Book (Advanced ADIs) (APS 117)*.

General directions and notes

Reporting entity

This form is to be completed at Level 1 and Level 2¹ by each ADI that has APRA's approval or is seeking APRA's approval to use an internal model approach for the calculation of the ADI's IRRBB capital requirement, in accordance with APS 117.

If an ADI is a subsidiary of an authorised non-operating holding company (**NOHC**), the report at Level 2 is to be provided by the ADI's immediate parent NOHC.²

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)*:
 - (a) 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;
 - (b) 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

¹ Level 1 and Level 2 are defined in accordance with *Prudential Standard APS 110 Capital Adequacy*.

² Refer to paragraph 4 of *Reporting Standard ARS 117.1 Interest Rate Risk in the Banking Book (IRRBB)*.

- (c) 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**³ that it retains or acquires, and such exposures are to be reported in *Form ARF 120.0 Standardised – Securitisation* or *Forms ARF 120.1A to ARF 120.1C IRB – Securitisation* (as appropriate). The risk-weighted assets (**RWA**) relating to such securitisation exposures must also be reported in *Form ARF 110.0 Capital Adequacy*.
2. 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 elects to treat the securitised assets as on-balance sheet assets under *Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk* or *Prudential Standard APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk*, 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 *Form ARF 120.2 Securitisation – Supplementary Items*.

Reporting period and timeframe for lodgement

This form is to be completed as at the last day of the stated reporting period (i.e. the relevant quarter) and submitted to APRA within 30 business days after the end of the relevant reporting period.

Unit of measurement

This form should be completed in millions of Australian dollars (**AUD**) rounded to one decimal place, unless otherwise specified in this instruction guide.

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

Scope

An ADI is to report in ARF 117.1 the values calculated with reference to all “banking book items”, as defined in APS 117.

Definitions

For this instruction guide and its corresponding reporting form (ARF 117.1), refer to APS 117 for the definitions of IRRBB and its components.

³ Securitisation exposures are defined in accordance with APS 120.

Specific instructions

The following instructions are applicable at Level 1 and (where relevant) Level 2.

The repricing assumptions, other relevant assumptions and the definition of “economic value of the banking book” (**EVBB**) adopted by the ADI should comply with the requirements set out in APS 117. The same repricing assumptions should be used for completing both sections A and B of this form.

To convert amounts denominated in foreign currencies to AUD, an ADI should use the spot foreign exchange rates at the balance date to which the calculation relates.

Section A: Impact of standard interest rate shock on the economic value of the banking book

An ADI is to report in this section, the impact of a 200 basis point increase and decrease in the yield curve of each relevant currency or composite of currencies on the EVBB, separately for the results “excluding earnings offset” and “including earnings offset”.

Column 1. Currency

Select the three character alphabetic ISO code⁴ of each **material currency**⁵ in which an ADI has exposures from the dropdown list. Where an ADI has exposures in currencies that do not meet the definition of material currency (i.e. **immaterial currencies**), these exposures may be grouped into one or more composites of currencies, based on the interest rate characteristics of the group of currencies (refer to Attachment B to APS 117). To report such composites of currencies, select “OTH” (for “other”) from the dropdown list and refer to column 2 *description for composites of immaterial currencies* below for further details.

Column 2. Description for composites of immaterial currencies

Where an ADI has selected “OTH” for a composite of immaterial currencies under column 1 *currency*, the ADI must provide a self-explanatory description for the composite (e.g. “Eastern Europe”, “South-East Asia”, “Pacific Islands”). This field is limited to 80 characters.

Column 3. 200 basis point parallel increase (excluding earnings offset)

Report the impact of a 200 basis point parallel increase in the yield curve of each relevant currency on the EVBB, without taking into account the earnings offset.

⁴ Refer to *ISO 4217 Currency names and code elements*.

⁵ A material currency is a currency for which the total book value of an ADI’s banking book items in that currency is more than five per cent of the total book value of all of its banking book items (refer to paragraph 5(i) of APS 117).

Column 4. 200 basis point parallel decrease (excluding earnings offset)

Report the impact of a 200 basis point parallel decrease in the yield curve of each relevant currency on the EVBB, without taking into account the earnings offset.

Column 5. 200 basis point parallel increase (including earnings offset)

Report the impact of a 200 basis point parallel increase in the yield curve of each relevant currency on the EVBB, after taking into account the earnings offset.

Column 6. 200 basis point parallel decrease (including earnings offset)

Report the impact of a 200 basis point parallel decrease in the yield curve of each relevant currency on the EVBB, after taking into account the earnings offset.

Total

Derived fields that sum up the impact of a 200 basis point increase and decrease, excluding and including earnings offset, in the yield curves across all the currencies on the EVBB.

Section B: IRRBB capital requirement

The IRRBB capital requirement of an ADI is to be calculated in accordance with the requirements set out in APS 117.

Internal model

Table 1. Breakdown of IRRBB capital requirement

This table captures the breakdown of the IRRBB capital requirement into repricing and yield curve risks, basis risk, optionality risk, diversification benefit amount (between risks) and embedded loss/gain amount, as calculated by an ADI's internal model. Results for each currency are to be reported in a separate row.

Column 1. Currency

Refer to section A, column 1 of this instruction guide for the instructions on *currency*.

Column 2. Description for composites of immaterial currencies

Refer to section A, column 2 of this instruction guide for the instructions on *description for composites of immaterial currencies*.

Column 3. Repricing and yield curve risks

Report the IRRBB capital requirement for repricing and yield curve risks for each relevant currency (refer to paragraphs 11 to 18 of Attachment B to APS 117).

Column 4. Basis risk

Except where an ADI has written approval from APRA to exclude basis risk from its IRRBB capital requirement (refer to paragraphs 22 to 24 of APS 117), the ADI is to

report the capital requirement for basis risk for each relevant currency (refer to Attachment B to APS 117).

Column 5. Optionality risk

Except where an ADI has written approval from APRA to exclude optionality risk from its IRRBB capital requirement (refer to paragraphs 22 to 24 of APS 117), the ADI is to report the capital requirement for optionality risk for each relevant currency (refer to Attachment B to APS 117).

Column 6. Diversification benefit amount (between risks)

Report the amount resulting from assumed diversification benefits between repricing and yield curve risks, basis risk and optionality risk for each relevant currency (refer to Attachment B to APS 117).

Column 7. Embedded loss/gain amount

Report the embedded loss amount as a positive amount or the embedded gain amount as a negative amount, for each relevant currency (refer to paragraph 26 of APS 117 and paragraph 24 of Attachment B to APS 117).

Column 8. Total

Derived field that is the IRRBB capital requirement for each relevant currency. This calculation is the result of deducting the reported diversification benefit amount (between risks, as reported in Column 6), from the sum of the other components of the IRRBB capital requirement (repricing and yield curve risks, basis risk, optionality risk and embedded loss/gain amount, as reported in Columns 3, 4, 5 and 7) for the relevant currency.

Table 2. Diversification benefit amount (between currencies) and total IRRBB capital requirement

This table captures the diversification benefit amount (between currencies) and an ADI's total IRRBB capital requirement.

Diversification benefit amount (between currencies)

Report the amount resulting from the assumed diversification benefit between currencies for the repricing and yield curve risks, basis risk, optionality risk and diversification benefit (between risks). For the calculation of the total IRRBB capital requirement, the reported diversification benefit amount (between currencies) will be deducted from the sum of the capital requirement across currencies.

Total IRRBB capital requirement

Row of derived fields, each of which is the sum of all the items in the corresponding column of Table 1, less the item immediately above it in the 'Diversification benefit amount (between currencies)' row. The item in column 7 of this row is the ADI's total IRRBB Capital Requirement. A floor of zero is applied to that item.

RWA equivalent amount of the IRRBB capital requirement

Derived field calculated by multiplying the *total IRRBB capital requirement* by a factor of 12.5.

Alternative approach specified by APRA

This section captures the IRRBB capital requirement of an ADI, where APRA has specified in writing, an alternative approach to the calculation of the IRRBB capital requirement (refer to paragraph 11 of APS 117).

RWA equivalent amount of the IRRBB capital requirement

Report the RWA equivalent amount of the IRRBB capital requirement of the ADI, as calculated by the alternative approach specified by APRA.