



Financial Sector (Collection of Data) (reporting standard) determination No. 43 of 2013

Reporting Standard LRS 110.1 Prescribed Capital Amount

Financial Sector (Collection of Data) Act 2001

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

- (a) REVOKE Financial Sector (Collection of Data) (reporting standard) determination No. 4 of 2009, including *Reporting Standard LRS 110.0 Capital Adequacy* made under that Determination; and
- (b) DETERMINE *Reporting Standard LRS 110.1 Prescribed Capital Amount* in the form set out in the Schedule, which applies to the financial sector entities to the extent provided in paragraph 3 of the reporting standard.

Under section 15 of the Act, I DECLARE that the reporting standard shall begin to apply to those financial sector entities, and the revoked reporting standard shall cease to apply, on 1 January 2013.

This instrument commences on 1 January 2013.

Dated: 20 December 2012

[Signed]

Ian Laughlin
Member

Interpretation

In this Determination:

APRA means the Australian Prudential Regulation Authority.

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

Schedule

Reporting Standard LRS 110.0 Prescribed Capital Amount comprises the 11 pages commencing on the following page.



Reporting Standard LRS 110.1

Prescribed Capital Amount

Objective of this Reporting Standard

This Reporting Standard sets out the requirements for the provision of information to APRA relating to a life company's prescribed capital amount.

It includes *Form LRF 110.1 Prescribed Capital Amount (SF, GF)* and *Form LRF 110.2 Prescribed Capital Amount (Entity)*, and associated specific instructions and must be read in conjunction with the general instruction guide and *Prudential Standard LPS 110 Capital Adequacy*.

Authority

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

Purpose

2. Information collected in *Form LRF 110.1 Prescribed Capital Amount (SF,GF)* and *Form LRF 110.2 Prescribed Capital Amount (Entity)* (the LRF 110 series) is used by APRA for the purpose of prudential supervision including assessing compliance with capital standards.

Application and commencement

3. This Reporting Standard applies to all life insurance companies including friendly societies (together referred to as 'life companies') registered under the *Life Insurance Act 1995* (Life Insurance Act). This Reporting Standard applies for reporting periods ending on or after 1 January 2013.

Information required

4. A life company must provide APRA with the information required by the LRF 110 series for each reporting period.

5. The information reported to APRA under this Reporting Standard is not required to be given to policy owners pursuant to section 124 of the Life Insurance Act. It does not constitute a reporting document for the purposes of section 124.

Forms and method of submission

6. The information required by this Reporting Standard must be given to APRA in electronic format using the 'Direct to APRA' application or, where 'Direct to APRA' is not available, by a method notified by APRA prior to submission.

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

Reporting periods and due dates

7. Subject to paragraph 8, a life company must provide the information required by this Reporting Standard:
 - (a) in respect of each quarter based on the financial year of the life company on an unaudited basis; and
 - (b) in respect of each financial year of the life company on an audited basis.

Note 1: This means that this form will be submitted five times for a full financial year.

Note 2: The annual audited form must be submitted in conjunction with the annual auditor's report, as required under *Prudential Standard LPS 310 Audit and Related Matters* (LPS 310).

8. If, having regard to the particular circumstances of a life company, APRA considers it necessary or desirable to obtain information more or less frequently than as provided by subparagraph 7(a) or 7(b), APRA may, by notice in writing, change the reporting periods, or specify reporting periods, for the particular life company.
9. The information required by this Reporting Standard in respect of a life company must be provided to APRA:
 - (a) within the time stated in *Reporting Standard LRS 001 Reporting Requirements* (LRS 001); or
 - (b) in the case of information provided in accordance with paragraph 8, within the time specified by notice in writing.

Quality control

10. The information provided by a life company under this Reporting Standard must be the product of systems, processes and controls that have been reviewed and tested by the Auditor of the life company. This will require the Auditor to review and test the life company's systems, processes and controls supporting the reporting of the information to enable the life company to provide reliable financial information to APRA. This review and testing must be done on:

- (a) an annual basis or more frequently if necessary to enable the Auditor to form an opinion on the reliability and accuracy of data; and
 - (b) at least a limited assurance engagement consistent with professional standards and guidance notes issued by the Auditing and Assurance Standards Board (AUASB) as may be amended from time to time, to the extent that they are not inconsistent with the requirements of LPS 310.
- 11. All information provided by a life company under this Reporting Standard must be subject to systems, processes and controls developed by the life company for the internal review and authorisation of that information. It is the responsibility of the Board and senior management of the life company to ensure that an appropriate set of policies and procedures for the authorisation of data submitted to APRA is in place.
- 12. Actuarial valuations and calculations included in or used in the preparation of the information provided to APRA must be in accordance with the prudential standards in force for the reporting period. However, life companies may use reasonable estimates when preparing information that will not be audited (i.e. for the first four submissions of information for a full financial year).

Authorisation

- 13. When an officer of a life company provides the information required by this Reporting Standard using the 'Direct to APRA' software, it will be necessary for the officer to digitally sign the relevant information using a digital certificate acceptable to APRA.
- 14. An officer of a life company submitting information under this Reporting Standard must be authorised by either:
 - (a) the Principal Executive Officer of the life company; or
 - (b) the Chief Financial Officer of the life company.

Variations

- 15. APRA may, by written notice to the life company, vary the reporting requirements of the LRF 110 series in relation to that life company.

Transition

- 16. A life company must report under the old reporting standard in respect of a transitional reporting period. For these purposes:

old reporting standard means the reporting standard revoked in the determination making this Reporting Standard (being the reporting standard which this Reporting Standard replaces); and

transitional reporting period means a reporting period under the old reporting standard:

- (a) which ended before the date of revocation of the old reporting standard; and
- (b) in relation to which the life company was required, under the old reporting standard, to report by a date on or after the date of revocation of the old reporting standard.

Note: For the avoidance of doubt, if a life company was required to report under an old reporting standard, and the reporting documents were due before the date of revocation of the old reporting standard, the life company is still required to provide any overdue reporting documents in accordance with the old reporting standard.

Interpretation

17. In this Reporting Standard (including the attachments):

- (a) unless the contrary intention appears, words and expressions have the meanings given to them in *Prudential Standard LPS 001 Definitions* (LPS 001); and
- (b) ***capital standards*** means the prudential standards which relate to capital adequacy as defined in LPS 001;

Chief Financial Officer means the chief financial officer of the life company, by whatever name called;

financial year has the meaning in the *Corporations Act 2001*

general instruction guide refers to the general instruction guide set out in Attachment A of LRS 001;

Principal Executive Officer means the principal executive officer of the life company, by whatever name called, and whether or not he or she is a member of the governing board of the entity;

reporting period means a reporting period under subparagraph 7(a) or 7(b) or, if applicable, paragraph 8.

LRF_110_1: Prescribed Capital Amount (SF, GF)

Australian Business Number

Entity identifier, to be provided

Institution Name

Life companies, including friendly societies

Reporting Period

As at end of each quarter and as at financial year end

Scale Factor

Thousands of dollars, no decimal places

Reporting Consolidation

One form per statutory fund and general fund

Section 1: Summary of prescribed capital amount

1. LRF 114: Asset risk charge.....
2. LRF 115: Insurance risk charge.....
3. Less: Aggregation benefit.....
4. LRF 200: Aggregate risk charge for variable annuities.....
5. LRF 117: Asset concentration risk charge.....
6. LRF 118: Operational risk charge.....
7. Combined stress scenario adjustment.....
8. Adjustments to prescribed capital amount as approved by APRA.....

Description (1)	Transitional? (2)	Amount (3)

9. Prescribed capital amount.....

Section 2: Capital adequacy assessment

- General fund? (Y/N).....
10. Capital base.....
- Of which:
- 10.1 Tier 2 Capital.....
11. Capital base net of Tier 2 Capital.....
12. Capital in excess of prescribed capital amount.....
13. Capital base (net of Tier 2 Capital) ratio (%).....
14. Prescribed capital amount coverage (%).....

LRF_110_1 Prescribed Capital Amount (SF, GF)

These instructions must be read in conjunction with the general instruction guide.

Instructions for specific items

Section 1: Summary of prescribed capital amount

1. LRF 114: Asset risk charge

The asset risk charge is the minimum amount of capital required to be held against asset risks. The asset risk charge relates to the risk of adverse movements in the value of a fund's on-balance sheet and off-balance sheet exposures. Asset risk can be derived from a number of sources, including market risk and credit risk.

This amount must correspond to item 9 of *LRF 114.0 Asset Risk Charge*.

2. LRF 115: Insurance risk charge

The insurance risk charge is the minimum amount of capital required to be held against insurance risks. The insurance risk charge relates to the risk of adverse impacts due to movements in future mortality, morbidity, longevity, servicing expenses and lapses.

This amount must correspond to item 6 in *LRF 115.0 Insurance Risk Charge (SF)* (for statutory funds), or item 9 in *LRF 115.1 Insurance Risk Charge (GF)* (for general funds of friendly societies).

3. Less: Aggregation benefit

This amount relates to the recognition of diversification benefits between asset and insurance risks for life business other than variable annuities.

This must be calculated in accordance with the prescribed formula in *Prudential Standard LPS 110 Capital Adequacy* (LPS 110).

4. LRF 200: Aggregate risk charge for variable annuities

This amount is the aggregate risk charge for variable annuity business that relates to asset and insurance risks, after allowance for diversification.

This is determined in accordance with the prescribed approach set out in Attachment A of LPS 110. This amount must correspond to item 1.5 in Section 3 of *LRF 200.0 Capital Adequacy Supplementary Information*.

5. LRF 117: Asset concentration risk charge

The asset concentration risk charge is the minimum amount of capital required to be held against asset concentration risks. The asset concentration risk charge relates to the risk of a fund's concentration in particular assets resulting in adverse movements in the fund's capital base.

This amount must correspond to item 6 in *LRF 117.0 Asset Concentration Risk Charge*.

6. LRF 118: Operational risk charge

The operational risk charge is the minimum amount of capital required to be held against operational risks. The operational risk charge relates to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

This amount must correspond to item 5 in *LRF 118.0 Operational Risk Charge*.

7. Combined stress scenario adjustment

This combined stress scenario tests whether the tax benefits recognised in determining the insurance risk charge and the asset risk charge can be offset against deferred tax liabilities. It also tests whether any future management actions allowed for in the calculation of the insurance risk charge and the asset risk charge would be achievable. This item also recognises any second order interactions between the asset and insurance risk stresses.

This adjustment must be determined in accordance with Attachment B of LPS 110.

8. Adjustments to prescribed capital amount as approved by APRA

If APRA is of the view that the Standard Method for calculating the prescribed capital amount does not produce an appropriate outcome in respect of a fund, or if a life company has used inappropriate judgement or estimation in calculating the prescribed capital amount, APRA may adjust the prescribed capital amount calculation for that fund.

Approved regulatory adjustments are to be reported separately in the table highlighting the description of the adjustment given, transitional status and amount of adjustment applied.

This is calculated automatically as the sum of column (3) in the table. Adjustments that would result in an increase to prescribed capital amount should be reported as a positive value. Where the adjustment is a transitional adjustment, the end date for the transitional period is to be clearly included in the description of the item.

9. Prescribed capital amount

This is calculated automatically as the sum of items 1, 2, 4, 5, 6, 7 and 8 less item 3.

Section 2: Capital adequacy assessment

For the purpose of this section, indicate "Y" if the reporting fund is a General Fund, and "N" otherwise. General fund refers to the shareholder's fund of a life company other than a friendly society, or the management fund of a friendly society.

If the reporting fund is a general fund, items 10.1 is not applicable.

10. Capital base

The capital base relates to the amount of capital eligible for the purpose of meeting the Prudential Capital Requirement as set out in LPS 110.

This amount must correspond to item 6 in *LRF 112.0 Determination of Capital Base (SF)* (LRF 112.0) (for statutory funds) or item 4 in *LRF 112.1 Determination of Capital Base (GF)* (for general funds).

10.1. Of which: Tier 2 Capital

This is the total eligible Tier 2 Capital net of adjustments reported for the fund.

This amount must correspond to item 5 in LRF 112.0 (for statutory funds).

11. Capital base net of Tier 2 Capital

This is calculated automatically as item 10 less item 10.1.

12. Capital in excess of prescribed capital amount

This is the surplus or deficit of a fund's capital base over its prescribed capital amount.

This is calculated automatically as item 10 less item 9.

13. Capital base (net of Tier 2 Capital) ratio

This is calculated automatically as item 11 divided by item 9.

14. Prescribed capital amount coverage

This is calculated automatically as item 10 divided by item 9.

LRF_110_2: Prescribed Capital Amount (Entity)

Australian Business Number	Entity identifier, to be provided
Institution Name	Life companies, including friendly societies
Reporting Period	As at end of each quarter and as at financial year end
Scale Factor	Thousands of dollars, no decimal places
Reporting Consolidation	Life companies

Section 1: Summary of prescribed capital amount

1. Life company: Prescribed capital amount.....

Section 2: Capital adequacy assessment

2. LRF 112.2: Life company: Capital base.....

Of which:

2.1 Common Equity Tier 1 Capital.....

2.2 Additional Tier 1 Capital.....

2.3 Tier 2 Capital.....

3. Capital in excess of prescribed capital amount.....

4. Common Equity Tier 1 Capital ratio (%).....

5. Tier 1 Capital ratio (%).....

6. Prescribed capital amount coverage (%).....

LRF_110_2 Prescribed Capital Amount (Entity)

These instructions must be read in conjunction with the general instruction guide.

Instructions for specific items

Section 1: Summary of prescribed capital amount

1. Life company: Prescribed capital amount

This is the total prescribed capital amount at the life company level.

This is calculated as the sum of the Item 9 across all *LRF 110.1 Prescribed Capital Amount* forms. This sum is subjected to a floor of \$10 million at the life company level, except for any friendly society in relation to which exemption or transition has been granted by APRA regarding the minimum prescribed capital amount. Any such approved minimum would replace the \$10m floor accordingly.

Section 2: Capital adequacy assessment

2. LRF 112.2: Life company: Capital base

The capital base relates to the amount of capital eligible for the purpose of meeting the Prudential Capital Requirement as set out in *Prudential Standard LPS 110 Capital Adequacy*.

This amount must correspond to item 3 in *LRF 112.2 Determination of Capital Base (Entity)* (LRF 112.2).

2.1. Of which: Common Equity Tier 1 Capital

This is the highest quality component of capital within the life company as determined under the eligibility criteria set out in *Prudential Standard LPS 112 Capital Adequacy: Measurement of Capital*, net of all regulatory adjustments.

This amount must correspond to item 1.1 in LRF 112.2.

2.2. Of which: Additional Tier 1 Capital

This is the total value of capital instruments that meet the eligibility criteria for Additional Tier 1 Capital but not the criteria for a higher quality capital, net of all regulatory adjustments.

This amount must correspond to item 1.2 in LRF 112.2.

2.3. Of which: Tier 2 Capital

This is the total value of capital instruments that meet the eligibility criteria for Tier 2 Capital but not the criteria for a higher quality capital, net of all regulatory adjustments.

This amount must correspond to item 2 in LRF 112.2.

3. Capital in excess of prescribed capital amount

This is calculated automatically as item 2 less item 1.

4. Common Equity Tier 1 Capital ratio

This is calculated automatically as item 2.1 divided by item 1.

5. Tier 1 Capital ratio

This is calculated automatically as the sum of item 2.1 and item 2.2 divided by item 1.

6. Prescribed capital amount coverage ratio

This is calculated automatically as item 2 divided by item 1.