Reporting Guidance

ABS/RBA Reporting Concepts

Objective of this Reporting Guidance

This reporting guidance supports the Economic and Financial Statistics (EFS) reporting standards applicable to authorised deposit-taking institutions (ADIs) and registered financial corporations (RFCs).

It is recommended that all reporting standards applicable to ADIs' and RFCs' reporting for the purposes of the EFS collection are read in conjunction with this reporting guidance.

Revisions and commencement

This Reporting Guidance was last revised [TBA].

This current Reporting Guidance applies for reporting periods ending on or after [TBA].

General purpose

This Reporting Guidance supports the Economic and Financial Statistics reporting standards (***EFS reporting standards***) applicable to ***ADIs*** and ***RFCs*** and provides:

(a) a centralised source of information on the definitions and concepts contained in the reporting instructions;

(b) information on how key concepts may be accurately reported; and

(c) guidance on verifying and keeping reporting categorisations accurate over time.

This Reporting Guidance will be updated periodically and will seek to incorporate responses to requests for reporting guidance where these are relevant to other ***ADIs*** and ***RFCs***. Reporting institutions will be notified when a revised document is released.

To provide feedback or to seek further clarification please write to ***APRA***, preferably by email:

Manager, Standard Data Collections
statistics@apra.gov.au
Australian Prudential Regulation Authority
GPO Box 9836
Sydney NSW 2001

Structure

This Reporting Guidance contains two main sections:

(a) General Guidance

(i) This section contains information relating to reporting concepts applicable to more than one reporting form.

(b) Form-specific Guidance

(ii) The section contains information relating to reporting concepts or variations in requirements specific to individual forms.

Interpretation

Terms that appear in ***bold italics*** are defined in *Reporting Standard ARS 701.0 ABS/RBA Definitions* (ARS 701.0), the relevant reporting standard to which the guidance relates, or in this Reporting Guidance.

In this Reporting Guidance:

ABS means the Australian Bureau of Statistics established under the *Australian Bureau of Statistics Act 1975*.

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

EFS reporting standard refers to a reporting standard for the purposes of *Reporting Standard ARS 701.0 ABS/RBA Definitions* paragraph 3.

EFS collection comprises the ***EFS reporting standards*** and data collected under the ***EFS reporting standards***.

Contents

General Guidance **5**

General guide to reporting by counterparty 5

Residency 5

Related parties 10

Domestic books consolidation 11

Standard Economic Sector Classifications of Australia (SESCA) 13

Australian and New Zealand Standard Industry Classification (ANZSIC) 19

Business size 21

Identifying (predominant) purpose class and sub-class 23

Alterations, additions and repairs 27

Property purpose - owner-occupied and investment housing 28

Location of property 30

Types of financial assets and liabilities 31

Identifying facilities 34

Treatment of fixed interest rates once the fixed period ends 35

Interest rates 36

Form Specific Guidance **39**

Specific Guidance for ARF 720.0A/B: Statement of Financial Position (Banks & RFCs)/(Non-bank ADIs) 39

Specific Guidance for ARF 720.1A/B: Loans and Finance Leases (Banks)/(Non-bank ADIs & RFCs)48

Specific Guidance for ARF 720.2A/B: Deposits (Banks)/(Non-bank ADIs & RFCs) 49

Specific Guidance for ARF 720.3: Intra-group Assets and Liabilities 51

Specific Guidance for ARF 720.4: Debt Securities Held 52

Specific Guidance for ARF 720.5: Equity Securities Held 54

Specific Guidance for ARF 720.6: Securities Issued 55

Specific Guidance for ARF 720.7: Bill Acceptances and Endorsements 57

Specific Guidance for 721.0: Repurchase agreements and securities lending 58

Specific Guidance for 722.0: Derivatives 59

Specific Guidance for 723.0: Margin lending facilities 66

Specific Guidance for 730.0: Statement of financial performance 69

Specific Guidance for 730.1: Fee income 76

Specific Guidance for 741.0: Business finance 77

Specific Guidance for 742.0: Business credit stocks, flows and interest rates 79

Specific Guidance for 743.0: Housing finance 81

Specific Guidance for 744.0: Housing credit stocks, flows and interest rates 86
Specific Guidance for 745.0: Personal finance 88
Specific Guidance for 746.0: Personal credit stocks, flows and interest rates 89
Specific Guidance for 747.0: Deposit stocks, flows and interest rates 90
Specific Guidance for 748.0: Wholesale funding stocks, flows and interest rates 91

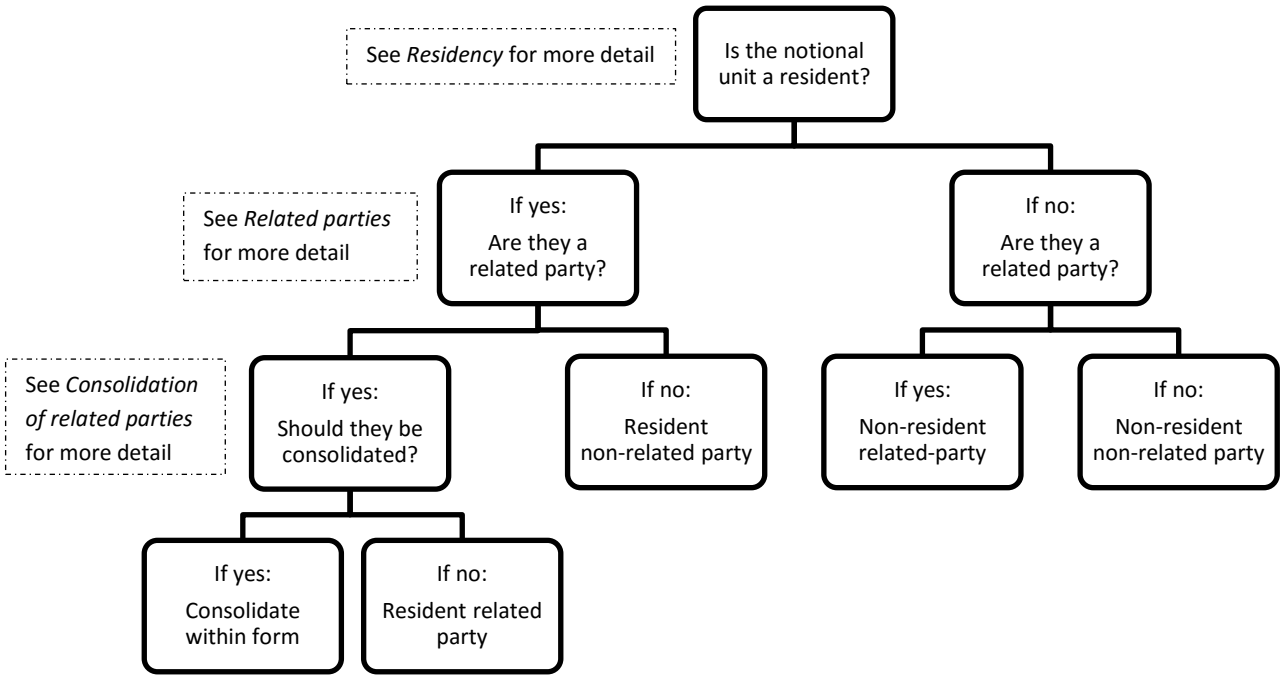
General Guidance

General guide to reporting by counterparty

When reporting by counterparty, institutions should first consider three main elements: residency; ***related party*** status; and consolidation (Figure 1).

Figure 1: Reporting by counterparty

Elements to consider



Where relevant, institutions may also be required to classify the counterparty in accordance with the *Standard Economic Sector Classifications of Australia (SESCA)* and/or the *Australian and New Zealand Standard Industrial Classification (ANZSIC)* frameworks. The following sections provide further guidance on how to determine counterparty status.

Residency

This Reporting Guidance assists in classifying counterparties by residency by explaining key concepts and definitions as well as providing practical examples to assist in classifying ***resident*** and ***non-resident*** businesses, ***households*** and financial instruments.

General principle of residency

Residency is the concept defined in the Australian System of National Accounts.

Institutional units form the basis of the residency concept in the Australian System of National Accounts. An ***institutional unit*** is ***resident*** in one and only one economic territory; however, a business may have more than one ***institutional unit***. For example, foreign branches or foreign subsidiaries of Australian

institutions are classified as ***non-residents*** (making them ***residents*** of the country in which they operate), while branches or subsidiaries of foreign institutions operating in Australia are classified as ***residents***.

In general, the residence of each ***institutional unit*** is the economic territory with which it has the strongest connection, expressed as its centre of predominant economic interest. In most cases, it is reasonable to assume that an ***institutional unit*** has a centre of economic interest in a country if the unit has already engaged in economic activity and transactions on a significant scale in that country for 12 months or more, or if they intend to do so.

Where an ***institutional unit*** has a centre of economic activity in only one country, ownership of land and structures located within an economic territory is sufficient qualification for the owner to have a centre of economic interest in the country. However, where an ***institutional unit*** has a centre of economic interest in more than one country further information will be required to ascertain the predominant centre of economic activity of the ***institutional unit***. Instances where an ***institutional unit*** has a central of economic interest in more than one country include:

- owning ***property*** in multiple countries; and
- ***households*** living in one country but owning ***property*** in another.

The specific treatment of residency for ***household*** and business counterparties and for financial instruments is covered in more detail below.

Residency of businesses

Residency Principle

As a general principle, a business is ***resident*** in an economic territory when it engages in a significant amount of production of goods and /or services from a location in the territory.

A single legal entity with substantial operations in two or more economic territories (for example, for branches, land ownership and multi-territory businesses) is considered to have a separate ***institutional unit*** in each economic territory in which it has substantial operations. In practice, taxation and other legal requirements tend to result in the use of a separate legal entity for operations in each economic territory and, as a result, the residence of each of the subsequently identified businesses is usually clear. The ***ADI***/***RFC*** should record the transaction as ***resident*** or ***non-resident*** based on the country of residence of the legal entity they are transacting with.

Businesses may be ***resident*** in economies different from their shareholders, and branches and subsidiaries may be ***resident*** in different economies from their parent corporations.

Practical implementation

In determining residency of a business, the business entity that you are transacting with should be considered.

A business should be classified as a ***resident*** for the purposes of reporting on EFS Reporting Standards if it satisfies these criteria:

- it has a current registered business address in Australia; and
- it has a current Australian Business Number (ABN) or Australian Company Number (ACN).

If only one of these indicators applies, then the business may be classified according to that indicator only.

A business should be classified as a ***non-resident*** for the purposes of reporting on EFS Reporting Standards if it satisfies either of these criteria:

- it has a current registered business address overseas; or
- it has a business registered overseas.

For further detail on how to classify residency for ***related parties***, see the section below on ***related parties***.

Residency of households

Residency Principle

A ***household*** has a centre of economic interest when ***household*** members maintain, within the country, a ***dwelling*** or succession of ***dwellings*** treated and used by members of the ***household*** as their principal residence (for further information see 'Principal place of residence'). If there is uncertainty about which ***dwelling*** is the principal residence, it can be identified from the length of time spent there. Being present for 12 months or more or intending to do so is usually sufficient to qualify as having a principal residence and therefore the predominant centre of economic interest.

Individual members of ***households*** who leave the economic territory of a country and return or intend to return after a limited period (less than 12 months) continue to be regarded as ***residents*** of the original country. For example, a member of a ***resident*** Australian ***household*** who travels abroad for recreation, business, health or other purposes and returns within 12 months is treated while abroad as a ***resident*** of Australia.

Practical implementation

A ***household*** should be classified as a ***resident*** for the purposes of reporting on EFS Reporting Standards if it satisfies these criteria:

- it has a current residential address in Australia; and/or
- it is considered an Australian ***resident*** for tax purposes.

If only one of these indicators applies, then the ***household*** may be classified according to that indicator only. Note, however, that reporting institutions are expected to maintain information on a ***household*** customer's residential address over time. See '*Updating of residency status over time'* for more information.

A ***household*** should be classified as a ***non-resident*** for the purposes of reporting on EFS Reporting Standards if it satisfies either of these criteria:

- it has a current residential address overseas; or
- it is not considered an Australian ***resident*** for tax purposes.

Joint applications

Where there are multiple individuals which are party to a single transaction, the residency of each individual should be classified based on the criteria above. The entire transaction should be classified as:

- ***resident*** for the purposes of reporting on EFS Reporting Standards if at least one of the individuals is a ***resident***; or

- ***non-resident*** for the purposes of reporting on EFS Reporting Standards if all of the individuals are ***non-resident***.

Residency of financial instruments

Principle

The residency of a financial instrument is determined by the residence of the issuer rather than the country of issuance of the financial instrument itself. ***Non-resident*** assets/liabilities are the ***ADI*** or ***RFC***'s asset/liability positions with ***non-resident*** counterparties. Similarly, ***resident*** assets/liabilities are the ***ADI*** or ***RFC***'s asset/liability positions with ***resident*** counterparties.

Practical implementation

All financial instruments should be classified according to the residency of the issuer as indicated in the table below. Neither the place nor the currency of issuance should be used to determine residency of a financial instrument.

Determining Residency of Financial Instruments		
	Issued into the Australian market	**Issued into an overseas market**
Issued by a resident unit	Resident	Resident
Issued by a non-resident unit	Non-resident	Non-resident

For ***debt securities*** held, the residency of the issuer may be determined by:

- counterparty identification and address of the issuer; and/or
- sourcing information from a third-party data provider, potentially using the International Securities Identification Number (ISIN) code as an identifier.

For ***equity securities*** held, the residency of the business issuing the equity should be recorded and not the residency of the exchange.

For ***derivatives*** (including ***ASNA derivatives*** as defined in ARF 722.0), the residency of the counterparty should be recorded.

Residency of the holder of a debt security

For ***debt securities*** issued, ***ADIs*** and ***RFCs*** are able to use the place of issuance as proxy for the residency of the counterparty holding the ***debt securities*** if information on the location of the holder is unavailable.

Updating of residency status over time

To ensure the data remain accurate over time, institutions are expected to make reasonable efforts to verify that classifications of the residency of customers, counterparties and/or financial instruments remain appropriate.

Instances of businesses and/or financial instruments changing residency are not expected to occur frequently; however, a non-negligible proportion of ***households*** are expected to change residency over time.

A key piece of information for verifying ***household*** residency over time is the residential address of the customer. Reasonable efforts to verify the customer's residential address and, accordingly, residency, include (in order of preference):

1. communicating with customers from time to time to verify their addresses and cross-checking against residency categorisations;
2. sourcing third-party data to verify customers' addresses and cross-checking against residency categorisations; or
3. cross-checking any customer-updated postal or residential addresses (or similar) against residency categorisations.

The agencies note that, for deposits, there is an expectation that an effort will be made to ensure residential address details are correct over time, and this expectation aligns with requirements set out in *APS 910 Financial Claims Scheme* (APS 910).

Related parties

In general, a ***related party*** is any ***institutional unit*** that is owned or partly owned by the same ***parent entity***.

The concept of an ***institutional unit*** differs from the legal entity. For example, overseas branches or parents may be considered part of the legal entity, but should be considered as a separate ***institutional unit*** for the purposes of reporting on EFS Reporting Standards. See ARS 701.0 for more information on ***institutional units***.

As a guide, any entities that are consolidated in the statutory financial statements produced by your institution – or the ***parent entity/entities*** of your institution – should be considered ***related parties***. In addition, any ***controlled entities***, ***associated entities***, or ***joint venture entities*** of the reporting institution or its ***parent entity/entities*** should also be considered ***related parties***.

Related parties may be ***financial institutions***, ***non-financial businesses*** and/or ***community service organisations***. They may not be members of the ***household*** or ***general government*** sectors. See ARS 701.0 for the requirements on economic sector classifications.

Domestic books consolidation

Reporting on a ***domestic books*** basis requires a different level of consolidation from statutory reporting. Any entities not consolidated for statutory reporting purposes should also not be consolidated for ***domestic books*** reporting. In addition, a number of entities that are consolidated for statutory reporting purposes should not be consolidated for ***domestic books*** reporting. Refer to the ***domestic books*** definition and the table below for details.

Guide to Domestic Books Consolidation	
Notional unit	**Consolidate within domestic books reporting?**
Australian-based branches	Yes
Overseas-based branches	No
Australian-based Offshore Banking Units	Yes
Overseas-based Offshore Banking Units	No
Extended Licensed Entities	No
Subsidiaries	No
Special Purpose Vehicles	No
RFCs	Reporting by ADIs: No RFCs reporting individually: No RFCs reporting as a group: Yes See guidance below for more detail on RFCs reporting individually or as a group
Parent entities	No
Bare trusts	No
Any other related parties not specifically mentioned above (such as stock brokers, insurance companies, funds management, non-financial operations)	No

Covered bonds are issued by an ***ADI*** and should therefore be included as a ***debt security*** issued by that ***ADI*** for reporting purposes.

RFCs reporting on behalf of other RFCs

Where there are multiple ***RFCs*** that are owned and/or controlled by the same ultimate ***parent entity***, these ***RFCs*** may choose to either report individually or report as a group (submit a single return). The reporting method should be consistent across all forms for a given period.

RFCs reporting individually

If these ***RFCs*** choose to report individually, all ***RFCs*** that meet the required thresholds should submit returns to APRA. The reporting thresholds applied to forms will apply to the assets or liabilities of the individual ***RFC***.

When reporting individually, positions and transactions with other ***RFCs*** owned/controlled by the same ultimate ***parent entity*** should be treated as positions or transactions with ***related parties***.

RFCs reporting as a group

If these ***RFCs*** choose to report as a group, only one of these ***RFCs*** should submit returns to ***APRA***. The reporting thresholds applied to forms will apply to the (consolidated) assets or liabilities of all the ***RFCs***, not the individual ***RFCs*** that is submitting the return.

Each of the ***RFCs*** should inform ***APRA*** via email either the name of the institutions that they are reporting on behalf of, or the name of the institution that is reporting on behalf of them. ***APRA*** should be informed at the time that the form is submitted if any of these reporting arrangements have changed. If no reporting arrangements have changed, ***APRA*** does not need to be informed.

When reporting as a group, the positions and transactions of each of the ***RFCs*** should be consolidated within the return. Any ***intra-group*** positions and transactions between these ***RFCs*** should not be reported. Include positions and transactions with ***RFCs*** (and any other entities) that are not part of the ***RFC*** reporting group.

Standard Economic Sector Classifications of Australia (SESCA)

To compile Australia's National Accounts in accordance with the international standard – the 2008 System of National Accounts (2008 SNA) – the ABS requires balance sheet information classified by financial instruments broken down into sectoral counterparties. Sectoral counterparties are required for the ***ADI*** or ***RFC***'s ***deposits***, ***loans*** and ***derivative*** assets or liabilities; and for the issuers of ***debt securities*** and ***equity securities*** held by the ***ADI*** or ***RFC***. The sectoral classification used in the National Accounts is the Standard Economic Sector Classifications of Australia (SESCA) 2008, which in turn is based on the sectoral classification prescribed by 2008 SNA. As such, the EFS collection requires counterparty sector information based on SESCA 2008.

Note that the counterparty sectors have been updated since the previous ***domestic books*** collection, which was based on SESCA 2000. The most significant change between SESCA 2000 and 2008 is the separate sectoral classification for investment funds and ***securitisers***; the addition of these new sectors reflects the importance of these institutions in the Australian financial system.

Note also that there is an important difference in reporting between SESCA and this form in relation to ***households*** and ***unincorporated businesses***. In SESCA, ***unincorporated businesses*** are included in the ***household*** sector. However, for reporting on this form, ***unincorporated businesses*** should be separately identified as ***non-financial businesses***, and not reported as part of ***households***. Other differences include some small changes to the level of aggregation of various ***financial institution*** subsectors.

Data on ***residents*** are disaggregated across a number of sectors. Data for ***non-residents*** are reported in aggregate in the ***non-resident*** sector, unless otherwise stated in the specific instructions. For example, a ***resident bank*** will be reported in the ***bank*** sector, while a ***non-resident bank*** will be reported in the ***non-resident*** sector. Similarly, a ***resident household*** will be reported in the ***household*** sector, while a ***non-resident household*** will be reported in the ***non-resident*** sector.

General sectoral classification schema

The general classification schema represented hierarchically is:

- ***Residents***
  - ***Households***
  - ***Private and public sector businesses***
    - ***Community service organisations***
    - ***Non-financial businesses***
      - ***Private non-financial businesses***
        - ***Private non-financial investment funds***
        - ***Other private non-financial corporations***
        - ***Private unincorporated businesses***
      - ***Public non-financial businesses***
        - ***Commonwealth Government non-financial corporations***
        - ***State, territory and local government non-financial corporations***
    - ***Financial institutions***
      - ***Reserve Bank of Australia (RBA)***
      - ***Authorised deposit-taking institutions (ADIs)***
        - ***Banks***
        - ***Non-bank ADIs***
      - ***Registered financial corporations (RFCs)***
      - ***Central borrowing authorities (CBAs)***
      - ***Insurance corporations***

        - ***Life insurance corporations***
        - ***Other insurance corporations***
    - ***Superannuation funds***
        - ***Self-managed superannuation funds***
        - ***Other superannuation funds***
    - ***Financial auxiliaries***
    - ***Securitisers***
    - ***Money-market investment funds***
    - ***Non-money-market financial investment funds***
    - ***Financial institutions n.e.c.***
  - ***General government***
    - ***Commonwealth general government***
    - ***State, territory and local general government***
- ***Non-residents***

SPVs do not clearly fit in this breakdown, and should be reported in either ***non-financial businesses*** or ***financial institutions*** sectors as appropriate.

Mapping from ANZSIC to SESCA 2008

ADIs and ***RFCs*** should classify counterparties into the SESCA 2008 by using the definitions provided in ARS 701.0.

For those institutions that have yet to fully implement SESCA 2008, mapping of counterparties from ANZSIC classification would generally be acceptable, provided further information is sought where required to appropriately allocate counterparties in ANZSIC categories without a one-to-one mapping to SESCA 2008. ***ADIs*** and ***RFCs*** should make a reasonable effort during the application process and annual reviews with business customers to identify the appropriate sectoral classification.

A concordance map from ANZSIC 2006 to SESCA 2008 will be provided to assist institutions with classifying counterparties. See *Australia New Zealand Standard Industry Classification* for guidance on classifying into industry code under ANZSIC 1993 or 2006.

The concordance map shows the derivation of the sectoral classification required in the EFS collection from ANZSIC 2006. It begins with the concordance of 4-digit ANZSIC 2006 to the counterparty sectors listed on the EFS forms. Those institutions that have yet to transition to ANZSIC 2006 should consult *Australia New Zealand Standard Industry Classification* for guidance on mapping from ANZSIC 1993 to ANZSIC 2006.

The map illustrates that, for a majority of the 4-digit ANZSIC 2006 classifications, there is a one-to-one relationship into the sector counterparties listed on EFS Reporting Standards. However, there are instances where this one-to-one relationship does not hold (i.e. one ANZSIC 2006 industry maps to more than one sector in the EFS collection). These situations are listed in the table below.

One-to-multiple mapping between ANZSIC 2006 and EFS collection	
ANZSIC 2006 industry	**Sector in EFS collection (based on SESCA 2008)**
Construction	1. non-financial investment funds; 2. other private non-financial corporations; or 3. private unincorporated businesses.
Rental, hiring and real estate services	1. non-financial investment funds; 2. other private non-financial corporations; or 3. private unincorporated businesses.

Education and training	1. other private non-financial corporations; 2. private unincorporated businesses; 3. commonwealth general government; or 4. state, territory and local general government.
Health care and social assistance	1. other private non-financial corporations; 2. private unincorporated businesses; 3. commonwealth general government; or 4. state, territory and local general government.
Arts and recreation services	1. other private non-financial corporations; 2. private unincorporated businesses; 3. commonwealth general government; or 4. state, territory and local general government.
Other services	1. other private non-financial corporations; 2. private unincorporated businesses; or 3. community service organisations.
Non-depository financing	1. securitisers; 2. central borrowing authorities; or 3. other financial institutions n.e.c.
Financial asset investing	1. money-market investment funds; 2. non-money-market financial investment funds; or 3. commonwealth general government.
Superannuation funds	1. self-managed superannuation funds; or 2. other superannuation funds.

Each entity to have one and only one SESCA categorisation

An entity is assigned to one and only one SESCA categorisation.

Groups of people are assigned to the ***household*** sector.

For business entities: once the business entity is classified to its one and only ANZSIC code, this will map to one SESCA category in the majority of cases. However, in a handful of cases, the ANZSIC category assigned may map into multiple SESCA classifications. In such cases, further criteria, such as the business's legal structure and/or balance sheet composition may be used to assign a unique sectoral classification as described below.

Identifying investment fund sectors

There are three investment fund categories within the EFS collection:

- ***private non-financial investment funds***;
- ***money-market investment funds***; and
- ***non-money-market financial investment funds***.

The investment funds may be further categorised into listed and unlisted investment funds, where listed investments funds are those listed on the Australian Stock Exchange (ASX).

Investment funds in Australia operate legally as "Managed Investment Schemes" under the *Corporations Act 2001* which is administered by the Australian Securities and Investment Commission (ASIC). The investment funds are not regulated by ASIC; however, ASIC requires that any investment fund seeking funds from retail investors be registered with ASIC. Registration confers an Australian Registered Scheme Number (ARSN) number. In addition to the ASIC requirements, listed investment funds are required also to adhere to the regulations and bi-annual reporting requirements set out by the ASX, similarly to listed corporations.

Investment funds that are not registered with ASIC tend to be large wholesale funds, with units not listed on the ASX – examples include large master trusts. These investments funds are mostly used by superannuation funds and life insurance corporations as investment vehicles.

In general, ***ADIs*** and ***RFCs*** do not acquire shares in investment funds; their predominant interaction with investment funds is in providing ***deposit*** accounts and ***loans*** to property and infrastructure funds (***private non-financial investment funds***).

ADIs and ***RFCs*** may identify investment funds using the following methods:

- for funds that are listed on the ASX, entities may use the ASX concordance map, available on the APRA website. This concordance map categorises all listed entities (name and GICS code) on the ASX by sectoral classification; or
- entities may use the ASIC ARSN number and the name of the investment fund. At the request of an ***ADI*** or ***RFC***, APRA can circulate a list of investment funds with ARSN numbers and names of investments fund. It is expected that APRA will obtain updated ARSN lists from ASIC annually.

Alternatively or additionally, at application and review, some simple questions may be asked once the business has been identified as one of the handful of 4-digit ANZSIC classes that may fall into an investment fund SESCA category.

Example 1: Identifying money-market investment funds or non-money-market financial investment funds

A business customer has been categorised into financial asset investors, ANZSIC 2006 class 6420 (ANZSIC 1993 class 7340). During the application process, the following questions could be asked:

(a) is your entity set up as a trust?

(b) If yes to (a), what are the predominant assets on your balance sheets (e.g., shares, bonds or short money-market instruments)?

  (i) If answered money-market instruments to (b), categorise as a ***money-market investment fund***; or

  (ii) If answered shares/bonds to (b), categorise as a ***non-money-market financial investment fund***.

Example 2: Identifying property/infrastructure funds

A business customer has been categorised into the ***construction*** industry. During the application process, the following questions could be asked:

(a) is your entity set up as a trust?

  (i) If answered yes to (a), the entity would be classified as a ***private non-financial investment fund***; or

(ii) If answered no to (a), the entity would be classified as an ***other private non-financial corporation***.

Identifying self-managed superannuation funds and other superannuation funds

To determine the classification between ***self-managed superannuation funds*** and ***other superannuation funds***, the following methods may be used:

- the 'Super Fund Look Up' site on the ATO website provides information on the type of fund and can be searched by ABN (or the name of the ***superannuation fund***).[1] The site includes publicly available information on ***superannuation funds*** regulated by APRA and the ATO. Classification types include ***self-managed superannuation funds***.
- a list of Registerable Superannuation Entities (RSEs) regulated by APRA is available on APRA's website[2] Also available from APRA's website are lists of some of the Exempt Public Sector Superannuation Schemes (EPSSS) that are non-regulated.

Miscellaneous classifications

Sovereign Wealth Funds

The two sovereign wealth funds owned by the Commonwealth Government - the 'Future Fund' and the 'Health and Education fund' – should be classified in the ***Commonwealth general government*** sector.

Family trusts

Where there is no information available on whether a family trust has a controlling ownership in one or more businesses, the trust may be allocated to the ***household*** sector.

Issuers of covered bonds

As ***covered bonds*** can only be issued by ***ADIs***, issuers of ***covered bonds*** should be classified as ***banks*** or ***non-bank ADIs*** as appropriate.

Individuals acting on behalf of businesses

Where the ***ADI*** or ***RFC*** has positions/***deposit*** accounts/lending ***facilities*** with a business that have been recorded under the name of an individual (such as a ***deposit*** account for a sole trader that is in the individual's name rather than the business name), the positions/transactions should be reported under the appropriate category according to the nature of the business. These positions/transactions should not be reported in the ***household*** sector.

This analysis should be applied to each individual position/***deposit*** account/lending ***facility***, and not all positions/***deposit*** accounts/lending ***facilities*** need to be allocated to the same sector. For example, an individual has two ***credit cards*** in their name. One is for ***personal*** use and should be allocated to the ***household*** sector, and the other ***credit card*** is for ***business*** use and should be allocated to the ***private unincorporated businesses*** sector.

Where there is a position/***deposit*** account/lending ***facility*** that combines elements of ***business*** and ***personal*** purposes, the predominant purpose should apply. For more information, see 'Predominant purpose'.

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1 Please see: http://superfundlookup.gov.au/

2 Please see 'List of RSEs' at: http://apra.gov.au/RSE/Pages/default.aspx

Where the institution has no information to suggest that the position/***deposit*** account/lending ***facility*** is for ***business*** purposes, it should be allocated to the ***household*** sector.

Updating of SESCA classification over time

It is not expected that institutions will often change SESCA categories. However, if a reporting institution becomes aware that a business has changed industry (for example, at an annual review), then the SESCA category should be updated accordingly.

For example, if a business is originally classified as a ***private unincorporated business*** but then changes its business structure to a company, it should be re-classified from the point that the change occurred to the ***other private non-financial corporations*** category.

Australian and New Zealand Standard Industry Classification (ANZSIC)

For ***private and public sector businesses***, a breakdown of counterparties into industry sectors is required for some forms (ARF 741.0 and ARF 742.0). The EFS collection contains 21 industry classifications which are based on ANZSIC 2006, which has been updated since ANZSIC 1993 to capture emerging industries such as information technology, to better reflect the current economy and to align with international industry standards. The expectation is that institutions will report counterparty based on the ANZSIC 2006.[3] Each business to have one and only one ANZSIC categorisation

A borrower is assigned to an industry based on its predominant activity, and each borrower can only be assigned to one industry.

Mapping ANZSIC 1993 to ANZISC 2006

As an interim arrangement, mapping of ANZSIC 1993 to ANZSIC 2006 will be acceptable on the back book of business credit outstanding at the time that reporting on the new forms commences. It will also be accepted on new business credit written between the time that reporting on the new forms commences and full implementation of ANZSIC 2006 is required (if these two dates differ).

For this interim arrangement, it would generally be acceptable for institutions using ANZSIC 1993 to map from ANZSIC 1993 to ANZSIC 2006 at the 4-digit level using the mapping available on the ABS' website,[4] in combination with a simple apportionment mechanism where there is a one-to-many split.

- A number of the one-to-many mapping instances occur where all options are within the same ANZSIC industry (at the 2-digit level). In these cases, reporting institutions may determine how to map to ANZSIC 2006. Reporting institutions could choose to either:
    - allocate all to a single 4-digit code; or
    - allocate across multiple codes.
- The other one-to-many mapping instances involve a series of options that cross ANZSIC industry (at the 2-digit level). In these cases, there are a few potential options:
    - allocate evenly between the 4-digit codes;
    - allocate randomly across the 4-digit codes; or
    - where the bulk of the options are within the same division, map to a single 4-digit code in that division.

The exception to this is in relation to commercial property. For the ANZSIC 1993 code 7712 – Commercial Property Operators & Developers, ***ADIs*** and ***RFCs*** will be required to correctly allocate between 3211 – Land Development and Subdivision and 6712 – Non-Residential Property Operators. It is expected that institutions will need to obtain further information from their customers in order to allocate the correct ANZSIC in this instance.

ANZSIC captured at the point of origination

To assist in the determination of the correct ANZSIC for a business at the point of origination the following may assist:

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3 Australian and New Zealand Standard Industrial Classification (ANZSIC), 2006, (cat.no. 1292.0)

4 For the 4-digit level mapping between ANZSIC 1993 to ANZSIC 2006, please see: http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/1292.0.55.005Main+Features12008?OpenDocument

- at the time of registering their Australian Business Number with the tax office, businesses are required to self-identify their own ANZSIC and therefore may be able to provide their ANZSIC upon request; or
- an ANZSIC coder is available on the ABS website.[5] The web-based search function uses key word search functionality to return a list of possible ANZSIC codes with activity descriptions.

For some businesses that are complex and/or large it can be difficult to assign a predominant ANZSIC; for example they might be involved in both manufacturing and wholesale activity.

Updating of ANZSIC over time

It is not expected that institutions will often change ANZSIC categories. However, if a reporting institution becomes aware that a business has changed industry (for example, at an annual review), then the ANZSIC category should be updated accordingly from that point forward.

Sub-industries

The industry sectors identified on ARF 741.0 and ARF 742.0 only require disaggregation at the Division level (i.e. a 1-digit code under ANZSIC 2006) with the exception of ***Construction*** and ***Financial and Insurance Services***.

For ***Construction*** three further sub-sectors are identified, which require at most a 3-digit code under ANZSIC 2006. However, if reporting institutions intend to rely on a mapping from ANZSIC 1993 to ANZSIC 2006 under an interim arrangement, information at the level of 4-digit codes may be required.

Construction Sub-sectors		
Form label	**ANZSIC 2006**	**ANZSIC 1993**
Residential building construction	301 – Residential Building Construction:	4111 – House Construction; and 4112 – Residential Building Construction n.e.c.
Non-residential building construction	302 – Non-Residential Building Construction:	4113 – Non-Residential Building Construction
Other construction	31 – Heavy and Civil Engineering Construction; and 32 – Construction Services	Refer to the mapping of ANZSIC 1993 to ANZSIC 2006 available on the ABS' website for corresponding ANZSIC 1993 sub-divisions.

For ***Financial and Insurance Services***, the more specific disaggregation requested aligns with SESCA-based categories, rather than ANZSIC 2006 industries.

5 Please see the 'Search Facility' in 1292.0 – Australian and New Zealand Standard Industrial Classification (ANZSIC), 2006 (Revision 2.0), available at: http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/1292.0Search12006%20(Revision%202.0)?opendocument&tabname=Summary&prodno=1292.0&issue=2006%20(Revision%202.0)&num=&view=

Business size

For ***private and public sector businesses***, a breakdown of counterparties by business size is required for some forms (ARF 741.0, ARF 742.0 and ARF 730.1). These business size categories are based on definitions similar to those used by the Basel Committee for Banking Supervision (BCBS)/APRA in their standards for institutions following the internal-ratings based approach to credit risk (and proposed by the BCBS to be rolled out to institutions using the standardised approach to credit risk); however, they are written such that they can be applied by all reporting institutions, regardless of whether they are required to meet BCBS/APRA standards.

Counterparties in the ***private and public sector businesses*** category need to be assigned to one of: ***small***, ***medium***, or ***large*** business size categories.

If the reporting institution already classifies the counterparty as SME retail, SME corporate or Corporate in line with the BCBS/APRA methodology, then a one-to-one mapping can be used with:

- SME retail corresponding to ***small***;
- SME corporate corresponding to ***medium;*** and
- Corporate corresponding to ***large***.

This means that, where the reporting institution's internal decisions lead to it deviating from the strict turnover and exposure metrics detailed in ARS 701.0 – perhaps, for example, because a business is viewed as more complex or had previously had turnover in a higher bucket – that institution is able to report in line with its internal categorisations.

Where an institution does not categorise counterparties, or certain types of counterparties, according to this methodology, then they would be asked to use the turnover and exposure metrics to allocate the counterparties to the relevant business size category.

Categorisations based on ***exposure size*** and ***turnover*** should be reviewed at least annually based on updated figures.

Exposure size

The measure of exposure to be used is total business-related exposure.

Turnover

Where ***turnover*** data are not available because the business was recently formed, then the business should be classified as ***small*** or ***medium*** based on the ***exposure*** of the reporting institution to the business. Where a new business has been formed following a merger or demerger, then reporting institutions would be expected to use a sensible method to determine the appropriate category.

Reliable measures of ***turnover*** include:

- tax returns submitted to the ATO;
- Business Activity Statements submitted to the ATO;
- financial reports of the business; and
- reports from the business's accountants or auditors.

Updating of business size over time

To ensure the data remain accurate over time, institutions are expected to make reasonable efforts to verify that classifications of counterparties by business size remain appropriate.

If a reporting institution becomes aware that a business should be allocated to a different size category (for example, at an annual review), then the business size category should be updated accordingly from that point forward.

Identifying (predominant) purpose class and sub-class

Identifying purpose class

Finance is to be classified by ***purpose class*** (i.e. ***housing***, ***business*** or ***personal***). The ***purpose class*** that the funds will be used for determines how the finance should be reported, not the product or security type. Furthermore, ***housing*** finance can only be taken out by ***households***. Please refer to the reporting instructions for the specific purpose and sector definitions.

Example 1: Finance secured by a residential property

A ***household*** takes out a new ***loan*** for ***personal*** use, for example paying for a holiday and/or buying shares. The funds are secured against a ***residential property*** owned by the ***household***, perhaps via a ***home equity loan***.

This ***loan*** should be classified as ***personal*** not ***housing***. In making this determination, the following points should be recognised:

- the product type (e.g. a ***home equity loan***) is not an appropriate indicator of purpose;
- the fact that the finance is secured by ***residential property*** is not relevant in identifying the purpose of the finance; and
- because the use of the funds does not relate to the ***construction*** or purchase of ***residential property***, or to finance ***alterations, additions and repairs*** to ***residential property*** the finance purpose cannot be ***housing***.

Example 2: Purchasing and/or constructing residential property

Consider the following cases:

a) A developer borrows funds to purchase ***residential land*** and construct an apartment block (i.e. ***dwellings***). The apartments will later be sold to ***households*** for their use.

b) A ***self-managed superannuation fund*** borrows funds to purchase a ***residential property*** that will be rented out.

In both instances, the finance should be classified as ***business*** not ***housing***. In making this determination, the following points should be recognised:

- the sector borrowing the funds is a business, not a ***household***; and
- whether or not the finance is secured against ***residential property*** is irrelevant.

Assessing the predominant purpose

Where finance is to be used for more than one purpose, the entire amount of the finance should be classified according to the predominant purpose (i.e. the purpose for which the largest share of the funds will be used).

The agencies expect that a reasonable effort should be made during the application process to identify the predominant ***purpose class*** and ***purpose sub-class*** of the finance (e.g. asking the borrower). Unless the lender receives new information that would call into question the ***housing***/***personal***/***business*** purpose classification (for example, through a refinance), the initial ***purpose class*** may be retained over time. (Note that this does not apply to the classification of ***housing loans*** between ***owner-occupied*** and ***investment***.)

Because ***revolving credit*** may be drawn and redrawn at the discretion of the customer during the life of the ***facility***, the lender may not have insights into what the finance is being used for. Accordingly, lenders are expected to make a reasonable effort to determine the predominant purpose of ***revolving credit*** at origination and may thereafter retain that category over time unless new information becomes available. At origination, ***revolving credit*** extended to a ***household*** would generally be expected to be for ***personal*** purposes unless there is any indication that the funds are to be used for ***housing*** or ***business*** purposes.

In general, where it is known that the funds will be used for more than one purpose but a) there is insufficient information to make a reasonable judgement about what the largest share of funds will be used for by a ***household*** or b) there is an even split between multiple purpose classes (e.g. 50/50), please classify the finance as follows:

- ***Housing*** and ***personal*** – classify as ***personal***;
- ***Housing*** and ***business*** – classify as ***business***; and
- ***Business*** and ***personal*** – classify as ***business***.

Note that, where finance is classified as predominantly for ***housing*** purposes, reasonable effort must be made to identify the ***property*** for which the funds will be used, in order for the finance to be further classified as ***owner-occupier*** or ***investor*** (e.g. ask the borrower for the location and nature of use of the property).

Reasonable effort must also be made over the course of the life of the loan to maintain the accuracy of the ***owner-occupier*** and ***investor*** classification (see *Property purpose*). Similarly, reasonable effort must be made to maintain the accuracy of the residency classification (see *Residency*).

The following scenarios typically present some challenges for classification:

- ***revolving credit facilities secured by residential property*** (e.g. ***home equity loans***) or ***reverse mortgages***; and
- refinances of existing ***fixed-term*** finance by ***households***.

Accordingly, further guidance on the treatment of these scenarios is provided below.

Revolving credit facilities secured by residential property and reverse mortgages

A ***revolving credit facility secured*** by ***residential property*** (e.g. a ***home equity loan***) can be taken to fund a range of activities, including the purchase of a ***residential property***, the refinancing of the borrower's existing home, investment purchases (e.g. shares), ***household*** consumption spending (e.g. holidays or motor vehicles), or working capital for a small business.

If the borrower indicates that the funds will predominantly be used for ***housing*** purposes, please classify accordingly. The agencies expect one of the main uses of a ***revolving credit facility secured*** by ***residential property*** for ***housing*** purposes would be for ***alterations, additions and repairs*** (although use is of course not limited to this). Please note, where a ***housing*** purpose is nominated, reasonable effort must also be made to identify the location and nature of the ***property*** for which the funds will be used (see *Property purpose* and *Property location*).

Where the borrower indicates the funds will be used for ***housing,*** but it is not clear whether this qualifies as the predominant purpose <u>and</u> the borrower has not indicated any uses related to ***business***, please classify as ***personal*** (in accordance with the guidance above).

Example 3: Finance for multiple purposes

Consider the case where a ***household*** takes out a ***revolving credit facility*** for ***housing*** and ***personal*** purposes (e.g. ***alterations, additions and repairs*** to a ***residential p***roperty and ***household*** consumption spending such as paying for a holiday or motor vehicle). The ***facility*** should be classified according to what the largest share of the funds will be used for.

If a majority of the funds are to be used for the ***alterations, additions and repairs***, then the finance should be classified as ***housing***. If a majority of the funds are to be used for ***household*** consumption spending, the finance should be classified as ***personal***.

If there is insufficient information to reasonably judge whether the share of funds for ***alterations, additions and repairs*** is larger than the share of funds for household consumption spending, then the entire amount should be classified as ***personal***.

Refinances

When additional finance (e.g. a top-up) is approved and combined with existing finance, the predominant purpose should be updated if a) the additional finance is for a different purpose than that of the existing loan and b) the additional finance is greater than the outstanding amount of existing finance.

Should further additional finance subsequently be approved, the same process should apply. However, when reassessing predominant purpose class the most recent classification purpose assigned to the existing finance may be assumed to apply to the entire outstanding amount (i.e. the amount and purpose of additional finance approved does not need be tracked over time).

Where a borrower refinances from another lender – an external refinance – reporting institutions are not expected to identify the purpose of any additional finance. Instead, they are required to identify the predominant purpose of the total amount of the new ***commitment***.

Example 4: Top-ups for a different purpose

Consider a household approved for a top-up for ***personal*** purposes, for example buying a car, on top of an existing ***housing loan***. The relevant test in applying the predominant purpose principle is whether the balance of the new finance for a ***personal*** purpose is greater than the outstanding balance on the original ***housing loan***.

- If the outstanding balance on the original ***housing loan*** is larger than the amount of new finance at the time of approval, the whole ***loan*** should continue to be treated as predominantly for ***housing*** purposes. The increase to the ***loan*** should be reported as an ***internal refinance*** on the ARF 743.0 and the new total outstanding balance reported as ***housing*** credit.
- If the outstanding balance on the original ***housing loan*** is smaller than the amount of new finance at the time of approval, the whole amount should then be treated as predominantly for ***personal*** purposes. The <u>whole amount</u> should be reported on the ARF 745.0 as a <u>new</u> ***commitment*** and the new total outstanding balance should be reported as ***personal*** credit (with the outstanding balance of the original ***loan*** removed from ***housing*** credit).

Example 5: Multiple top-ups

Let the outstanding balance of an existing ***housing loan*** be $200,000 and a top-up for ***personal*** purposes be $40,000. Given the outstanding balance of the existing ***housing loan*** is greater than the top-up for ***personal*** purposes, the whole ***loan*** amount ($240,000) should be continue to be treated as predominantly for ***housing*** purposes and the new total outstanding balance should be reported as ***housing*** credit.

Similarly, the increase to the existing ***housing*** loan ($40,000) should be reported as an ***internal refinance*** on the ARF 734.

Let the outstanding balance of the ***loan*** then be paid down to $100,000 and the ***household*** approved for an additional $60,000 for ***personal*** purposes (e.g. a wedding and honeymoon). The current classification (i.e. ***housing***) may be assumed to apply to the total outstanding balance when comparing it to the amount of new ***personal*** finance in determining predominant purpose. Thus, the total ***loan*** would continue to be classified as ***housing*** because the existing outstanding balance ($100,000) is larger than the additional finance for ***personal*** purposes ($60,000). There is no expectation that the amount and purpose of subsequent top-ups be recorded in a cumulative manner and used in determining predominant purpose.

Identifying purpose sub-class

Once a ***purpose class*** has been assigned, the predominant purpose principle should also be used to identify the ***purpose sub-class***. That is, when finance is taken out for multiple ***purpose sub-classes***, the finance should be classified according to the predominant ***purpose sub-class***.

When additional finance (e.g. a top-up) is approved and combined with existing finance, the amount of new finance should be compared to the outstanding balance of the existing finance when determining the predominant ***purpose sub-class***.

- If the additional finance is for a larger value than the existing ***credit outstanding*** and is for a substantively different ***purpose sub-class*** (e.g. was for shares and is now for buying a car), it should be reported as a new ***application*** and a ***commitment*** for the new ***purpose sub-class***.
- If the additional finance is for a larger value than the existing ***credit outstanding*** and is for the same ***purpose sub-class***, it should be reported as a new ***application*** and an ***internal*** or ***external refinance*** as appropriate.

Similarly, if the additional finance is for a smaller value than the existing ***credit outstanding*** it should be reported as an ***internal*** or ***external refinance*** as appropriate, regardless of the respective ***purpose sub-classes.***

Updating purpose over time

Reasonable steps should be taken to ensure the purpose of the finance is correct at origination. If the institution receives any information to suggest that this purpose has changed over time, the updated purpose should be reflected in the values reported for outstanding.

For example, if a borrower has an ***owner-occupier housing loan*** then their residential address should match the address of the ***property*** for which the ***housing loan*** was taken out. If the borrower updates their residential address to be different from the address of the ***property*** for which the ***housing loan*** was taken out, the ***loan*** should be reclassified as an ***investor loan*** from the date that the address was changed.

Alterations, additions and repairs

Residential property improvements or renovations – housing or personal

As a general rule (and prior to the application of the predominant purpose principle, if relevant), any changes to a ***residential property*** that will remain part of that ***property*** in the event of the sale of the ***property*** should be classified as ***housing*** purposes, provided the finance is taken out by a ***household***.

The following should be included as ***housing***:

- permanent swimming pools;
- sheds;
- permanent furnishings such as floor or window coverings;
- stoves, cooktops, range hoods and dishwashers;
- cupboards / shelves permanently attached to the property; and
- landscaping.

The ***loan*** purpose should be reported as ***alterations, additions and repairs*** where this use of funds is the predominant purpose.

Please note: the uses described above would not qualify as ***construction*** for ***housing*** purposes as this concept exclusively relates to the construction of new ***dwellings***.

The following should be included as ***personal***:

- furnishings not attached to the property, such as furniture and removable electrical goods.

Property purpose - owner-occupied and investment housing

Loan purpose vs collateral

The ***loan*** should be classified as ***owner-occupied*** or ***investment*** based on the use of the ***property*** for which the funds have been borrowed (i.e. the address of the ***property*** being purchased, constructed, improved, or having repairs or maintenance carried out). The address of collateral should not be used.

For example, a borrower owns the ***property*** they live in (***owner-occupied***) and has borrowed some funds to purchase an ***investment property***. Some or all of the ***loan/s*** for the purchase of the ***investment property*** was secured against the ***owner-occupied property***. The ***loan/s*** (including those ***secured*** against the ***owner-occupied property***) should be reported as ***investment***.

Principal place of residence

In general, a borrower will have only one ***principal place of residence***, which will be the ***property*** that they live in the majority of the time.

In practice, the principal place of residence can be determined by:

- asking the borrower; or
- using the borrower's residential address.

Example 1: vacation / holiday homes

A borrower owns two houses which are not rented out or used by any other persons. The borrower lives in one for 8 months of the year, and the other for 4 months of the year. The borrower's ***principal place of residence*** will be the house that the borrower lives in for 8 months, and the ***loan*** used to purchase that property would be classified as an ***owner-occupied loan***. The house that the borrower lives in for 4 months is not the borrower's ***principal place of residence***, and the ***loan*** used to purchase that property would be classified as an ***investment loan***.

Example 2: house for family members

A borrower owns two houses – the borrower lives in one house during the week and their children live in the other house (and may or may not pay rent). The borrower stays in the house with the children on weekends. The borrower's ***principal place of residence*** will be the house that the borrower lives in during the week, and the ***loan*** used to purchase that property would be classified as an ***owner-occupied loan***. The house that the borrower's children live in is not the borrower's ***principal place of residence***, and the ***loan*** used to purchase that property would be classified as an ***investment loan***.

Multiple borrowers

If there are multiple borrowers, then classify the ***loan*** as ***owner occupied*** if at least one of the borrowers meets the relevant definition.

Construction and bridging loans

As defined in ARS 701.0, the criterion on which reporting institutions should seek to classify ***housing loans*** as ***owner-occupied*** or ***investment*** is whether the ***residential property*** is serving or will shortly serve as the ***principal place of residence*** for the person(s) taking out the ***loan***.

As a result, a customer would, in most cases, be expected to have a maximum of one ***owner-occupied loan***. However, there are some exceptions that relate to the possibility that a customer may currently have a ***loan*** for a ***property*** that is their principal place of residence and has taken out a ***loan*** for a new ***property***

that will shortly be their ***principal place of residence***. Common examples are ***construction loans*** or bridging ***loans***, where the borrower currently has an ***owner-occupied loan*** and also intends to transfer their ***principal place of residence*** to their new ***property*** shortly. During the overlap period these borrowers may have more than one ***owner-occupied loan***.

Rental income and investor loans

The use of rental income from the property to be purchased in the serviceability assessment does not automatically classify the ***loan*** as an ***investment loan***. It is possible that the borrower is using or will shortly use the property as their principal place of residence, but that the borrower also is or intends to sublet a room, for example.

Example 3: renting out a room in an owner-occupied property

A borrower purchases a ***property*** that will be their ***principal place of residence***. In their ***loan application*** they indicated that they will be renting out one of the bedrooms and will receive rental income. This would be classified as an ***owner-occupied loan*** given that it will be the borrower's ***principal place of residence***. The rental income is irrelevant in this example.

Non-residents and owner-occupied loans

It is not necessary to separately report whether lending to ***non-resident households*** for ***housing*** is for ***owner-occupation*** or ***investment***. However, in principle a ***non-resident*** may take out an ***owner-occupier*** loan under the following circumstances:

a) where the ***residential property*** for which the funds are borrowed is located overseas and this ***residential property*** will serve as the borrower's ***principal place of residence***; or

b) where the ***residential property*** for which the funds are borrowed is located in Australia and this ***residential property*** will serve as the borrower's ***principal place of residence*** (i.e. the ***non-resident*** borrower will become a ***resident***).

Loans to ***non-residents*** for the purchase of ***residential property*** located in Australia that will not serve as the borrower's ***principal place of residence*** should be classified as ***investor***. Whether the ***property*** will act as the ***principal place of residence*** for family members of the ***non-resident*** borrower is irrelevant.

Updating owner-occupied / investment status over time

Reasonable steps should be taken to ensure the ***property*** purpose is correct at origination. If the institution receives any information to suggest that the ***property*** purpose has changed over time, the updated ***property*** purpose should be reflected in the values reported for ***credit outstanding*** from that point forward.

For example, if a borrower has an ***owner-occupied housing loan*** then their residential address should match the address of the ***property*** for which the finance was sought. If the borrower updates their residential address to be different from the address of the ***property*** for which the finance was sought, the ***loan*** should be reclassified as an ***investment loan*** from the date that the address was changes.

Please note, this guidance is intended for statistical reporting purposes only and should not be interpreted as relevant to internal business decisions regarding what products or financing arrangements are available to a given customer.

Location of property

Institutions should collect and report ***housing*** finance based on the location of the ***property*** for which the customer is borrowing the funds (e.g. the address of the ***property*** being purchased).

This information is required for two reasons:

1. to meet agencies' needs for a measure of ***property*** market activity; and
2. for ***housing***, to provide a verifiable data point against which reporting institutions can cross-check customers' residential address to assist in determining whether a ***housing loan*** is for ***owner-occupation*** or ***investment***.

Relying on the location of the collateral is not sufficient because there may be instances where the ***property*** used as collateral is not the ***property*** for which the customer borrowed funds. Similarly, relying on the residential address of the customer alone will, in the case of ***housing***, provide no cross-check to assist in verifying whether a ***housing loan*** is for ***owner-occupied*** or ***investment*** purposes.

Types of financial assets and liabilities

Loans and finance leases

Generally include:

- overdrafts;
- ***secured*** and ***unsecured*** lending;
- ***finance leases***;
- ***credit card*** balances;
- ***fixed-term loans***;
- mortgage lending;
- commercial ***loans***;
- equity participation in leveraged leases;
- redeemable preference share finance not evidenced by a security; and
- subordinated ***loans***.

Generally exclude:

- ***loans*** and ***finance leases*** that have been written off;
- ***operating leases;***
- associated deferred tax assets in the amounts reported for ***collective provisions*** or ***individual provisions***;
- ***debt securities***; and
- ***deposits***.

Fixed-term loans vs revolving credit facilities

The key distinction between a ***fixed-term loan*** and a ***revolving credit facility*** is that repayments of ***revolving credit facilities*** (other than of charges and interest) increase the amount of unused credit available that may be redrawn up to the original ***credit limit***, while repayments of ***fixed-term loans*** (other than into ***redraw facilities***) cannot be redrawn.

Both ***fixed-term loans*** and ***revolving credit facilities*** can have a fixed period when the ***facility*** is due to end. This is not sufficient to classify a ***facility*** as a ***fixed-term loan***.

Examples of ***revolving credit facilities*** with a fixed term:

- A ***lending facility*** where the borrower can repeatedly ***draw down*** and repay the finance up to a specified limit. This specified limit does not decline over the life of the ***facility***. The ***facility*** has a fixed term of one year – at the end of the year, the ***facility*** will either be cancelled (and fully repaid), or renewed.

Generally, ***revolving credit facilities*** include:

- ***credit cards***; and
- overdrafts.

Valuation of Finance Leases

The value of ***finance leases*** should be reported as either:

- the capital cost of new goods;
- the written-down value of goods re-leased; or

- the purchase price of second-hand goods;

For ***finance leases*** where the full value of the goods under lease is not financed by one corporation (e.g. partnership and syndicated leases), report:

- the value as your share of the full value (not the equity participation).

For revolving ***lease*** facilities (such as master leases), report:

- the value of goods acquired at each draw down against such ***facilities***. Exclude the value of ***commitments*** to provide a leasing limit or to increase a leasing limit.

Deposits

Generally include:

- ***offset accounts;***
- account balances with ***resident*** and ***non-resident financial institutions***;
- purchased payment facilities such as smart cards and electronic cash; and
- ***non-negotiable certificates of deposit***.

Generally exclude:

- ***debt securities***;
- payables due to counterparties arising from the first leg of a ***repurchase agreement***;
- treasury-related short-term borrowings from ***resident*** and ***non-resident banks***;
- ***loans and advances*** (including arranged and unarranged overdrafts); and
- ***finance leases***.

Debt securities

Generally include:

- ***bills of exchange*** held;
- ***negotiable certificates of deposit***;
- ***commercial paper*** including promissory notes and asset-backed ***commercial paper***;
- treasury notes;
- financial paper;
- government and semi-government inscribed stock;
- medium-term notes, bonds, debentures and unsecured notes;
- inflation-indexed bonds;
- floating-rate notes and other floating-rate debt securities;
- ***asset backed securities*** such as mortgage-backed bonds;
- credit-linked notes and other ***debt securities*** with embedded financial ***derivatives***; and
- ***hybrid securities treated as liabilities.***

Generally exclude:

- ***deposits***;
- ***loans***;
- ***finance leases***; and
- financial ***derivatives***.

Equity securities

Generally include:

- ordinary shares;
- units in trusts; and
- ***preference shares***.

Generally exclude:

- convertible notes prior to conversion.

Identifying facilities

Multiple accounts/lending agreements should only be considered part of a single lending ***facility*** where they differ by ***interest rate*** type (***fixed interest rate*** or ***variable interest rate***) and/or repayment type (***interest only*** or ***amortising***).

If the accounts/lending agreements differ by characteristics that are not the result of different ***interest rate*** or repayment types – for example, ***revolving*** and ***fixed-term*** credit, or two separate ***fixed-term*** lending agreements of different ***original maturities*** – then these should be considered as more than one lending ***facility***.

Practical application

When grouping accounts/lending agreements into a ***lending facility*** apply the following logic:

1. Disaggregate accounts/lending agreements to the same borrower(s) to the lowest level possible.
2. For those accounts/lending agreements approved at the same point in time and/or as a part of the same application, consider whether they are for the same purpose.
    a. In comparing purposes, first apply the predominant purpose principle to each separately identifiable account/lending agreement.
3. For those accounts/lending agreements that are for the same purpose, treat those that are similarly structured and differ only by characteristics relating to ***interest rate*** type (***fixed interest rate*** or ***variable interest rate***) and/or repayment type (***interest only*** or ***amortising***) as belonging to a single ***lending facility***.

For example, a ***housing loan application*** for a given amount of funds to be split 25/75 into ***fixed interest rate*** and ***variable interest rate*** products may be recorded as two new ***loan*** accounts but would be regarded as one lending ***facility***.

Facilities with a mix of ***interest rate*** types and/or repayment types may be referred to as split ***facilities***.

Apportioning number

Where the number is required to be reported along a dimension (e.g. ***fixed interest rate*** and ***variable interest rate*** facilities, or ***amortising*** and ***interest-only***), report each ***facility*** once according to the predominant type by value for that dimension, unless otherwise directed.

For example, if a ***facility*** is split by value 25/75 ***fixed interest rate*** and ***variable interest rate*** then one ***facility*** should be recorded (by number) in ***variable interest rate*** and none in ***fixed interest rate***.

If a ***facility*** is split by value 50/50 across ***interest rate*** types or repayment types, then report the number of ***facilities*** as follows:

- ***interest rate*** type: default to ***variable interest rate***; and
- repayment type: default to ***amortising***.

Treatment of fixed interest rates once the fixed period ends

Finance with a ***fixed interest rate*** should be report as having a ***fixed interest rate*** for the period that the ***fixed interest rate*** applies. When the ***fixed interest rate*** period ends, the finance should then be reported as having a ***variable interest rate*** (assuming that the customer has not entered into a new ***fixed interest rate*** period) from that point onwards.

Interest rates

The guiding principle in reporting ***interest rates*** is to report the contractual rate to be paid to or received by the customer/counterparty/debtholder. No fees should be included and no adjustment should be made for whether the payment/receipt actually occurred.

Reporting institutions are requested to report ***interest rates*** as annualised rates and not as a spread. That is, even if the reporting institution would typically consider that rate as a spread over a market rate, then the applicable market rate should be added to the spread when reporting the rate.

Reporting institutions are requested to report ***interest rates*** on foreign currency assets or liabilities as the contractual rate paid to or by the counterparty in that foreign currency. That is, no adjustments for hedging (such as cross-currency basis costs) should be incorporated in the rate reported.

Where there is more than one contractual rate, and the rate paid by the customer depends on their behaviour in that period, report the contractual rate that applied given their behaviour. For example, if a customer qualified for a bonus interest rate, then the rate reported for that account for that period should include the bonus interest rate.

The treatment of interest rates for ***credit cards*** is specific:

- Because a ***credit card*** may charge interest in the month on only a portion of the balances outstanding, the treatment differs. The ***interest rate*** to be reported should be calculated as interest charged on credit cards during the month divided by the relevant balance × 100%. In the absence of further instructions, the relevant balance is the balance of ***credit card*** debt outstanding at the end of the month.
- In other cases, where specifically directed, the balance of ***credit card*** debt outstanding to be reported is total balances that accrued interest in the month. In this case, the ***interest rate*** reported would be the ***weighted average*** contractual rate for all balances that accrued interest in the month.
- When reporting ***credit cards funded*** during the month, the ***interest rate*** reported against the ***credit card*** limit ***funded*** should be zero unless a balance transfer has taken place (in which case, report the ***interest rate*** applying to this balance).

The treatment of ***interest rates*** for ***offset*** and ***set-off accounts*** is specific:

- The linked ***deposit*** and ***loan*** balances are, in the absence of specific instructions to the contrary, to be reported on a gross basis.
- Accordingly, the same (contractual) ***interest rate*** payable to or receivable by the customer on the net balance should be reported on the ***loan*** and ***deposit*** amounts.

Example 1

Assume a ***housing loan offset account*** with an ***interest rate*** of 7 per cent charged on the net balance if the ***loan*** balance exceeds the ***deposit*** balance and an ***interest rate*** of 0 per cent if the ***deposit*** balance exceeds the ***loan*** balance.

If the ***loan*** balance exceeds the ***deposit*** balance, then report the entire ***loan*** balance with an ***interest rate*** of 7 per cent and the entire ***deposit*** balance with an ***interest rate*** of 7 per cent.

If the ***deposit*** balance exceeds the ***loan*** balance then report the entire ***loan*** balance with an ***interest rate*** of 0 per cent and the entire ***deposit*** balance with an ***interest rate*** of 0 per cent.

Example 2

Assume linked ***business*** lending and ***deposit*** accounts with an ***interest rate*** of 16 per cent charged on the net balance if the total ***loan*** balance exceeds the total ***deposit*** balance and an ***interest rate*** of 3 per cent paid if the total ***deposit*** balance exceeds the total ***loan*** balance.

If the total ***loan*** balance exceeds the total ***deposit*** balance then report the total ***loan*** balance with an ***interest rate*** of 16 per cent and the total ***deposit*** balance with an ***interest rate*** of 16 per cent.

If the total ***deposit*** balance exceeds the total ***loan*** balance then report the total ***loan*** balance with an ***interest rate*** of 3 per cent and the total ***deposit*** balance with an ***interest rate*** of 3 per cent.

Calculating an annualised rate

Annualised rates may be calculated by simple multiplication or division of the relevant rate (no calculation of compound rates is required).

Example 3

A ***bank*** has issued a fixed-rate bond that pays a semi-annual coupon of 3 per cent. To obtain the annualised rate on this funding, multiply the semi-annual rate of 3 per cent by 2 to obtain the annualised rate of 6 per cent.

Calculating a weighted average rate

The ***weighted average*** rate is the weighted sum of the individual rates where the weights used are the corresponding balances expressed as a share of the total balance for that category.

Weighted average rates may be calculated using the formula below.

$$weighted\ average\ rate = \sum_i rate_i weight_i$$

Where $weight_i$ = the balance for item i divided by the sum of balances for all items i

Example 4

A ***bank***'s portfolio of business loans in a given industry sector consists of loans with the following characteristics:

Loan Characteristics		
Loan	**Outstanding balance**	**Interest rate**
1	$50m	3%
2	$10m	5%
3	$40m	4%

The ***weighted average interest rate*** would be calculated as:

3% × 50/100 + 5% × 10/100 + 4% × 40/100

= 3.6%

Cost/value of funds

The guiding principle in reporting the ***cost/value of funds*** is to report the rate to be charged or credited to the business unit.

Unless otherwise explicitly directed, the ***cost/value of funds*** is not to be expressed as a spread. That is, even if the reporting institution would typically consider that rate as a spread over a market rate, then the applicable market rate should be added to the spread when reporting the ***cost/value of funds***.

The ***cost/value of funds*** for a foreign currency asset or liability should be reported as the rate applicable to that currency. For example, if the ***cost/value of funds*** is calculated on an AUD basis then the relevant hedging costs (including a cross-currency basis) should be included in the figure reported for an asset or liability denominated in foreign currency.

This ***cost/value of funds*** should include transfer pricing relating to:

- Interest rate risk managed centrally. This transfer price has the effect of reducing the exposure of the business unit to variability in the interest income it receives that arises from changes in interest rates (and transferring that exposure to the treasury). Accordingly, this transfer price may differ by product – where the characteristics of the product expose it to different types of interest rate risk to other asset or liabilities (for example, because their interest rates may reprice on a different frequency or at the option of the customer).
- Liquidity risk managed centrally. This transfer price serves to attribute the costs of centrally managing liquidity risk. It may incorporate the cost of raising funding that matches the expected life of an asset, and other costs relating to the management of liquidity risk (including contingent liquidity risk) in line with APS 210.
- Strategic pricing determined by management. This transfer price is an overlay determined by management policy that is designed to influence the asset or liability composition of the balance sheet.

If the internal transfer prices calculated by your reporting institution contain components that do not fit in one of the categories above (or if they do not incorporate interest rate risk and/or liquidity risk transfer pricing), please contact APRA for further guidance.

Form Specific Guidance

Specific Guidance for ARF 720.0A/B: Statement of Financial Position (Banks & RFCs)/(Non-bank ADIs)

Foreign currency conversion

The general requirements of AASB 121 for translation are:

1. translate foreign currency monetary items outstanding at the reporting date at the spot rate at the reporting date;[6]

2. translate foreign currency non-monetary items that are measured at historical cost in a foreign currency using the exchange rate at the date of the transaction;[7]

   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 The Effects of Changes in Foreign Exchange Rates* (AASB 121).

   Foreign currency ***derivatives*** measured at fair value should be translated at the spot rate at the reporting date.

   Translate equity items 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.

   Recognise exchange differences in profit and loss in the period in 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.

3. translation of financial reports of foreign operations.

   A foreign operation is defined in AASB 121 as meaning an entity that is a subsidiary, ***associated entities***, ***joint venture entities*** 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; and

[6] 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.

[7] 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.

Translation of financial reports should otherwise follow the requirements in AASB 121.

Treatment of repurchase agreements and securities lending

Transactions related to ***repurchase agreements*** (***repos***) and ***securities lending*** are to be recorded consistent with AASB 139.

In a ***repo***/***securities loan***, the security will remain as an asset on the balance sheet of the seller/lender (as required by accounting standards).

If the security is sold under ***repo*** or lent in exchange for cash collateral:

- the seller/lender records an increase in cash, and the purchaser/borrower records a decrease in cash as a result of the cash changing hands.
- the seller/lender records a liability representing the payable due to the purchaser/borrower. The purchaser/borrower will record a corresponding asset representing the receivable due from the seller/lender.

Example 1: Bank A sells securities to Bank B under a repurchase agreement (or lends them against cash collateral)

Bank A (Seller)		**Bank B (Purchaser)**	
Assets	Liabilities	Assets	Liabilities
Securities + Cash	Payable due to Bank B	Receivable due from Bank A - Cash	

If the security is lent in exchange for non-cash collateral, then there is no impact on the ARF 720.0A/B (other than that the value of the security lent should be included in 'Item 3.2: of which: Securities lent or sold under repurchase agreements' on the ARF 720.0A if the security is issued by a ***non-related party***).

Reporting on ARF 720.0A/B for the Seller / Lender

The reporting of the securities lent/sold under ***repo*** on the ARF 720.0A/B will depend on whether the securities were issued by a ***related party*** or a ***non-related party***. If the securities lent/sold under ***repo*** are issued by a ***non-related party***, they should be reported under 'Item 3: Total trading securities' against the appropriate security type on the ARF 720.0A, or under 'Item 3: Total debt securities' or 'Item 4: total equity securities' against the appropriate security type of the ARF 720.0B. These securities should also be identified in 'Item 3.2: of which: Securities lent or sold under repurchase agreements' on the ARF 720.0A. If the securities are issued by a ***related party***, they should be reported under 'Item 12: Total intra-group assets net of lending provisions' on the ARF 720.0A/B.

The reporting of the liability representing the payable due to the purchaser/borrower of the securities will depend on whether the purchaser/borrower is a ***related party*** or a ***non-related party***. If the purchaser/borrower is a ***non-related party***, it should be reported under 'Item 18.6: Payables related to securities lent or sold under repurchase agreements'. If the purchaser/borrower is a ***related party***, it should be reported under 'Item 20: Total intra-group liabilities'.

If the securities were sold or lent against cash collateral, the seller should record the cash received under 'Item 1.1: Notes and coins'.

Reporting on ARF 720.0A/B for the Purchaser / Borrower

The securities borrowed or purchased under ***repo*** should not be reported on the ARF 720.0A/B.

The reporting of the asset representing the receivable due to the seller/lender of the securities will depend on whether the seller/lender is a ***related party*** or a ***non-related party***. If the seller/lender is a ***non-related party***, it should be reported under 'Item 10.4: Receivables related to securities borrowed under securities lending arrangements or purchased under repurchase agreements'. If the seller/lender is a ***related party***, it should be reported under 'Item 12: Total intra-group assets net of lending provisions'.

If the securities were purchased or borrowed against cash collateral, the purchaser should report a decline in cash under 'Item 1.1: Notes and coins'.

Treatment of securitisation

Special Purpose Vehicles (SPVs)

SPVs are a separate legal entity to the ***ADI*** or ***RFC*** and should not be consolidated within ***domestic books*** reporting.

Any positions between the ***ADI*** or ***RFC*** and a related ***SPV*** will need to be recorded as an ***intra-group*** asset or liability.

For assets that have been transferred to an ***SPV*** for the purposes of ***securitisation***, refer to the accounting standards to determine whether the securitised assets should be treated as on-balance sheet or off-balance sheet.

Example 1: Off-balance sheet securitisation

Step 1: a ***bank*** has some ***loans*** (or any other assets), which they would like to securitise.

Step 2: the ***bank*** sells the loans to the ***SPV***. In this example, the purchase by the ***SPV*** is funded by a ***loan*** from the ***bank***. However, this purchase could have also been funded in a number of other ways.

Step 3: the ***SPV*** creates securities backed by the ***loans***. In this example, a portion of the securities issued by the ***SPVs*** are purchased by the ***bank***, and the remaining securities are purchased by other entities. The ***SPV*** uses the cash received from the sale to repay the original ***loan*** from the ***bank***.

Step 1: Prior to securitisation

Bank		**SPV**	
Assets	Liabilities	Assets	Liabilities
Loans	Funding for loans		

Step 2: Bank sells loans to be securitised to the SPV

Bank		**SPV**	
Assets	Liabilities	Assets	Liabilities
Loan to SPV	Funding for loans	Loans	Loan from bank

Step 3: SPV issues securities

Bank		SPV	
Assets	Liabilities	Assets	Liabilities
	Funding for loans	Loans	
Portion of securities issued by SPV held by bank			Securities issued by SPV

Reporting on the ARF 720.0A/B: off-balance sheet securitisation

Once the assets to be securitised have been sold to the ***SPV***, they should no longer be reported on the ARF 720.0A/B.

Any ***loans*** (or other funding) to a related ***SPV*** should be reported in 'Item 12: Total intra-group assets net of lending provisions'. These assets due from related ***SPVs*** should also be reported on the ARF 720.3.

Any securities held that are issued by a related ***SPV*** should be recorded in 'Item 12: Total intra-group assets net of lending provisions'. ***Asset backed securities*** issued by a related ***SPV*** should be treated as ***debt securities***, not ***intra-group loans***. These securities held should also be reported on the ARF 720.3 and either the ARF 720.4 for ***debt securities*** or ARF 720.5 for ***equity securities***.

Example 2: On-balance sheet securitisation

Step 1: a ***bank*** has some ***loans*** (or any other assets), which they would like to securitise.

Step 2: the ***bank*** sells the ***loans*** to the ***SPV***. In this example, the purchase by the ***SPV*** is funded by a ***loan*** from the ***bank***. However, this purchase could have also been funded in a number of other ways. Because the ***bank*** does not derecognise the ***loans*** but does notionally transfer them to the ***SPV***, the ***bank*** records a liability equal to the value of the ***loans*** transferred to the ***SPV***. The ***SPV*** records a corresponding asset representing the value of the ***loans*** transferred by the ***bank***.

Step 3: the ***SPV*** creates securities back by the ***loans***.

Self-Securitisation: all of the securities issued by the ***SPV*** are purchased by the ***bank*** and the ***loan*** is extinguished.

Other on-balance sheet securitisation: in this example, a portion of the securities issued by the ***SPVs*** are purchased by the ***bank***, and the remaining securities are purchased by other entities. The ***SPV*** uses the cash received from the sale to repay the original ***loan*** from the ***bank***.

Step 1: Prior to securitisation

Bank		SPV	
Assets	Liabilities	Assets	Liabilities
Loans	Funding for loans		

Step 2: Bank transfers loans to be securitised to the SPV

Bank		SPV	
Assets	Liabilities	Assets	Liabilities

Loans	Funding for loans		
Loan to SPV	Liability representing value of loans transferred	Asset representing value of loans transferred	Loan from bank

Step 3: SPV issues securities (self-securitisation)

Bank		**SPV**	
Assets	Liabilities	Assets	Liabilities
Loans	Funding for loans		
	Liability representing value of loans transferred	Asset representing value of loans transferred	
Securities issued by SPV			Securities issued by SPV

Step 3: SPV issues securities (other on-balance sheet securitisation)

Bank		**SPV**	
Assets	Liabilities	Assets	Liabilities
Loans	Funding for loans		
	Liability representing value of loans transferred	Asset representing value of loans transferred	
Portion of securities issued by SPV held by bank			Securities issued by SPV

Reporting on the ARF 720.0A/B: on-balance sheet securitisation

The assets to be securitised that have been transferred to the ***SPV*** should be reported on the ARF 720.0A/B against the relevant asset item. For example, ***loans*** to ***non-related parties*** should be reported in 'Item 6: Total loans and finance leases'. These assets should also be reported in 'Item 13.1: Total assets including intra-group assets: of which: Assets that have been securitised' against the appropriate asset type.

The liability representing the value of ***loans*** that have been transferred should be reported in 'Item 20: Total intra-group liabilities'. It should also be identified in 'Item 20.1: of which: Liabilities to SPVs representing the value of assets transferred for securitisation'.

Any ***loans*** (or other funding) to a related ***SPV*** should be reported in 'Item 12: Total intra-group assets net of lending provisions'. These assets due from related ***SPVs*** should also be reported on the ARF 720.3.

Any securities held that are issued by a related ***SPV*** should also be recorded in 'Item 12: Total intra-group assets net of lending provisions'. ***Asset backed securities*** issued by a related ***SPV*** should be treated as ***debt securities***, not ***intra-group loans***. These securities held should also be reported on the ARF 720.3 and either the ARF 720.4 for ***debt securities*** or ARF 720.5 for ***equity securities***.

Treatment of bills of exchange

Bills of exchange (bills) should only be reported on the ARF 720.0A/B if they are held and/or ***accepted*** by your institution. See the table below for the particular items on the ARF 720.0A/B where these bills should be reported.

Bills that have been ***endorsed*** (and neither held or accepted by your institution) should not be reported on the ARF 720.0A/B.

Reporting of bills of exchange		
	Assets	**Liabilities**
Bills held & accepted by your institution	*ARF 720.0A:* Item 3: Total trading securities or Item 4: Total investment securities *ARF 720.0B:* Item 3: Total debt securities	Not reported
Bills held by your institution but not accepted by your institution	*ARF 720.0A:* Item 3: Total trading securities or Item 4: Total investment securities *ARF 720.0B:* Item 3: Total debt securities	Not reported
Bills accepted but not held by your institution	Item 5: Net acceptances of customers *This item represents a contra asset that reflects the **ADI's** or **RFC's** claim against each drawer of a **bill of exchange** (where the **bill** is held by a third party).*	Item 15: Total acceptances *This item represents the liability of the **ADI** or **RFC** to pay (to a third party) **bills of exchange** drawn on customers.*

Treatment of margin monies

Repayable margin should be treated as ***transaction deposits***.

Non-repayable margin should be treated as transactions in financial ***derivatives***.

Treatment of settlement account balances

Settlement account balances should be treated as ***deposits*** and reported against the appropriate ***deposit*** item on the ARF 720.0A/B (and ARF 720.2A/B).

Treatment of interbank loans and deposits

Interbank assets/liabilities should be classified based on the type of asset/liability. For example, interbank ***loans*** should be classified as 'loans', and interbank ***deposits*** should be classified as 'deposits'. In some cases there may be uncertainty about whether to classify an interbank asset/liability as a ***loan*** or as a ***deposit*** - if there is no evidence of ***deposit*** then the asset/liability should be classified as a ***loan***.

Treatment of loans with frequent secondary market quotations

Loans on the secondary market with frequent quotations should be reclassified from ***loans*** to ***debt securities***. If the ***loans*** are traded only once and there is no evidence of a continuing secondary market, they should continue to be treated as ***loans***.

Treatment of foreign currency forwards/swaps with legs in different currencies

Each leg should be converted to AUD using the relevant spot rate per differing currency.

Deposits not at call

As a guide, any ***deposits*** that do not fit the definition of '***deposits at call***' should be classified as '***deposits not at call***'.

Include:

- ***non-transaction deposits***; and
- ***transaction deposits*** not redeemable or withdrawable on demand.

Funds held on behalf of/in trust for clients

The ***domestic books*** definition does not consolidate funds management operations. Any funds held on behalf of / in trust for clients through funds management operations should not be reported on the ARF 720.0A/B.

Section A: Assets

Note that the treatment of ***residents*** and ***non-residents*** in ARF 720.0A/B, Section A: Assets differs from the previous version of this form (ARF/RRF 320.0), where ***residents*** and ***non-residents*** were separately identified.

Item 3: Trading securities on ARF 720.0A

In accordance with AASB 139, ***trading securities*** should be recorded at *net fair value.*

Equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured should be measured at cost.

Item 4: Investment securities ARF 720.0A

Investment securities should recorded according to AASB 139 based on the classification of these securities in your statutory accounts. This should be at either net fair value or amortised cost using the effective interest method.

Item 3: Total debt securities on ARF 720.0B

In accordance with AASB 139, ***trading securities*** should be recorded at *net fair value.*

Equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured should be measured at cost.

Investment securities should recorded according to AASB 139 based on the classification of these securities in your statutory accounts. This should be at either net fair value or amortised cost using the effective interest method.

Item 4: Total equity securities on ARF 720.0B

In accordance with AASB 139, ***trading securities*** should be recorded at *net fair value.*

Equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured should be measured at cost.

Investment securities should recorded according to AASB 139 based on the classification of these securities in your statutory accounts. This should be at either net fair value or amortised cost using the effective interest method.

Item 10.1: Other assets: Interest receivable

Item 10.1 requires institutions to report the interest that has accrued during the period but has not yet received for ***interest-bearing*** assets.

This item should exclude the interest that has been received. Interest received should be included in the value of the relevant asset (such as ***loans*** or ***debt securities***).

If information on interest receivable (Item 10.1) split by ***loans*** and ***finance leases*** (Item 10.1.1) and securities and other interest-earning assets (Item 10.1.2) is not available, apportionment of total interest receivable based on interest received for these product types would be acceptable.

Item 10.3: Other assets: Derivative financial instruments

Include all ***derivatives*** entered into after adoption of International Financial Reporting Standards (IFRS) consistent with the classification and measurement basis used for derivatives by institutions in accordance with AASB 132, AASB 7 and AASB 139. This applies to ***trading book*** and ***banking book derivatives***. ***Derivative*** financial instruments in existence prior to adoption of IFRS are to be reported in accordance with *AASB 1 First-time Adoption of Australian Accounting Standards* (AASB 1).

Item 10.11: Other assets: Fees and commissions receivable

Item 10.11 requires institutions to report fees and commissions that have been earned during the period but not yet received.

This item should exclude fees and commissions that have been received. Fees and commissions received should be included in the value of the relevant asset (such as ***loans*** or ***debt securities***).

If information on fees and commissions receivable split by ***resident non-financial businesses*** (Item 10.11.1) and ***resident financial institutions*** (Item 10.11.2) is not available, estimation or proxy methodology would be acceptable, including:

- using fees and commissions received by product to estimate the split into ***resident non-financial business*** and ***resident financial institutions***.

Item 10.12: Other assets: Other assets

Generally include:

- commodities other than gold bullion;
- ***allocated gold***;
- valuables;
- artwork; and
- prepayments

Section B: Liabilities

Note that the treatment of ***residents*** and ***non-residents*** in ARF 720.0A/B, Section B: Liabilities differs from the previous version of this form (ARF/RRF 320.0), where ***residents*** and ***non-residents*** were separately identified.

Item 18.4: Total creditors and other liabilities: Interest payable

Item 18.4 requires institutions to report the interest that has accrued during the period, but not yet been paid on ***interest bearing*** liabilities.

This item should exclude the interest that has been paid. Interest paid should be included in the value of the relevant liability (such as ***deposits***, ***loans*** or ***debt securities***).

If information on interest payable split by securities (Item 18.4.1), deposits (Item 18.4.2), ***loans*** and ***finance leases*** (Item 18.4.3) and other liabilities (Item 18.4.4) is not available, apportionment of total interest payable based on interest paid on these product types would be acceptable.

Item 18.8: Total creditors and other liabilities: Derivative financial liabilities

Include all ***derivatives*** entered into after adoption of IFRS consistent with the classification and measurement basis used for ***derivatives*** by institutions in accordance with AASB 132, AASB 7 and AASB 139. This applies to ***trading book*** and ***banking book derivatives***. ***Derivative*** financial instruments in existence prior to adoption of IFRS are to be reported in accordance with AASB 1.

Item 18.11: Total creditors and other liabilities: Other

Item 18.11 requires institutions to report fees and commissions that have been received during the period, but not yet earned.

This item should exclude fees and commissions that have been earned. Fees and commissions earned should be included in the value of the relevant asset (such as deposits or debt securities).

If information on fees and commissions earned by not yet received split by ***resident non-financial businesses*** (Item 18.11.1) and ***resident financial institutions*** (Item 18.11.2) is not available, estimation or proxy methodology would be acceptable, including:

- using fees and commissions received by product to estimate the split into ***resident non-financial business*** and ***resident financial institutions***.

Specific Guidance for ARF 720.1A/B: Loans and Finance Leases (Banks)/(Non-bank ADIs & RFCs)

Treatment of securitisation

Refer to the specific instructions for ARF 720.0A/B for general guidance and examples of the treatment of securitisation.

SPVs should not be consolidated within ***domestic books***. Any ***loans*** to related ***SPVs*** should be excluded from the ARF 720.1A/B. These should be reported on the ARF 720.3.

Reporting on the ARF 720.1A: off-balance sheet securitisation

Once the assets to be securitised have been sold to the ***SPV*** (and derecognised for accounting purposes), they should only be reported in 'Item 4: Outstanding principal balance of securitised loans and finance leases held off-balance sheet' on the ARF 720.1A. These assets should be excluded from all other items on the ARF 720.1A.

Reporting on the ARF 720.1B: off-balance sheet securitisation

Once the assets to be securitised have been sold to the ***SPV*** (and derecognised for accounting purposes), they should only be reported in 'Item 4: Outstanding principal balance of securitised loans and finance leases held off-balance sheet' on the ARF 720.1B. These assets should be excluded from all other items on the ARF 720.1B.

Reporting on the ARF 720.1A: on-balance sheet securitisation

The assets to be securitised that have been transferred to the ***SPV*** (but not derecognised for accounting purposes) should be reported on the ARF 720.1A in all items except in 'Item 4: Outstanding principal balance of securitised loans and finance leases held off-balance sheet'.

Reporting on the ARF 720.1B: on-balance sheet securitisation

The assets to be securitised that have been transferred to the ***SPV*** (but not derecognised for accounting purposes) should be reported on the ARF 720.1A in all items except in 'Item 4: Outstanding principal balance of securitised loans and finance leases held off-balance sheet'.

Item 1: Gross outstanding loans and finance leases – by counterparty, currency & residual maturity – of which: maturing in one year or less

Any ***loan*** or ***finance lease*** products that do not have a maturity date should be treated as having a ***residual maturity*** of greater than 12 months. These products should not be reported in column 3 of Item 1 on the ARF 720.1A.

Item 1: Gross outstanding loans and finance leases – by counterparty, currency & residual maturity – collective provisions

Where ***collective provisions*** are not available by counterparty, the counterparty splits may be apportioned based on the value of ***credit outstanding*** to each counterparty.

Item 3.1: Total business loans and finance leases to residents – of which: syndicated loans

Where information on ***syndicated loans*** is not available on the back-book, reporting institutions should use the next available periodic review of the ***loan*** (prior to or during the parallel run period) to determine the correct categorisation applying to large business ***loans***.

Specific Guidance for ARF 720.2A/B: Deposits (Banks)/(Non-bank ADIs & RFCs)

Transaction vs non-transaction deposits

A ***deposit*** should be classified as ***non-transaction deposits*** where any the following criteria are met:

- more than 24 hours' notice is required to withdraw or transfer funds from the account;
- the funds cannot be directly withdrawn, used for payment to a third party, or instantaneously transferred to a linked account from which either of these types of transactions can be conducted;
- there is a restriction on the number of withdrawals or transfers than can be made (e.g. maximum of 2 withdrawals a month) or the rate of interest charged on the deposit differs based on whether a certain number of withdrawals have been made (i.e. bonus savings accounts); or
- there is a restriction on or penalty charged for early withdrawal or transfer of funds (such as loss of interest earned on the remaining funds or a penalty fee other than a transaction fee).

If none of the above criteria are met, the ***deposit*** should be classified as a ***transaction deposit***.

Example of instantaneous transfer to a linked account

A customer has an online savings account that cannot be used to directly make payments or transfers to any account other than their nominated linked account.

- If this linked account is a ***transaction deposit*** account (i.e. meets none of the criteria outlined above) with the same reporting institution as their online savings account <u>and</u> any funds transferred from the online savings account to the ***transaction deposit*** account are instantaneously available in the ***transaction deposit*** account, then the online savings account should be classified as a ***transaction deposit*** account.
- If this linked account is not a ***transaction deposit*** account (i.e. meets one or more of the criteria outlined above) <u>or</u> is with another institution such that there may be a delay between when the funds are available in the linked account <u>or</u> is with the same reporting institution but any funds transferred from the online savings account to the ***transaction deposit*** account are not typically instantaneously available in the ***transaction deposit*** account, then the online savings account should be classified as a ***non-transaction deposit*** account.

Examples of restrictions/penalties on number of withdrawals or transfers

A customer has an account that provides them with 10 free transactions per month, and charges a nominal fee (that approximates the cost of providing that transaction service) on any transactions above this limit.

- This account, provided it did not meet any of the other criteria listed above, would be considered a ***transaction deposit*** account as the fee would not be considered a penalty.

A customer has an account that provides them with unlimited free electronic transactions and charges a nominal fee (that approximates the cost of providing that transaction service) on cheque or over-the-counter transactions.

- This account, provided it did not meet any of the other criteria listed above, would be considered a ***transaction deposit*** account as the fees would not be considered a penalty (and, in addition, there is a fee-free transaction option).

A customer has an account that provides them with 10 free transactions per month, and charges a fee of $10 (that considerably exceeds the cost of providing that transaction service) on any transactions above this limit.

- This account would be considered a ***non-transaction deposit*** account as the fee would be considered a penalty.

A customer has an account that does not charge a fee for transactions, but that pays an extra 3 per cent bonus interest if the customer makes less than two withdrawals per month.

- This account would be considered a ***non-transaction deposit*** account as the loss of bonus interest on the entire ***deposit*** balance would be considered a penalty.

Example of restrictions/penalties on number early withdrawal/transfer of funds

A customer has a breakable term deposit. The customer may withdraw their funds immediately at any time, but face a penalty of $50.

- This account would be considered a ***non-transaction deposit*** account as the fee for immediate withdrawal of funds would be considered a penalty.

Fixed-term deposits

Any ***deposit*** that provides a fixed date on which the funds are repayable should be treated as a ***fixed-term deposit***.

If the ***fixed-term deposit*** is breakable – for example, the funds may be withdrawn prior to the fixed date after providing a notice of withdrawal (with or without a delay in receiving the funds) – the ***deposit*** should be treated as a ***fixed-term deposit*** until notice of withdrawal is provided.

Once a notice of withdrawal is provided:

- if there is a fixed date in the future on which the funds may be withdrawn (i.e. in 30 days) then: the ***deposit*** should still be classified as a ***fixed-term deposit***.
- if there is no fixed date in the future on which the funds may be withdrawn – i.e. they are available immediately or within a few days: the ***deposit*** should no longer be classified as a ***fixed-term deposit*** (it should be classified as a ***transaction deposit*** or ***other non-transaction deposit*** as appropriate).

Rolling notice of withdrawal accounts

Deposit products without a fixed maturity date that offer redemption following a notice of withdrawal period (typically 30 days) should be classified as ***other non-transaction deposit*** accounts until notice of withdrawal is provided. Once notice of withdrawal is given:

- if there is a fixed date in the future on which the funds may be withdrawn (i.e. in 30 days) then: the deposit should be classified as a ***fixed term deposit***,
- if there is no fixed date in the future on which the funds may be withdrawn – i.e. they are available immediately or within a few days: the ***deposit*** should be classified as ***transaction deposit*** or ***other non-transaction deposit*** as appropriate.

Specific Guidance for ARF 720.3: Intra-group Assets and Liabilities

Reporting by asset type

For further detail on how to report by asset type on the ARF 720.3, refer to the instructions and guidance on the ARF 720.0A. When applying the ARF 720.0A instructions and guidance to the ARF 720.3, ignore any instructions that state to exclude positions with ***related parties*** (***intra-group*** assets or liabilities) or to include positions with ***non-related parties***.

Specific Guidance for ARF 720.4: Debt Securities Held

Valuation

Closing balances should be reported at ***market value*** effective at the reference date. Where denominated in foreign currency, ***market values*** of foreign currency should be converted to AUD at the spot rate effective as at the reference date.

If ***market value*** is not available, reporting in fair value will be acceptable. Use techniques outlined in AASB139 Appendix A, paragraphs AG69 to AG79 – *Fair Value Measurement Considerations* to determine most appropriate valuation techniques to report fair value. Apply these valuation methods to all ***debt securities*** held including those held to maturity.

State, territory and local government / central borrowing authorities

Particular care should be taken to determine whether ***debt securities*** that appear to be issued by State, Territory and local government are actually issued by ***central borrowing authorities***. State ***central borrowing authorities*** have taken over almost all bond issuance for funding required by State, Territory and local governments. The Australian Capital Territory (ACT) general government is the only state or territory that issues securities directly.

Intra-group assets

Report all ***debt securities*** held, including holdings of ***debt securities*** issued by ***related parties***.

Treatment of securitisation

Refer to the specific guidance for ARF 720.0A for general guidance and examples on the treatment of ***securitisation***.

SPVs should not be consolidated within ***domestic books***.

Securities held that are issued by related ***SPVs*** should be reported on this form.

Treatment of repurchase agreements and securities lending

Refer to the specific guidance for ARF 720.0A for general guidance and examples on the treatment of ***repurchase agreements (repos)*** and ***securities lending***.

Securities lent or sold under ***repo*** should be reported on the ARF 720.4.

Securities borrowed or purchased under ***repo*** should not be reported on the ARF 720.4.

Reconciliation between ARF 720.4 and ARF 720.0A & ARF 720.3

The sum of ***short-term*** and ***long-term debt securities*** held reported on the ARF 720.4 is equivalent to the sum of ***debt securities*** reported under ***trading securities*** and ***investment securities*** on the ARF 720.0A and ***debt securities*** reported under ***trading securities*** and ***investment securities*** on the ARF 720.3, apart from differences in valuation methodology. Values may not reconcile exactly because ***debt securities*** are reported at ***market value*** on ARF 720.4 and may be reported on a different basis on the ARF 720.0A and ARF 720.3 (according to accounting treatment). See the table below for the specific items that should be equivalent, if it were not for the different valuation bases.

Reconciliation between ARF 720.4 and ARF 720.0A & ARF 720.3	
ARF 720.4	**ARF 720.0A & ARF 720.3**
Item 1: Total short-term debt securities held –	Item 3.3 on ARF 720.0A: Total trading securities:

column 1: closing stock Plus Item 2: Total long-term debt securities held – column 1: closing stock	debt securities – column 1: total Plus Item 4.1 on ARF 720.0A: Total investment securities: debt securities – column 1: total Plus Item 1.1.2.2 on ARF 720.3: Total intra-group assets - Trading securities: debt securities – column 1: total Plus Item 1.1.3.2 on ARF 720.3: Total intra-group assets - Investment securities: debt securities – column 1: total

Specific Guidance for ARF 720.5: Equity Securities Held

Valuation

Closing balances should be reported at ***market price*** effective at the reference date. Where denominated in foreign currency, ***market values*** of foreign currency should be converted to AUD at the spot rate effective as at the reference date.

If ***market value*** is not available, reporting in fair value will be acceptable. Use techniques outlined in AASB139 Appendix A - paragraphs AG80 to AG81 (No Active Market: Equity Instruments) – *Fair Value Measurement Considerations* to determine most appropriate valuation techniques to report fair value.

Intra-group assets

All ***equity securities*** held should be reported, including holdings of shares and other equities issued by ***related parties***.

Treatment of repurchase agreements and securities lending

Refer to the specific guidance for ARF 720.0A for general guidance and examples on the treatment of ***repurchase agreements (repos)*** and ***securities lending***.

Securities lent or sold under ***repo*** should be reported on the ARF 720.5.

Securities borrowed or purchased under ***repo*** should not be reported on the ARF 720.5.

Reconciliation between ARF 720.5 and ARF 720.0A & ARF 720.3

The sum of ***equity securities*** held reported on the ARF 720.5 is equivalent to the sum of ***equity securities*** reported under ***trading securities*** and ***investment securities*** on the ARF 720.0A and any ***trading securities*** and ***investment securities*** on the ARF 720.3, apart from differences in valuation methodology. Note that the values may not reconcile exactly because equity securities are reported at ***market value*** on ARF 320.5 and may be reported on a different basis on the ARF 720.0A and ARF 720.3. See the table below for the specific items that should be equivalent, if it were not for the different valuation bases.

Reconciliation between ARF 720.5 and ARF 720.0A & ARF 720.3	
ARF 720.5	**ARF 720.0A & ARF720.3**
Item 1: Total equity securities listed on the ASX and issued by residents – column 1: closing stock Plus Item 2: Total equity securities not listed on the ASX and issued by residents – column 1: closing stock Plus Item 3: Total equity securities issued by non-residents – column 1: closing stock	Item 3.4 on ARF 720.0A: Total trading securities: equity securities – column 1: total Plus Item 4.2 on ARF 720.0A: Total investment securities: equity securities – column 1: total Plus Item 1.1.2.3 on ARF 720.3: Total intra-group assets - trading securities: equity securities – column 1: total Plus Item 1.1.3.3 on ARF 720.3: Total intra-group assets - investment securities: equity securities – column 1: total

Specific Guidance for ARF 720.6: Securities Issued

Valuation

Closing balances should be reported at ***market price*** effective at the reference date. Where denominated in foreign currency, market values of foreign currency should be converted to AUD at the spot rate effective as at the reference date.

If ***market value*** is not available, reporting in fair value is acceptable. Techniques in AASB139 Appendix A paragraphs AG69 to AG81 – *Fair Value Measurement Considerations* are recommended to determine most appropriate valuation techniques to report fair value.

Treatment of securitisation

Refer to the specific guidance for ARF 720.0A for general guidance and examples of the treatment of ***securitisation***.

SPVs should not be consolidated within ***domestic books***.

Treatment of covered bonds

Irrespective of the use of an ***SPV*** for segregation of the assets in a ***covered bond collateral pool***, ***covered bonds*** are considered to be issued by the ***ADI*** itself.

Reconciliation between ARF 720.6 and ARF 720.0A & ARF 720.6

The sum of ***short-term*** and ***long-term debt securities excluding hybrids*** and ***hybrid securities treated as liabilities*** issued on the ARF 720.6 are equivalent to the sum of ***short-term*** and ***long-term debt securities*** issued on the ARF 720.0A and ***debt securities*** issued on the ARF 720.3, apart from differences in valuation methodology. Note that the values may not reconcile exactly because securities issued are reported at ***market value*** on the ARF 720.6 and may be reported on a different basis on the ARF 720.0A and ARF 720.3. See the table below for the specific items that should be equivalent, if it were not for the different valuation bases.

Reconciliation between ARF 720.6 and ARF 720.0A & ARF 720.6	
ARF 720.6	**ARF 720.0A & ARF 720.3**
Item 1: Total short-term debt securities excluding hybrids – column 1: AUD Plus Item 1: Total short-term debt securities excluding hybrids – column 2: FX (AUD equivalent) Plus Item 2: Total long-term debt securities excluding hybrids – column 1: AUD Plus Item 2: Total long-term debt securities excluding hybrids – column 3: FX (AUD equivalent) Plus Item 3: Total hybrid securities treated as liabilities	Item 16.2 on ARF 720.0A: Total borrowings: debt securities – column 1: short-term Plus Item 16.2 on ARF 720.0A: Total borrowings: debt securities – column 2: long-term Plus Item 3.1.3.1 on ARF 720.3: Total intra-group liabilities - borrowings: debt securities – column 1: total.

– column 1: AUD Plus Item 3: Total hybrid securities treated as liabilities – column 3: FX (AUD equivalent)	

Specific Guidance for ARF 720.7: Bill Acceptances and Endorsements

Valuation

Closing balances should be reported at ***market price*** effective at the reference date. Where denominated in foreign currency, ***market values*** of foreign currency should be converted to AUD at the spot rate effective as at the reference date.

If ***market value*** is not available, reporting in fair value is acceptable. Use techniques outlined in AASB139 Appendix A paragraphs AG69 to AG79 – *Fair Value Measurement Considerations* to determine most appropriate valuation techniques to report fair value.

Specific Guidance for 721.0: Repurchase agreements and securities lending

Option A vs Option B

ADIs and ***RFCs*** reporting on the ARF 721.0 may select either option A or option B to report on a monthly basis.

If the ***ADI*** or ***RFC*** would like to switch between Option A or Option B, the ADI or RFC is requested to notify ***APRA*** first.

Specific Guidance for 722.0: Derivatives

Basis of reporting

The reporting of ***ASNA derivatives*** on this form does not comply with Australian Accounting Standards, in that the form requires:

- reporting on a gross basis, that is contracts should not be reported on net basis;
- that the net transactions and revaluations will not reconcile to the profit and loss (P&L) statement; and
- reporting of all ***warrants***.

The form is designed to meet statistical reporting requirements as prescribed by the 2008 System of National Accounts (2008 SNA) international framework. The 2008 SNA considers derivatives more than a financial instrument used for risk management such as hedging. Derivatives according to the 2008 SNA are financial instruments in their own right, like ***loans*** and securities, and contribute to an economy's borrowing and lending positions.

For reporting on this form, a financial derivative is treated as a financial instrument that can be traded, and carries a market valuation that is linked to but valued separately from the underlying instrument on which the contract is based. The recording of positions, transactions and revaluations should be treated as separately, rather than as integral parts of the value of underlying instruments to which they are linked.

Market valuation should be used for both over-the-counter and exchange-traded derivatives.

The major objective of the form is to reconcile the opening and closing positions for derivatives through the net transactions and revaluations during the period. The form is not trying to reconcile the net transactions and revaluations back to the P&L statement.

Opening and closing positions

Reporting institutions are requested to report all derivative contracts separately, and to not include the value of the underlying financial instrument.

Reporting institutions are requested to report all opening and closing contracts in an asset position separately in Item 1, and to report all opening and closing contracts in a liability position separately in Item 2.

Do not offset contracts:

- in an asset position with contracts in a liability position;
- in different types of derivative instruments; and
- with different counterparties.

The opening and closing balance reported on this form will not line up with the derivatives items reported on the ARF 720.0A/B for the reasons detailed above.

Net transactions and revaluations during the period

Net transactions represent the cash flow and the ***revaluations*** represent holding gains and losses on the derivative.

Specifically, ***net transactions*** in derivatives represent the payment to initiate the contract within the quarter less the payment to settle the contract within the quarter. ***Net transactions*** also include purchases of existing contracts less the sale of existing contracts.

Revaluations in derivatives represent the holding gains and losses arising from changes in ***market prices*** of assets and liabilities during the quarter.

Reporting institutions are requested to report the ***net transactions*** and ***revaluations*** of the derivative contracts separately; do not include the value of the underlying financial instrument.

Reporting institutions are requested to report all ***net transactions*** and ***revaluations*** related to contracts in an asset position separately from ***net transactions*** and ***revaluations*** related to contracts in a liability position.

Do not offset contracts:

- in an asset position with contracts in a liability position;
- in different types of derivative instruments; or
- with different counterparties.

Examples for reporting derivatives that do not switch between positive and negative market value during the reporting period

Example 1: Swap

Bank A sets up a pay fixed-rate, receive floating-rate ***swap*** with Company XYZ.

The ***swap*** was initiated in March quarter and settles in December quarter. There was no payment to initiate the contract and payments will be made semi-annually in June and December. These payments are the net of the receive floating and pay fixed legs of the contract.

At the end of March quarter, the ***swap*** had a ***market value*** of $10 million. During the June quarter a $5 million (net coupon payment) was received and, at the end of June quarter, the ***swap*** had a ***market value*** of $12 million.

Bank A would report on the ARF 722.0 for the March quarter and June quarter as follows:

Table 1: ARF 722.0 - Swap - March quarter

March quarter				
(1) Derivatives with a Gross positive market value				
	Opening position	**Net transactions**	**Revaluations**	**Closing position**
Swap			10	10
(2) Derivatives with a Gross negative market value				
	Opening position	**Net transactions**	**Revaluations**	**Closing position**
Swap				

Table 2: ARF 722.0 - Swap – June quarter

June quarter				
(1) Derivatives with a Gross positive market value				

	Opening position	**Net transactions**	**Revaluations**	**Closing position**
Swap	10	-5	7	12
(2) Derivatives with a Gross negative market value				
	Opening position	**Net transactions**	**Revaluations**	**Closing position**
Swap				

The worked example for June quarter (Table 2) shows that the ***net transactions*** and ***revaluations*** will not reconcile to the Bank A's P&L (Table 3). The $5 million payment is treated as a financial transaction rather than as interest income (as it would in the statutory accounts). That is, cash has been increased, but the ***swap*** asset has been reduced (a negative transaction). Note that in treating the ***swap*** coupon interest as a financial transaction, the ***revaluation*** is increased. This reconciles opening and closing positions for the derivative. Another way of saying this is that ARF 722.0 treats holding gains as revaluations while Australian Accounting Standards treat them as income.

Table 3 shows how the above ***swap*** example is reported in statutory accounts.

Table 3: Bank P/L – Statutory Account - June quarter

Statutory accounts – Accounting standards				
Profit and Loss				
Swap interest	5			
Revaluation	2			
Total profit	7			
Balance sheet				
	Opening position	Net transactions	Revaluations	Closing position
Cash	0	5		5
Swap	10		2	12
Total	10	5	2	17

The intention is not to match the $7 million ***revaluation*** reported in this form (Table 2) with the $2 million revaluation in the statutory profit and loss (Table 3). Similarly, it is not the intention to match the ***net transaction*** back to the ***swap*** interest payment in the profit and loss statement.

At the end of September quarter the ***swap*** had a market value of $5 million. No net coupon payments were received during the quarter.

During December quarter, a $4 million net coupon payment was received and at the end of December quarter the ***swap*** expires.

Bank A would report on the ARF 722.0 form for the September quarter (Table 4) and December quarter (Table 5) as follows:

Table 4: ARF 722.0 - Swap – September quarter

September quarter

(1) Derivatives with a Gross positive market value				
	Opening position	**Net transactions**	**Revaluations**	**Closing position**
Swap	12		-7	5
(2) Derivatives with a Gross negative market value				
	Opening position	**Net transactions**	**Revaluations**	**Closing position**
Swap				

Table 5: ARF 722.0- Swap – December quarter

December quarter				
(1) Derivatives with a Gross positive market value				
	Opening position	**Net transactions**	**Revaluations**	**Closing position**
Swap	5	-4	-1	0
(2) Derivatives with a Gross negative market value				
	Opening position	**Net transactions**	**Revaluations**	**Closing position**
Swap				

Example 2: Forward

In terms of the requirements of the ARF 722.0, a ***forward*** is reported the same way as the ***swap*** example above. The only difference is that a ***forward*** has one settlement period, whereas a ***swap*** can have multiple settlement periods.

Example 3: Option

In March quarter, Bank A enters into a European-style option agreement to buy 1,000,000 XYZ shares at a pre-set price of $10 per share. The ***option*** premium is $0.4 million. The ***option*** expires in December quarter.

The payment of the option premium is treated as a net transaction ($0.4 million). The erosion of the premium (or time value) is treated as a revaluation (-$0.1 million). At the end of March quarter, the share price is $10 per share, which suggests a zero intrinsic value. Bank A would report on the ARF 722.0 for March quarter (Table 6) as follows:

Table 6: ARF 722.0 – Option -March quarter

March quarter				
(1) Derivatives with a Gross positive market value				
	Opening position	**Net transactions**	**Revaluations**	**Closing position**
Option		0.4	-0.1	0.3
(2) Derivatives with a Gross negative market value				
	Opening position	**Net transactions**	**Revaluations**	**Closing position**
Option				

In June quarter, the market price of Company XYZ shares rise to $30 per share. Therefore the intrinsic value, equal to the difference between the ***market price*** and the pre-set price multiplied by the number of shares, is $20 million. The premium has eroded by a further $0.1 million. The $19.9 million ***revaluation*** is equal to the intrinsic value ($20 million) less the erosion of time value ($0.1 million). Bank A would report the following for June quarter (Table 7):

Table 7: ARF 722.0-Option –June quarter 2015

June quarter 2015				
(1) Derivatives with a Gross positive market value				
	Opening position	**Net transactions**	**Revaluations**	**Closing position**
Option	0.3		19.9	20.2
(1) Derivatives with a Gross negative market value				
	Opening position	**Net transactions**	**Revaluations**	**Closing position**
Option				

In September quarter, the ***market price*** of Company XYZ shares rises to $31 per share, making the intrinsic value equal to $21 million. The premium erodes by a further $0.1 million. The $0.9 million ***revaluation*** is equal to the $1 million increase in the intrinsic value less the erosion of premium. Bank A would report the following for September quarter (Table 8):

Table 8: ARF 722.0 – Option- September quarter

September quarter				
(1) Derivatives with a Gross positive market value				
	Opening position	**Net transactions**	**Revaluations**	**Closing position**
Option	20.2		0.9	21.1
(2) Derivatives with a Gross negative market value				
	Opening position	**Net transactions**	**Revaluations**	Closing position
Option				

In December quarter, the ***market price*** of Company XYZ shares is $31 per share. The premium erodes by $0.1 million and the option expires. Bank A would report the following for December quarter (Table 9):

Table 9: ARF 722.0 – Option- December quarter

December quarter				
(1) Derivatives with a Gross positive market value				
	Opening position	**Net transactions**	**Revaluations**	**Closing position**
Option	21.1	-21	-0.1	0
(2) Derivatives with a Gross negative market value				
	Opening	**Net transactions**	**Revaluations**	**Closing**

	position			**position**
Option				

The cash receipt of $21 million closes the ***option*** position. That is, the asset position is reduced (negative transaction).

Example 4: Other types of instrument

The ABS is expecting to see reporting of credit derivatives in this instrument category, where these are not classified as options or forward-type instruments.

Examples for reporting derivatives that switch between positive and negative market value during the reporting period

The 2008 SNA provides guidance for ***swaps***, which require on-going servicing. The guidance is summarised as follows:

If cash is received in the quarter and:

- the contract is in an asset position when the cash is received, then show a negative transaction on the asset side; or
- the contract is in a liability position when the cash is received, then show a positive transaction on the liability side.

If cash is paid in the quarter and:

- the contract is in a liability position when the cash is paid, then show a negative transaction on the liability side; or
- the contract is in an asset position when the cash is paid, then show a positive transaction on the asset side.

If this is not practical – for example, when an ***ADI*** or ***RFC*** "realises" a cash settlement (receipt or payment) for the reporting period, but does not know the position (asset or liability) of the contract at the time of settlement – then:

- a cash receipt should be recorded as a negative transaction on the asset side; and
- a cash payment should be recorded as a negative transaction on the liability side.

Therefore, when a ***swap*** changes position in the quarter:

1. split the net cash flow into receipt and payment;
2. show the receipt as a negative transaction on the asset side (gross positive market value); and
3. show the payment as a negative transaction on the liability side (gross negative market value).

Example 5: Swap that switches positions

Assume a ***swap*** has an opening position of $30 million asset (gross positive market value) and a closing position of $30 million liability (gross negative market value). During the quarter there is a net cash receipt of $4 million, which is decomposed into a $5 million receipt and a $1 million payment. Following the 2008 SNA, the ARF 722.0 reporting would look as shown (Table 11):

Table 11: ARF 722.0 – Swap - December quarter

December quarter				
(1) Derivatives with a Gross positive market value				
	Opening position	**Net transactions**	**Revaluations**	**Closing position**
Swap	30	-5	-25	0
(2) Derivatives with a Gross negative market value				
	Opening position	**Net transactions**	**Revaluations**	**Closing position**
Swap	0	-1	31	30

The SNA guidance illustrated in this section holds regardless of whether or not the swap changes position during the quarter. From our first example discussed in Part 1 (*Example 1: Swap, June quarter 2015)* the following may be observed:

- the net coupon of $5 million can be broken down into a cash receipt of $10 million and a cash payment of $5 million;
- $10 million cash is received and the contract is in an asset position, therefore we show a negative transaction on the asset side of $10 million;
- $5 million cash is paid and the contract is in an asset position, therefore we show a positive transaction on the asset side; and
- these net to a negative transaction of $5 million on the asset side (Table 2).

Reporting futures

Futures are exchange-traded forward contracts. They have the following unique features:

- they have a value of zero for the opening and closing positions as they are fully margined (or settled) daily to square off any mark-to- market (MTM) changes;
- a reporting institution can have several contracts during a period with the exchange that are settled on a net basis.

As a result of these features, it was concluded that it would be difficult to capture the reporting of futures according to the requirements of the 2008 SNA (i.e. under Part A of the ARF 722.0). Therefore, a separate question is included in Part B of the ARF 722.0 for ***futures*** to obtain the ***net transactions*** and the ***revaluations***.

For ***futures*** contracts, report ***net transactions*** and ***revaluations*** on a net basis where offsetting of contracts in an asset position with those in a liability position will be accepted.

Reporting net transactions of derivatives that reference exchange rates

For derivatives with exchange rates as underlying instruments where it is difficult to apply a spot exchange rate at the time of settlement, take the total realised amount for the period for each trade and convert to AUD at the closing rate.

Specific Guidance for 723.0: Margin lending facilities

Linked collateral and deposit accounts

Linked collateral and ***deposit*** accounts should be excluded from the value of ***credit outstanding*** for ***margin lending*** (i.e. do not subtract the value in the accounts from the outstanding value of the lending facility).

Item 1: New borrower-accepted margin loan commitments – by interest rate type

For ***internal refinancing commitments***, only report the value of the net increase.

Item 2: Margin loans – by account balance

Example 1: customer with 1 margin loan with $50,000 credit outstanding

	Customers	Loans	
	Number (1)	**Number (2)**	**Value (3)**
1.1. Total margin lending to residents	1	1	50,000
1.1.1. *of which:* Credit outstanding	1	1	

Example 2: customer with 2 margin loans – one with $50,000 credit outstanding and one with $25,000 credit outstanding

	Customers	Loans	
	Number (1)	**Number (2)**	**Value (3)**
1.1. Total margin lending to residents	1	2	75,000
1.1.1. Credit outstanding	1	2	

Example 3: customer with 2 margin loans – one with $50,000 credit outstanding and one with a zero balance

	Customers		
	Number (1)	**Number (2)**	**Value (3)**
1.1. Total margin lending to residents	1	2	50,000
1.1.1. Credit outstanding	1	1	

Example 4: customer with 2 margin loans – one with $50,000 credit outstanding and one with a net-deposit balance of $10,000

	Customers	Loans	
	Number (1)	**Number (2)**	**Value (3)**
1.2. Total margin lending to residents	1	2	50,000
1.2.1. Credit outstanding	1	1	

Item 3: Credit limits on margin loans to residents

The ***credit limit*** for ***margin lending*** should reflect the maximum that the borrower can draw down based on the notional credit limit in the ***loan*** contract and the ***loan*** conditions (such as the maximum allowable ***loan-to-valuation ratio***). The ***credit limit*** reported should always be the lower of these limits.

The ***credit limit*** for ***margin lending*** can be equal to or lower than the ***credit limit*** in the ***loan*** contract. The ***credit limit*** cannot be higher than the ***credit limit*** in the ***loan*** contract.

Example 1

A borrower has a ***margin loan***. The ***loan*** conditions state the notional ***credit limit*** is $100,000 and the maximum ***loan-to-valuation ratio*** is 60%. The borrower has $200,000 worth of ***collateral*** against this ***loan***.

In this example, the borrower has enough ***collateral*** to ***drawn down*** the entire value of the ***loan*** without breaching the maximum ***loan-to-valuation ratio***. The ***credit limit*** reported will be equal to the ***credit limit*** in the ***loan*** contract ($100,000).

Example 2

A borrower has a ***margin loan***. The loan conditions state the notional ***credit limit*** is $100,000 and the maximum ***loan-to-valuation ratio*** is 60%. The borrower has $100,000 worth of ***collateral*** against this ***loan***.

In this example, the borrower does not have enough ***collateral*** to ***drawn down*** the entire value of the ***loan*** without breaching the maximum ***loan-to-valuation ratio***. The ***credit limit*** reported will be lower than the ***credit limit*** in the loan contract ($60,000).

Item 10: Security underlying margin loans outstanding to residents – largest 10 exposures to listed companies (by market capitalisation)

The value of market capitalisation of a company should be obtained from an appropriate third-party source.

Reconciliation between ARF 723.0 and ARF 741.0 & ARF 745.0

Item 1.1 New borrower-accepted margin loan commitments to residents during the quarter

Total new ***commitments*** for ***margin loans*** to ***residents*** reported in item 1.1 on the ARF 723.0 should be equivalent to the sum of ***commitments*** for ***margin lending*** reported on the ARF 741.0 and ARF 745.0, apart from differences in the reporting periods. The ARF 723.0 is reported quarterly while the ARF 741.0 and ARF 745.0 is reported monthly, thus the sum of the monthly values reported on the ARF 741.0 and ARF 745.0 during the quarter, should equal the values reported on the ARF 723.0 for the same quarter. See the table below for the specific items that should be equivalent, if it were not for the different reporting periods.

Reconciliation between ARF 723 and ARF 741.0 & ARF 745.0	
ARF 723.0	**ARF 741.0 & ARF 745.0**
Item 1.1: Total new borrower-accepted margin loan commitments to residents during the quarter – column 1: Value	Item 1.1 on ARF 741.0: New borrower-accepted commitments to resident non-related parties during the month (including increases to previously committed credit limits) – column 2: Margin lending

	Plus Item 2.1 on ARF 745.0: New borrower-accepted commitments to residents during the month (including increases to previously committed credit limits) – column 2: Margin lending Summed over the calendar quarter corresponding to the reporting period for ARF 723.0.

Specific Guidance for 730.0: Statement of financial performance

Finance lease income

A ***finance lease*** refers to the leasing or hiring of ***tangible assets*** under an agreement (other than a hire purchase agreement) that transfers from the lessor to the lessee substantially all the risks and benefits incident to ownership of the assets, without transferring the legal ownership.

Income earned from a ***finance lease*** should be recorded as interest income. Treatment of ***finance leases*** should be in accordance with *AASB 117 Leases* (AASB 117).

Operating lease income

An ***operating lease*** is a ***lease*** under which the lessor effectively retains substantially all the risks and benefits incident to ownership of the leased asset. An operating lease is a lease other than a ***financial lease***.

Income earned on ***operating leases*** should be recorded as non-interest income. Treatment of ***operating leases*** should be in accordance with AASB 117.

Item 1: Interest income

ADIs and ***RFCs*** are to report interest income from both ***residents*** and ***non-residents***; and from both ***related parties*** and ***non-related parties***.

Allocating Interest Income by financial instrument – using ARF 330.1

For ***ADIs***, it may be useful to initially split the total ***domestic book*** interest income into instruments categories as described in the instructions for *ARF 330.1: Interest Income and Interest Expense (Licensed Book)* (ARF 330.1) – see Table 1.

Note that for ***RFCs***, the *RRF 331.0: Selected Revenue and Expense* (RRF 331.0) only categorises interest income by ***debt securities*** and ***housing loans***. ***RFCs*** may use the methodology based on the balance sheet forms to allocate total interest income by financial instruments (see Table 2).

Table 1: Map of Interest Income from ARF 330.1 to ARF 730.0

ARF 330.1	ARF 730.0
Cash and liquid assets and Other deposits	Item 1.1.1: Notes and coins and Item 1.1.2: Deposits
Trading and Investment securities	Item 1.1.3: Short-term debt securities and Item 1.1.4: Long-term debt securities
Derivative - banking book -hedging	Item 1.1.5: Derivative – banking Book: Hedging
Loans and advances	Item 1.1.6: Loans and finance leases
Other	Item 1.1.7: Other interest earning assets
Investment into related parties	• pro-rated using information in ARF 720.3; and then mapped to • Items 1.1.2, 1.1.3, 1.1.4, 1.1.6 and 1.1.7

Allocating Interest Income by financial instrument – using balance sheet information

The categories of the interest-earning assets from the balance sheet (ARF 720.0A/B, ARF 720.1A/B, ARF 720.3 and ARF 720.4) may be used to allocate and or validate the interest income by financial instrument categories required on the ARF 730.0 – see Table 2.

Table 2: Map of Interest Income from ARF 730.0 to the corresponding item on balance sheet

ARF 730.0	Balance sheet forms
Item 1.1.1: Notes and coins	ARF 720.0A/B: Item 1.1: Notes and coins (column 1)
Item 1.1.2: Deposits	ARF 720.0A/B: Item 2: Total deposits (column 5); and ARF 720.3: Item 1.1.1: Deposits (column 1)
Item 1.1.2: Short-term debt securities	ARF 720.4: Item 1: Short-term debt securities held (column 1)
Item 1.1.3: Long-term debt securities	ARF 720.4: Item 2: Long-term debt securities held (column 1)
Item 1.1.4: Derivative – banking Book: hedging	ARF 720.0A/B: Item 10.3.2: Banking book derivatives
Item 1.1.5: Loans and finance leases	ARF 720.0A/B: Item 6: Total loans and finance leases (column 1); or ARF 720.1A/B: Item 1: Total loans and finance leases (column 1); and ARF 720.3: Item 1.1.5: Loans and finance leases (column 1)

Example 1: Allocating Interest Income – short and long term debt securities

The methods below illustrate possible ways to allocate interest income to ***short-term*** and ***long-term*** securities utilising information from the ARF 330.1 and the balance sheet forms.

a) split the ***domestic book*** total income from interest earning assets (Item 1.1 of ARF 730.0) into instrument categories by apportioning using the values reported on ARF 330.1 as a proxy.

b) for each type of ***short-term debt security*** held at the end of the reporting period (Item 1 of ARF 720.4) multiply by an indicator market interest rate to obtain an estimate of interest income by type of ***short-term debt security***. Aggregate the interest income to calculate total interest received for ***short-term debt securities***.

c) for each type of ***long-term debt security*** held at the end of the reporting period (Item 2 of ARF 720.4) multiply by an indicator market interest rate to obtain an estimate of interest income by type of ***long-term debt security***. Aggregate the interest income to calculate total interest received for ***long-term debt securities***.

d) pro-rate the total interest income allocated to ***short-term*** and ***long-term debt securities*** (item a) by interest income derived in (b) for ***short-term securities***.

e) pro-rate the total interest income allocated to ***short-term*** and ***long-term debt securities*** (item a) by interest income derived in (c) for ***long-term securities***.

Loans and finance leases interest income by counterparty

It is acknowledged that reporting of counterparty information required for ***loans*** and ***finance leases*** interest income may be a challenge for some ***ADIs*** and ***RFCs*** as the reporting system for obtaining financial performance information is designed around business units (customer segmentation) and product classifications within the units.

Table 3 maps the four counterparty sectors to an indicative set of ***ADI***/***RFC*** business units.

Table 3: Map of ARF 730 counterparties for loans and finance leases to ADI/RFC Business Units

ARF 730.0- Counterparty	ADI/RFC Business Units
Household	Retail/Consumer/Personal
Private Unincorporated Business	Micro and Small Business
Other Private Non-Financial Corporations	Medium & Large Business/Corporate/Institutional
Other	Large Business/Corporate/Institutional

(a) Households

Table 3 indicates that ***household*** interest income from ***loans*** and ***finance leases*** should map directly to the interest income generated from retail/consumer/personal business units. The ARF 730.0 requires a further breakdown of ***household*** interest income to the categories shown in Table 4. These categories may be estimated using product type.

Table 4: Map of ARF 730 Sectors to ADI/RFC Business Units/Products

ARF 730.0 - Household -Counterparty	Business Units/ Products
Housing loans • ***Owner-occupied*** • ***Investment***	Home loan products • Owner-occupied home loans • Investor home loans
Personal loans • ***Credit cards*** • Other	Personal loan products • Credit card products • Other products

ADIs/***RFCs*** may therefore be able to allocate the interest income to ***housing*** (***owner-occupied*** and ***investment***), and ***personal*** (***credit cards*** and other) by using ***loan*** product information within the business unit related to ***households***.

(b) Private Unincorporated Businesses

Table 3 indicates that ***private unincorporated business*** interest income from ***loans*** and ***finance leases*** should map directly to the interest income generated by micro and small business units.

For ***ADIs***/***RFCs*** that are not able to identify small business customers into a separate business units, ***small*** business customers may be identified by an ***ADI***'s/***RFC***'s internal business indicators such as annual ***turnover*** and debt exposure, revenue, total lending limits, business lending limits and/or through product information. See section on *Business Size* for further guidance.

(c) Private Non-Financial Corporations and Other

Table 3 indicates that the ***other private non-financial corporations*** and the 'other' counterparty sectors would both map to large business/corporate/institutional business units. ***Medium*** size business would map directly to ***other private non-financial corporations***.

The 'other' counterparty includes financial corporations, public sector units, ***community service organisations*** and property trusts. In general, it is expected that ***ADIs*** and ***RFCs*** do not provide significant amounts of ***loans*** to entities in the 'other' category. The majority of the ***loans*** – and therefore the interest income earned – in the ***large*** Business/Corporate/Institutional business units are expected to be earned by providing ***loans*** to ***other private non- financial corporations***.

ADIs/***RFCs*** may find it difficult to distinguish between the interest income for the 'other' and ***other private non- financial corporations***. If possible:

- ***ADIs*** and ***RFCs*** are encouraged to identify the entities that fall into the 'other' category as described above, estimate their interest income and derive, as a residual, ***interest income earned*** from ***other private non-financial corporations***; or
- estimate interest income for the two categories using the balance sheet information in ARF 720.1A/B and indicator interest rates – see example 2.

Item 1.1.1.1: interest income on notes and coins

Notes and coins represent holdings of physical currency. Some institutions may receive interest income on the working balance of notes held under cash distribution arrangements. For most units, reporting a zero value for this item would be valid.

Interest Expense

ADIs and ***RFCs*** should report interest expense from both ***residents*** and ***non-residents***; and from re***lated parties*** and ***non-related parties***. Interest income is not separately identified for ***non-residents*** nor ***related parties***; instead they are included in the total and instrument splits.

(a) Allocating interest expense by financial instrument

ADIs may find it useful to initially split the total ***domestic book*** interest expense into instrument categories described in the instructions for *ARF 330.1: Interest Income and Interest Expense (Licensed Book)*. The categories are:

- deposits;
- other borrowings;
- derivatives - banking book;
- bonds, notes and long term borrowing;
- loan capital;
- loans from related parties; and
- other.

The current reporting standard for ***RFCs*** *RRF 331.0: Selected Revenue and Expense* only categorises interest expense by ***debt securities*** on issue. ***RFCs*** may use the methodology illustrated in Example 1 above to allocate total interest expense (ARF 730.0) by financial instruments (see Table 6).

Table 5 below provides a concordance map from the current ARF 330.1 to ARF 730.0.

Table 5: Map of Interest Income from ARF 330.1 to ARF 730.0	
ARF 330.1	**ARF 730.0**
deposits	Item 4.1.1: Deposit accounts
derivatives - banking book	Item 4.1.5: Derivative – banking book: hedging
bonds, notes, long term borrowing and loan capital	Item 4.1.2: Short-term debt securities; Item 4.1.3: Long-term debt securities; and Item 4.1.4: Loans and finance leases
other Borrowings and other	Item 4.1.5: Other interest bearing liabilities
loans from related parties	• allocated to long-term borrowing in ARF 330.1 and the item mapped to Item 4.1.4 in ARF 730.0

The categories of ***interest-bearing*** liabilities from the balance sheet forms (ARF 720.0A/B, ARF 720.2A/B, ARF 720.3 and ARF 720.6) may be used to allocate and or validate the interest expense by financial instrument categories required on the ARF 730.0 (see Examples 1 and 2).

Table 6 provides a map of the interest expense by financial instrument from ARF 730.0 to the corresponding balance sheet items from ARF 720.0A/B; ARF 720.2A/B; ARF 720.3 and ARF 720.6.

Table 6: Map of Interest Expense from ARF 730.0 to the corresponding item on balance sheet forms	
ARF 730.0	**Balance sheet forms**
Item 4.1.1: Deposit accounts	ARF 720.0A/B: Item 14: Total deposits (column 1); or ARF 720.2A/B: Item 1: Total deposit accounts (column 7/column 4); and ARF 720.3: Item 3.1: Deposits
Item 4.1.2: Short-term debt securities	ARF 720.6: Item 1. Total short-term debt securities (column 1)
Item 4.1.3: Long-term debt securities	ARF 720.6: Item 2. Total long-term debt securities (column 1)
Item 4.1.4: Loans and finance leases	ARF 720.0A/B: Item 16.3 Loans and finance leases (column 1 & 2); and ARF 720.3: Item 3.3.2 Loans and finance leases
Item 4.1.5: Derivatives – banking book: Hedging	ARF 720.0A/B: Item 18.8.2 Banking book derivatives

Similar methodology to that illustrated in Example 1 above may be used to allocate interest expense by financial instrument using information from ARF 330.1, ARF 730.0 and ARF 720.0A/B and supplementary forms.

(b) Deposits interest expense by counterparty

It is acknowledged that reporting of counterparty information required for ***deposit*** interest expense will be a challenge for ***ADIs***/***RFCs*** as the reporting system for obtaining financial performance information is designed around business units (customer segmentation) and the product classifications within the units.

Table 7 maps the four counterparty sectors to an indicative set of ***ADI***/***RFC*** business units.

Table 7: Map of ARF 730 counterparties for deposit accounts to ADI Business Units

ARF 730.0 - Counterparty	ADI Business Units
Household	Retail/Consumer/ Personal
Other private non-financial corporations	Medium & Large Business/ Corporate/Institutional
Self-managed superannuation funds	Retail/Consumer/ Personal
Other	Large Business/ Corporate/Institutional

Table 7 indicates that there is not a one-to-one relationship between the counterparties required for ***deposit*** accounts in ARF 730.0 and business units. ***ADIs***/***RFCs*** may find it difficult to allocate interest expense from ***deposit*** accounts to these counterparties. Example 2 below provides a suggested allocation methodology.

Example 2: Interest expense – deposit accounts

This example illustrates how to allocate interest expense for ***deposit*** accounts using information from ARF 330.1 and ARF 720.0A/B and supplementary forms (see Table 5 and Table 6 above).

a. Split the ***domestic book*** total expense from ***interest-bearing*** liabilities (Item 4.1 of ARF 730.0) into instrument categories by using as a proxy the splits in ARF 331.0: Interest Income and Interest Expense to obtain the amount of interest income allocated to ***deposits***;

b. Derive the balances for ***deposit*** account from Item 1 of ARF 720.2A/B and a proxy weighted average effective interest rate for the categories below:

   - ***households;***
   - ***self-managed superannuation funds;***
   - ***other private non-financial corporations***; and
   - other (total ***deposits*** account balances less the 3 categories above).

c. Derive interest expense estimates for ***households*** and ***self-managed superannuation funds*** from step (b) above. Pro-rate the total interest expense (obtained for the ***deposit*** products for the Retail/Consumer/Personal business unit) by the derived interest expense estimates for ***households*** and ***self-managed superannuation funds*** from step (b).

d. Derive interest expense estimates for ***other private non-financial corporations*** and the 'other' category from step (b) above. Pro-rate the total interest expense (obtained for the

deposit products for the Medium & Large Business/Corporate/Institutional business unit) by the derived interest expense estimates for ***private non-financial corporations*** and 'other' from step (b).

Fees and commissions expenses – of which: paid to financial institutions

Reporting institutions are requested to report any fees and commissions paid to ***financial institutions*** (including ***related parties***).

This item includes (but is not limited to) fees paid to other ***financial institutions*** for:

- servicing a ***loan***;
- investment management fees;
- loan syndication fees; and
- underwriting fees.

Excluded are any fees and commissions already accounted for in interest expense as an integral part of the effective interest rate of a financial instrument, in accordance with Australian Accounting Standards.

Note that the treatment of fees is on the ARF 730.0 is different to the reporting of fees on the ARF 730.1 Fee Income form. On the ARF 730.1, all fees are included regardless of whether they can be treated as interest expense under the accounting standards.

Multi-state operations

As the ARF 730.0 is to be completed on a ***domestic books*** basis, only the ***wages and salaries*** of persons working in paid by entities that are consolidated within ***domestic books*** should be reported.

If an ***employee*** is based outside of Australia, but their wage is an expense of the ***domestic book*** of the ***ADI*** or ***RFC***, report the ***employee's*** wage in accordance with the location of the business cost centre responsible for paying the individuals wage.

Number of employees working for this business

As the ARF 730.0 is to be completed on a ***domestic books*** basis, only the number of persons working in entities that are consolidated within ***domestic books*** should be reported.

If an ***employee*** is based outside Australia, but is deemed to be ***employee*** of an entity consolidated within the ***domestic books*** of the ***ADI***/***RFC***, then they should be reported on this form. If not, they should be excluded from ARF 730.0 entirely.

Specific Guidance for 730.1: Fee income

Reporting basis

Note that the treatment of fees is on the ARF 730.1 is different to the reporting of fees on the ARF 730.0. On the ARF 730.1, all fees are included regardless of whether they can be treated as interest expense under the accounting standards (except those fees that are explicitly excluded).

Reporting coverage

Any fee income earned from ***related parties*** is outside the scope of this form. Accordingly, fee income received from ***SPVs*** that are ***related parties*** should not be included on this form. Fee income received from ***SPVs*** that are ***non-related parties*** should be included under the relevant item.

Any fee income earned from a custody business should not be included on the form if that custody business falls outside the scope of ***domestic books***.

Specific Guidance for 741.0: Business finance

Borrower-accepted commitments for business finance

Generally include:

- ***secured*** and ***unsecured*** finance;
- new ***borrower-accepted commitments*** for finance that were cancelled during the month;
- finance to ***private and public sector businesses*** whether or not the loan is ***secured*** by ***residential property;***
- ***loans*** for ***business*** purposes;
- ***external refinancing;***
- ***internal refinancing;***
- ***finance leases*** for ***business*** purposes***;***
- hire purchase agreements for ***business*** finance;
- ***acceptance*** of ***bills of exchange*** by your institution; and
- purchases of ***commercial paper*** directly from the issuer.

Generally exclude:

- finance to ***households*** for ***housing*** purposes. This should be reported on ARF 743.0;
- finance to ***households*** for ***personal*** purposes. This should be reported on ARF 745.0;
- ***deposits***;
- the purchase of securities other than ***commercial paper***;
- purchases of ***commercial paper*** from third parties; and
- ***borrower-accepted commitments*** contingent on some specified eventuality (e.g. bill endorsements, guarantees, letters of credit, standby agreements) unless and until that eventuality occurs.

Borrower-accepted commitments

The month in which a commitment is reported as 'borrower-accepted' should be determined with respect to the date at which the reporting institution knows the customer has accepted the offer.

Commitments data are used to provide a leading indicator of measures of credit. Accordingly, the point at which an account is opened is not an appropriate means of determining when a ***commitment*** has been accepted by the borrower.

Practical implementation

The reporting institution may determine the month in which a ***commitment*** is accepted by the borrower with reference to either:

- the month in which it receives a signed contract indicating the borrower(s) have accepted the reporting institution's offer of finance; or
- the date the contract is signed by the borrower(s).

Credit limits on fixed-term loans

The ***credit limit*** and the ***credit outstanding*** on a ***fixed-term business loan*** as at the end of the month may be equivalent in many cases. However, there may also be instances where, through options like ***redraw facilities*** (or similar), ***credit outstanding*** differs from the ***credit limit***.

Credit limits on charge cards

Where an explicit ***credit limit*** is not available on a charge card, report the ***credit limit*** as the value of ***credit outstanding***.

Credit limits on margin lending facilities

See guidance provided for item 3 of ARF 723.0.

Reporting construction finance and finance for the purchase of land and buildings by location

When reporting by location, report according to the location of the construction site or property that the finance will be used for, not the location of the branch where the ***commitment*** was made or where the headquarters of the business are located.

Reporting institutions submitting the ARF 741.0 are expected to be able to meet this requirement for the vast bulk of finance commitments in their portfolio.

ANZSIC

See the ANZSIC section of general guidance.

Reconciliation between ARF 741.0 and ARF 720.3

Item 1. Borrower-accepted commitments for business loans – by product

The sum of ***credit outstanding*** reported in item 1.6.1 on the ARF 741.0 is equivalent to ***credit outstanding*** for ***loans*** and ***finance leases*** to ***resident private and public sector business*** counterparties on the ARF 720.3, less ***finance leases***. See the table below for the specific items that should be equivalent, if it were not for the exclusion of ***finance leases*** from ARF 741.0 item 1.6.1.

Reconciliation between ARF 741.0 and ARF 720.3	
ARF 741.0	**ARF 720.3**
Item 1.6.1: Total credit limits available to resident related parties (including credit outstanding) as at the end of the month – *of which*: Credit outstanding as at the end of the month Column 1: Credit cards plus Column 2: Margin lending plus Column 3: Other revolving facilities plus Column 4: Fixed-term loans	Item 1.1.5.1.1 on ARF 720.3: Total intra-group assets – Loans and finance leases – Residents – Non-financial businesses – column 1: Total plus Item 1.1.5.1.2 on ARF 720.3: Total intra-group assets – Loans and finance leases – Residents – Community service organisations – column 1: Total plus Item 1.1.5.1.3 on ARF 720.3: Total intra-group assets – Loans and finance leases – Residents – Financial institutions – column 1: Total *Less **finance leases** reported in each of the above items.*

Specific Guidance for 742.0: Business credit stocks, flows and interest rates

Business finance funded during month

Generally include:

- ***secured*** and ***unsecured*** finance;
- finance to ***private and public sector businesses*** whether or not the ***loan*** is ***secured by residential property;***
- ***loans*** for ***business*** purposes;
- ***external refinancing***;
- ***internal refinancing***;
- ***finance leases*** for ***business*** purposes;
- hire purchase agreements for ***business*** finance;
- ***acceptance*** of ***bills of exchange*** by your institution; and
- purchases of ***commercial paper***.

Generally exclude:

- finance to ***households*** for ***personal*** purposes. This should be reported on ARF 746.0*;*
- finance to ***households*** for ***housing*** purposes. This should be reported on ARF 744.0;
- ***deposits*** with ***financial institutions***; and
- the purchase of securities other than ***commercial paper***.

ANZSIC

See the ANZSIC section of general guidance.

Credit outstanding, net of offset account balances

For ***loans*** with attached ***offset accounts***, report the value of the ***loan*** that would attract interest. For example: for an ***offset account*** that fully offsets interest payments, record the value of the ***loan*** less the ***offset account*** balance; for an ***offset account*** that only partially offsets interest payments, record the value of the ***loan*** less the portion of the ***offset account*** balance that is equivalent to a fully offset balance.

Funded

Internal refinances

Where an ***internal refinance*** occurs, the total value of the refinance should be reported as '***funded*** in the month', not just the amount by which the ***credit limit*** was increased. This is to reflect the new ***interest rate*** that applies to the entirety of the funds as contributing to the average marginal rate on new lending.

Construction loans

Where construction ***loans*** are ***funded*** and ***drawn down*** in stages, report only the value ***funded*** in the month (not the total value of the ***commitment***).

Split facilities (number)

See '*Treatment of split facilities'* in general guidance.

Where a ***facility*** may involve both a mix of interest rate types (i.e. fixed interest rate and ***variable interest rate***) and a mix of repayment types (e.g. ***interest-only*** and ***amortising***), apportion value across the relevant line items. However, when reporting the number of ***facilities*** broken down by repayment type, report each ***facility*** only once according to the predominant repayment type. Similarly, when reporting the

number of ***facilities*** broken down by interest rate type, report each ***facility*** only once according to the predominant ***interest rate*** type.

Interest rates

See '*Interest rates*'.

Specific Guidance for 743.0: Housing finance

Applications and borrower-accepted commitments for housing finance

Generally include:

- ***secured*** and ***unsecured*** finance;
- finance to your employees;
- new ***applications*** / ***borrower-accepted commitments*** for finance that were ***declined***, withdrawn or cancelled during the month;
- bridging finance for housing;
- supplementary finance (value of net increase only) where the original finance was not large enough to complete the purchase (where possible this supplementary finance should be reported according to the purpose classification of the original finance);
- ***external refinancing***; and
- ***internal refinancing***.

Generally exclude:

- finance for ***personal*** purposes. This should be reported on ARF 745.0;
- finance for ***business*** purposes. This should be reported on ARF 741.0; and
- ***commitments*** for ***revolving credit loans secured*** by ***residential property*** where the predominant purpose at application is ***personal*** or ***business***. These should be reported on ARF 745.0 or ARF 741.0.

Applications

An ***application*** should be reported as ***approved*** if a firm offer of finance is made. An ***application*** should be reported as ***declined*** if a decision is made to not offer finance, including where this decision may have been prompted by the potential borrower providing insufficient information.

Where an ***application*** is not progressed or it has not been possible to complete an assessment the reporting institution may choose to report these ***applications*** as ***declined***, in line with their internal policies. However, where the process of classifying such ***applications*** as ***declined*** is done periodically, but less frequently than monthly, the agencies would appreciate a D2A comment accompanying the item that reporting period.

Where a borrower actively withdraws an ***application*** before a decision has been made by the reporting institution, the application should not be reported as ***approved*** or ***declined***.

Where a borrower submits a single ***loan application*** that covers different purposes (e.g. a ***loan*** for ***housing*** purposes <u>and</u> a ***loan*** for ***personal*** purposes), use the predominant purpose principle to determine if the ***loan application*** should be reported as for ***housing*** purposes.

Some institutions may record multiple ***applications*** for the same borrower, where two different, alternative ***loans*** are applied for or where the features of the original ***application*** are varied. Alternatively, some institutions may record only one ***application***. Either method is acceptable provided there is internal consistency across the ***received/approved/declined*** statistics (e.g. if 6 ***applications*** are recorded as ***received***, this should result in a total of 6 ***approvals*** or ***declines*** even if it is for 1 borrower***).*** The ***ADI*** or

RFC should advise APRA by email the method they are using to report ***applications.*** If this method changes over time, APRA should also be advised by email at the time when the change occurs.

Borrower-accepted commitments

The month in which a ***commitment*** is reported as 'borrower-accepted' should be determined with respect to the date at which the reporting institution knows the customer has accepted the offer.

Commitments data are used to provide a leading indicator of measures of credit. Accordingly, the point at which an account is opened is not an appropriate means of determining when a ***commitment*** has been accepted by the borrower.

Practical implementation

The reporting institution may determine the month in which a ***commitment*** is accepted by the borrower with reference to either:

- the month in which it receives a signed contract indicating the borrower(s) have accepted the reporting institution's offer of finance; or
- the date the contract is signed by the borrower(s).

First-home buyers

Identification of ***first-home buyers*** should not rely solely on whether they are applying for a 'First Home Owner Grant'.

A ***first-home buyer*** can only be a ***first-home buyer*** once. If a ***loan*** applicant previously bought a ***dwelling*** for the first time for ***investment*** purposes, but are now applying for ***loan*** for the purposes of ***owner-occupation*** for the first time, they would not be classified as a ***first-home buyer***.

If there is more than one party to the ***loan***, a ***loan*** is classified as being to a ***first-home buyer*** if none of the borrowing parties to the ***commitment*** have previously owned a ***dwelling***.

Note that it is not necessary for the individual status of each party to the ***loan*** to be recorded, only the final determination (i.e. whether the ***loan*** qualifies as ***first-home buyer***).

Foreign-sourced income

Foreign-sourced income refers to income streams derived from governments overseas or non-governmental entities incorporated overseas. This includes, but is not limited to, FX-denominated income. This does not include income streams derived from unincorporated or incorporated entities in Australia that export goods or services.

A ***commitment*** should be reported as including ***foreign-sourced income*** where any income nominated as a part of the application process as 'allowable income' under the reporting institution's serviceability assessment policy qualifies as ***foreign-sourced income***. The share of income that qualifies as ***foreign-source*** is irrelevant.

Please note, whether a ***commitment*** qualifies as including ***foreign-sourced income*** for EFS reporting purposes is not intended to impact lending to these customers.

Purpose sub-class

See 'Identifying purpose sub-class' in general guidance.

Construction

Please note, lending to ***households*** to purchase an off-the-plan ***dwelling*** should be reported as a ***purchase of a newly erected dwelling***, not as a ***construction loan***.

Example 1: Off-the-plan purchase

Consider a ***household*** seeking finance to purchase an off-the-plan ***dwelling***. Upon completion of construction, the ***household*** may apply for finance from the ***ADI*** or ***RFC***. The resulting ***borrower-accepted commitment*** would be recorded as for the purchase of a ***newly erected dwelling*** (not for ***construction***). If the ***household*** had previously received a ***loan*** for the deposit, the additional finance for purchase should still be reported as finance for a ***newly erected dwelling***, not as an ***internal refinance***.

Alterations and additions

Alterations and additions should only be separately reported where this purpose sub-class represents the predominant purpose of the finance. It is likely that most finance for ***alterations and additions*** would instead qualify as an ***internal*** or ***external refinance***.

Example 2: Top-up for alterations and additions on a different residential property

If new finance for ***alterations and additions*** relating to a different property exceeds the balance of an existing ***housing loan*** relating to the original property then the combined amount should be reported as a new ***housing commitment*** (with the ***purpose sub-class*** as ***alterations and additions***) and the location should be determined by the location of the new property, not the existing one.

Scheduled repayments and excess repayments

Scheduled repayments

The ***scheduled repayment*** may exceed the minimum required repayment possible under the ***loan*** conditions. For example, following an interest rate reduction, the customer may need to contact their lender in order to have the ***interest rate*** on their ***loan*** reduced to the lowest possible rate – otherwise, their ***scheduled repayment*** would remain unchanged.

If the ***scheduled repayment*** is automatically adjusted following an ***interest rate*** reduction, then this lower amount should be considered the ***scheduled repayment*** from the date at which it takes effect.

Calculating the number of scheduled repayments

To scale the stock of accumulated ***excess repayments*** and balances in associated ***redraw*** and ***offset accounts*** by the scheduled monthly repayment, the following steps may be taken:

1. convert the scheduled repayment to a monthly frequency if required, using simple multiplication or division.
2. divide the stock of accumulated ***excess repayments*** and balances in associated ***redraw facilities*** and ***offset accounts*** by the (implied) scheduled monthly repayment.

Treatment of split facilities

Where a ***loan*** consists of a mix of ***interest-only*** and ***amortising*** components, split the ***scheduled repayment*** and stock of accumulated ***excess repayments*** and balances in associated ***redraw facilities*** and ***offset accounts*** and perform and report the calculation separately for both components of the ***facility***.

Fixed-term reconciliation

Loans that were classified as written off as at the end of the previous reporting period should be excluded from the opening balance of ***credit outstanding***. ***Loans*** that are classed as written off as at the end of the current reporting period should be excluded from the closing balance of ***credit outstanding***.

Where ***loans*** are written off or recovered during the month, report the value of the ***loan*** written of or recovered in the item designated for this purpose. An adjustment should also be made in the balancing item to offset the value of any flow items associated with these ***loans***.

Drawdowns

Please report each ***draw down*** stage on construction ***loans*** as a ***draw down*** for a new ***loan*** (Item 5.2).

Balancing item

If the borrower was previously ***non-resident*** and became a ***resident*** during the month:

- report as a new ***borrower-accepted commitment*** in item 5.1; and
- report in Item 6.13 Other changes to the balance of loan credit outstanding between reporting periods.

Portable home loans

Mortgage mobility is being offered by a number of lenders as a service to their borrowers. The resulting security substitution is likely to involve a borrower transferring the ***security*** on an existing ***housing loan*** from one ***residential property*** to another ***residential property***.

Reporting guidance

In cases where there is **no** change to the ***residential property*** that the funds are being used for, and the borrower exercises the option under their existing ***loan*** agreement to transfer the security on the ***loan*** to another ***residential property***, the transaction should **not** be reported as a new ***commitment***.

In cases where there **is** a change to the ***residential property*** that the funds are being used for, and the borrower exercises the option under their existing ***loan*** agreement to transfer the security on the ***loan*** to another ***residential property***, the transaction **should** be reported as a new ***commitment***. However, the purpose of the ***residential property*** for which the funds are being used remains the determinant of property purpose status (i.e. ***owner-occupation*** or ***investment***).

Note that if the new ***commitment*** includes a portion to be used for ***personal*** or ***business*** purposes, then the ***loan*** should be allocated to the category where the largest share of the funds will be used (see 'Identifying (predominant) purpose' in the general guidance).

Interest offset arrangements and redraw facilities on fixed-term loans

Interest on a borrower's savings is offset against interest owed on a ***loan***. Some or all of the repayments in excess of the minimum required repayment can be withdrawn.

Reporting guidance

If the borrower only withdraws the excess of repayments then there is no new finance associated with these arrangements. As such, no new ***commitment*** should be reported for any lending activity forms. The redrawn amount should, however, be included in amounts drawn (***credit outstanding***).

Where more than the excess repayments are redrawn, then this is considered new lending finance. A new ***commitment*** should be reported in the relevant lending activity collection.

Bridging finance commitments

Bridging finance is typically a ***short-term commitment*** for finance that will be repaid once further finance has been obtained or the following the sale of property.

Reporting guidance

The total, or gross, value of bridging finance ***commitments*** should be reported. For example, if you make a ***commitment*** for bridging finance for $150 000 and your borrower anticipates repaying $100 000 upon the sale of their previous ***residential property***, then the full, or gross, value of the ***commitment*** should be reported, i.e. $150 000, not the anticipated or actual net.

Specific Guidance for 744.0: Housing credit stocks, flows and interest rates

Housing finance funded during month

Generally include:

- ***secured*** and ***unsecured*** finance;
- finance to your employees;
- bridging finance for ***housing***;
- ***external refinancing***; and
- ***internal refinancing***.

Generally exclude:

- finance for ***personal*** purposes. This should be reported on ARF 746.0;
- finance for ***business*** purposes. This should be reported on ARF 742.0; and
- ***revolving credit facilities secured*** by ***residential property*** where the predominant purpose at application is ***personal*** or ***business.*** These should be reported on ARF 746.0 or ARF 742.0.

Credit outstanding, net of offset account balances

For ***loans*** with attached ***offset accounts***, report the value of the ***loan*** that would attract interest. For example: for an ***offset account*** that fully offsets interest payments, record the value of the ***loan*** less the ***offset account*** balance; for an ***offset account*** that only partially offsets interest payments, record the value of the ***loan*** less the portion of the ***offset account*** balance that is equivalent to a fully offset balance.

Funded

Internal refinances

Where an internal refinance occurs, the total value of the refinance should be reported as '***funded*** in the month', not just the amount by which the ***credit limit*** was increased. This is to reflect the new ***interest rate*** that applies to the entirety of the funds as contributing to the average marginal rate on new lending.

Construction loans

Where construction ***loans*** are ***funded*** and ***drawn down*** in stages, report only the value ***funded*** in the month (not the total value of the ***commitment***).

Split facilities (number)

See '*Treatment of split facilities'* in general guidance.

Where a ***facility*** may involve both a mix of ***interest rate*** types (i.e. fixed interest rate and ***variable interest rate***) and a mix of repayment types (e.g. ***interest-only*** and ***amortising***), apportion value across the relevant line items. However, when reporting the number of ***facilities*** broken down by repayment type, report each ***facility*** only once according to the predominant repayment type. Similarly, when reporting the number of ***facilities*** broken down by interest rate type, report each ***facility*** only once according to the predominant ***interest rate*** type.

Interest rates

See '*Interest rates'*.

Specific Guidance for 745.0: Personal finance

Borrower-accepted commitments for personal finance

Generally include:

- ***secured*** and ***unsecured*** finance;
- finance to your employees;
- new ***borrower-accepted commitments*** for finance that were cancelled during the month;
- ***revolving credit facilities secured*** by ***residential property*** where the predominant purpose at application is ***personal***;
- ***external refinancing***; and
- ***internal refinancing***.

Exclude:

- finance for ***housing*** purposes. This should be reported on ARF 743.0;
- finance for ***business*** purposes. This should be reported on ARF 741.0; and
- commitments for ***revolving credit facilities secured*** by ***residential property*** where the predominant purpose at application is ***housing*** or ***business***. These should be reported on ARF 743.0 or ARF 741.0.

Borrower-accepted commitments

The month in which a commitment is reported as 'borrower-accepted' should be determined with respect to the date at which the reporting institution knows the customer has accepted the offer.

Commitments data are used to provide a leading indicator of measures of credit. Accordingly, the point at which an account is opened is not an appropriate means of determining when a ***commitment*** has been accepted by the borrower.

Practical implementation

The reporting institution may determine the month in which a ***commitment*** is accepted by the borrower with reference to either:

- the month in which it receives a signed contract indicating the borrower(s) have accepted the reporting institution's offer of finance; or
- the date the contract is signed by the borrower(s).

Credit limits on charge cards

See the specific guidance for 741.0.

Credit limits on margin lending facilities

See guidance provided for item 3 of ARF 723.0.

Specific Guidance for 746.0: Personal credit stocks, flows and interest rates

Personal finance funded during month

Generally include:

- ***secured*** and ***unsecured*** finance;
- finance to your employees;
- ***revolving credit facilities secured*** by ***residential property*** where the predominant purpose at application is ***personal*** ;
- ***external refinancing***; and
- ***internal refinancing***.

Exclude:

- finance for ***housing*** purposes. This should be reported on ARF 744.0;
- finance for ***business*** purposes. This should be reported on ARF 742.0; and
- ***revolving credit facilities secured*** by ***residential property*** where the predominant purpose at application is ***housing*** or ***business***. These should be reported on ARF 744.0 or ARF 742.0.

Credit card interest rates

See section on Interest rates in general guidance.

Specific Guidance for 747.0: Deposit stocks, flows and interest rates

Fixed-term deposits

Any ***deposit*** that provides a fixed date on which the funds are repayable should be treated as a ***fixed-term deposit***.

If the ***fixed-term deposit*** is breakable – for example, the funds may be withdrawn prior to the fixed date after providing a notice of withdrawal (with or without a delay in receiving the funds) – the ***deposit*** should be treated as a ***fixed-term deposit*** until notice of withdrawal is provided.

Once a notice of withdrawal is provided:

- if there is a fixed date in the future on which the funds may be withdrawn (i.e. in 30 days) then: the ***deposit*** should still be classified as a ***fixed-term deposit***; the residual ***term*** should be based on the new fixed date (e.g. 30 days' time); and the ***deposit*** should not be reported as a new ***fixed-term deposit*** (on ARF 747.0).
- if there is no fixed date in the future on which the funds may be withdrawn – i.e. they are available immediately or within a few days: the ***deposit*** should no longer be classified as a fixed-term deposit (it should be classified as a ***transaction deposit*** or ***other non-transaction deposit*** as appropriate).

Rolling notice of withdrawal accounts

Deposit products without a fixed maturity date that offer redemption following a notice of withdrawal period (typically 30 days) should be classified as ***other non-transaction deposit*** accounts until notice of withdrawal is provided. Once notice of withdrawal is given:

- if there is a fixed date in the future on which the funds may be withdrawn (i.e. in 30 days) then: the deposit should be classified as a ***fixed term deposit***; the residual ***term*** should be based on the new fixed date (e.g. 30 days' time); and the deposit should be reported as a new fixed-term deposit (on ARF 747.0).
- if there is no fixed date in the future on which the funds may be withdrawn – i.e. they are available immediately or within a few days: the ***deposit*** should be classified as ***transaction deposit*** or ***other non-transaction deposit*** as appropriate.

Specific Guidance for 748.0: Wholesale funding stocks, flows and interest rates

Interest rates on debt securities

Contractual ***interest rates*** are to be reported as an outright rate rather than a spread. Where the security is issued in a foreign currency, the ***interest rate*** should not be converted back to an implied AUD rate. As for other ***interest rates***, the ***interest rate*** provided should be on an annualised basis.

Examples

A ***bank*** issues a floating-rate ***debt security*** in Australia at a spread over 3-month BBSW.

- The ***interest rate*** reported would be the end-of-period value of 3-month BBSW plus the spread (annualised if required)

A ***bank*** issues a ***fixed-rate debt security*** in Australia with a semi-annual coupon payment of 2.5 per cent.

- The ***interest rate*** reported would be the 2.5 per cent semi-annual rate, annualised.

A ***bank*** issues a discount security in Australia, with an implied annualised interest rate of 2 per cent.

- The ***interest rate*** reported would be 2 per cent.

A ***bank*** issues a floating-rate ***debt security*** in the US at a spread over 1-month LIBOR

- The ***interest rate*** reported would be the end-of-period value of 1-month LIBOR plus the spread (annualised if required)

A ***bank*** issued a ***fixed-rate debt security*** in the UK with a semi-annual coupon payment of 4 per cent.

- The ***interest rate*** reported would be the 4 per cent semi-annual rate, annualised.

Reporting term or tenor in a direct entry field

In most cases, institutions are required to identify the ***term*** or tenor of a ***loan*** or instrument as belonging to one of several categories or buckets.

In some cases the ***weighted average term*** or tenor is requested as a direct entry field. In these cases, the instructions direct institutions to express the term or tenor as the number of days (from origination for the original term or tenor, and from the end of the reporting period for ***residual maturity***) divided by 365 days. This standardises the ***term*** to one year, for ease of calculation and reporting.

Example

A 90-day term ***deposit*** (***original maturity***) would be expressed as 90 days/365 days = 0.25 years

Calculating a weighted average term

The ***weighted average term*** is the weighted sum of the individual ***terms*** (original or residual, as directed) where the weights used are the corresponding balances expressed as a share of the total balance for that category.

Weighted average term may be calculated using the formula below.

$$weighted\ average\ rate = \sum_i term_i weight_i$$

Where $weight_i$ = the balance for item i divided by the sum of balances for all items i

Example

A ***bank***'s ***short-term debt securities*** on issue are as follows:

Example: short-term debt securities on issue		
Short-term debt security	**Outstanding balance**	**Term**
1	$350m	0.25
2	$600m	0.17
3	$550m	0.38

The weighted average interest rate would be calculated as

0.25 years × $350m/$1500m + 0.17 years × $600m/$1500m + 0.38 years × $550m/$1500m

= 0.27 years

Reporting a benchmark rate

The unsecured funding benchmark rate is the rate at which the ***ADI*** or ***RFC*** can issue senior unsecured debt in the relevant currency as used in the calculation of internal transfer pricing. It would typically be based on the price of recent primary market issuance by the reporting institution or other comparable institutions, but may be interpolated or based on secondary market spreads where recent comparable issuance is not available.

The unsecured funding ***benchmark rate*** is not to be expressed as a spread. That is, even if the reporting institution would typically consider that rate as a spread over a market rate, then the applicable market rate should be added to the spread when reporting the unsecured funding ***benchmark rate***.

The unsecured funding benchmark rate for a foreign currency should be reported as the rate applicable to that currency. For example, if the unsecured funding ***benchmark rate*** is calculated on an AUD basis then the relevant hedging costs (including a cross-currency basis) should be included in the figure reported for the USD and/or EUR rates.

Reporting interest income/expense from hedging of banking book assets and liabilities

The interest income and expense associated with the hedging of ***banking book*** assets and liabilities relates specifically to payment streams on ***derivatives*** used to hedge ***banking book*** assets and/or liabilities.

These amounts should reflect the payables/receivables in the month, irrespective of whether these were actually paid/received. Foreign currency interest payments/receipts should be converted to Australian dollars at the end-of-period spot rate.

Bills of exchange

Bills of exchange should be treated as ***short-term debt securities***.

Other (new) interest-bearing liabilities

As a guide, include any ***interest-bearing*** liabilities contained in Item 19 reported on ARF 720.0A/B that are not already reported in this form.

Reconciliation between ARF 748.0 and ARF 720.0A & 720.3

Item 1. Outstanding debt securities

The sum of ***short-term debt securities***, the sum of ***long-term debt securities***, and the sum of ***long-term debt securities*** maturing in 12 months or less reported on the ARF 748.0 is equivalent to the sum of ***debt securities*** on issue reported on the ARF 720.0A and ***debt securities*** on issue reported on the ARF 720.3, apart from differences in valuation methodology. Values may not reconcile exactly because ***debt securities*** are reported at face value on ARF 748.0 and may be reported on a different basis on the ARF 720.0A and ARF 720.3 (according to accounting treatment). See the table below for the specific items that should be equivalent, if it were not for the different valuation bases.

Reconciliation between ARF 748.0 and ARF 720.0A & ARF 720.3	
ARF 748.0	**ARF 720.0A & ARF 720.3**
Item 1.1: Outstanding debt securities: Short-term – column 4: Value	Item 16.2 on ARF 720.0A: Total borrowings: Debt securities – column 1: Short-term Plus Item 3.1.3.1 on ARF 720.3: Borrowings: Debt securities – column 1: Total Less Item 3.1.3.1.1 on ARF 720.3: Borrowings: Debt securities – of which: original maturity of greater than 12 months – column 1: Total
Item 1.2: Outstanding debt securities: Long-term – column 4: Value	Item 16.2 on ARF 720.0A: Total borrowings: Debt securities – column 2: Long-term Plus Item 3.1.3.1.1 on ARF 720.3: Borrowings: Debt securities – of which: original maturity of greater than 12 months – column 1: Total
Item 1.2: Outstanding debt securities: Long-term – of which: maturing in 12 months or less – column 7: Value	Item 16.2 on ARF 720.0A: Total borrowings: Debt securities – column 3: Long-term: of which: matures in 12 months or less Plus Item 3.1.3.1.1.1 on ARF 720.3: Borrowings: Debt securities – of which: original maturity of greater than 12 months – of which: matures in 12 months or less – column 1: Total
Item 1.3: Outstanding debt securities: Total outstanding debt securities – column 4: Value	Item 16.2 on ARF 720.0A: Total borrowings: Debt securities – column 1: Short-term Plus Item 16.2 on ARF 720.0A: Total borrowings: Debt securities – column 2: Long-term Plus Item 3.1.3.1 on ARF 720.3: Borrowings: Debt securities – column 1: Total

Item 1.3: Outstanding debt securities: Total outstanding debt securities – of which: maturing in 12 months or less – column 7: Value	Item 16.2 on ARF 720.0A: Total borrowings: Debt securities – column 1: Short-term Plus Item 3.1.3.1 on ARF 720.3: Borrowings: Debt securities – column 1: Total Less Item 3.1.3.1.1 on ARF 720.3: Borrowings: Debt securities – of which: original maturity of greater than 12 months – column 1: Total Item 16.2 on ARF 720.0A: Total borrowings: Debt securities – column 3: Long-term: of which: matures in 12 months or less Plus Item 3.1.3.1.1.1 on ARF 720.3: Borrowings: Debt securities – of which: original maturity of greater than 12 months – of which: matures in 12 months or less – column 1: Total

Reconciliation between ARF 748.0 and ARF 730.0

Item 6.1 Total derivatives hedging banking book assets and liabilities

Interest income earned and ***interest expense*** incurred on total ***derivatives*** hedging ***banking book*** assets and liabilities reported on the ARF 748.0 should be equivalent to the ***interest income*** earned and ***interest expense*** incurred on ***derivative*** hedging ***banking book*** assets and liabilities reported on the ARF 730.0, apart from differences in the reporting periods. The ARF 748.0 is reported monthly while the ARF 730.0 is reported quarterly, thus the sum of the monthly values reported on the ARF 748.0 during the quarter, should equal the values reported on the ARF 730.0 for the same quarter. See the table below for the specific items that should be equivalent, if it were not for the different reporting periods.

Reconciliation between ARF 748.0 and ARF 730.0	
ARF 748.0	**ARF 730.0**
Item 6.1: Total derivatives hedging banking book assets and liabilities– column 2: Interest income	Item 1.1.5: Total interest-earning assets: Derivatives – banking book hedging – column 1: Interest income
Item 6.1: Total derivatives hedging banking book assets and liabilities– column 3: Interest expense	Item 4.1.5: Total interest-bearing liabilities: Derivatives – banking book hedging – column 1: Interest expense