



# Financial Sector (Collection of Data) (reporting standard) determination No. 26 of 2023

## Reporting Standard LRS 114.0 Asset Risk Charge

### *Financial Sector (Collection of Data) Act 2001*

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I, Michael Murphy, 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. 46 of 2013, including *Reporting Standard LRS 114.0 Asset Risk Charge* made under that Determination; and
- (b) DETERMINE *Reporting Standard LRS 114.0 Asset Risk Charge*, 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 on 1 April 2023, and the revoked reporting standard shall cease to apply, on 1 April 2023.

This instrument commences on 1 April 2023.

Dated: 16 March 2023

Michael Murphy  
General Manager – Chief Data Officer (Acting),  
Technology and Data Division

## **Interpretation**

In this Determination:

*APRA* means the Australian Prudential Regulation Authority.

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

## **Schedule**

*Reporting Standard LRS 114.0 Asset Risk Charge* comprises the document commencing on the following page.



# Reporting Standard LRS 114.0

## Asset Risk Charge

### Objective of this Reporting Standard

This Reporting Standard sets out the requirements for the provision of information to APRA in relation to calculating a life company's Asset Risk Charge.

It includes *Form LRF 114.0 Asset Risk Charge* and associated specific instructions and must be read in conjunction with the general instruction guide and *Prudential Standard LPS 114 Capital Adequacy: Asset Risk Charge*.

### 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 114.0 Asset Risk Charge* (LRF 114.0) 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 April 2023.

### Information required

4. A life company must provide APRA with the information required by Form LRF 114.0 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.

## Method of submission

6. The information required by this Reporting Standard must be given to APRA:
  - (a) in electronic format using an electronic method available on APRA's website; or
  - (b) by a method notified by APRA prior to submission.

## 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, 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 Form LRF 114.0 in relation to that life company.

### Interpretation

16. 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; and

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

LRF\_114\_0: Asset Risk Charge

Australian Business Number	Institution Name
	Life companies, including friendly societies
Reporting Period	Scale Factor
Quarterly / Annual	Thousands
Reporting Consolidation	
Statutory fund / General fund	

Section 1: Asset risk charge calculation

Adjusted balance sheet - pre- stress  (1)	Impact on capital base									
	Real interest rate		Expected inflation		Currency		Equity  (8)	Propert y  (9)	Credit Spread s  (10)	Default  (11)
	RIR Upwa rds  (2)	RIR Downw ards  (3)	INF Upward s  (4)	INF Downw ards  (5)	CUR Upward s  (6)	CUR Downw ards  (7)				
1. Total assets										
1.1. Assets supporting investment-linked liabilities										
1.2. Assets not supporting investment-linked liabilities										
1.2.1. Cash										
1.2.2. Investment property										
1.2.3. Equities										
1.2.3.1. Listed equities										

1.2.3.2. Unlisted equities

1.2.4. Interest bearing securities

1.2.5. Loans

1.2.6. Other investment assets

1.2.7. Receivables

1.2.8. Other non-investment assets


1.3. Deferred tax assets

1.4. Derivatives


1.5. Assets deducted from capital base

1.6. Assets subject to asset concentration risk charge


## 2. Total liabilities

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2.1. Net policy liabilities and policy owner retained profits

2.2. Gross policy liabilities ceded under reinsurance

2.3. Current tax liabilities

2.4. Deferred tax liabilities

2.5. Derivatives

2.6. Subordinated debt

2.7. Seed capital

2.8. Other liabilities


3. Liability adjustments

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3.1. Adjusted policy liabilities  
(net of reinsurance)  
3.1.1. Discretionary  
component of adjusted  
policy liabilities


4. Off-balance sheet exposures

4.1. Total off-balance sheet  
assets  
4.2. Total off-balance sheet  
liabilities


5. Impact on capital base

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6. Risk charge components

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7. Aggregated risk charge  
component

7.1. Impact of diversification


8. Adjustments to asset risk  
charge as approved by APRA

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Description (1)	Transiti onal? (2)	Amoun t (3)

9. Asset risk charge

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## Section 2: Additional information - Asset risk charge

**10. Assets fair values subject to credit spreads stress**

Grade 1 (government) (1)	Grade 1 (other) (2)	Grade 2 (3)	Grade 3 (4)	Grade 4 (5)	Grade 5 (6)	Grade 6 (7)	Grade 7 (8)	Total fair value by asset (9)
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10.1. Bonds and other non-securitised assets

10.2. Structured and securitised assets

10.3. Re-securitised assets

**10.4. Total fair value by grade**


**11. Stressed asset values post credit spreads stress**

Grade 1 (government) (1)	Grade 1 (other) (2)	Grade 2 (3)	Grade 3 (4)	Grade 4 (5)	Grade 5 (6)	Grade 6 (7)	Grade 7 (8)	Total stressed value by asset (9)
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11.1. Bonds and other non-securitised assets

11.2. Structured and securitised assets

11.3. Re-securitised assets

**11.4. Total stressed assets by grade**


**12. Yields used in stress events**

12.1. Dividend yield used in determination of equity stress (%)

12.2. Rental yield used in determination of property stress (%)

12.3. Earnings yield used in determination of property stress (%)


## **LRF\_114\_0 Asset Risk Charge**

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

### **Explanatory notes**

#### **Look-through treatment**

For asset and liability items that have been treated on a look-through basis for the purpose of *Prudential Standard LPS 114 Capital Adequacy: Asset Risk Charge* (LPS 114), the effective underlying exposures after adjustments for look-through as well as their resultant impacts on capital base respectively are to be reported in this form.

#### **Derivative treatment**

All asset and liability items should be reported gross of impacts from derivatives. The fair value of open derivatives positions should be captured accordingly in item 1.4 and item 2.5.

#### **Assets subject to stress**

All components of assets that are either:

- deducted from total assets for the purpose of determining capital base; or
- subject to asset concentration risk charge

are to be excluded from the asset categories reported from item 1.1 to item 1.4. These amounts should be reported accordingly in item 1.5 and item 1.6.

#### **Asset stress scenarios**

Where it is determined that under a certain asset stress scenario there would be an improvement of capital base (i.e. a zero risk charge component), it is not required to report the components of impact on capital base for that asset stress scenario as at the end of the relevant reporting period. All asset stress scenarios that give rise to a positive risk charge component must be reported.

## Instructions for specific items

### Section 1: Asset risk charge calculations

#### 1(1). Adjusted Balance Sheet - Pre-stress

This column reports all relevant items within the balance sheet of the fund as at the reporting date. The reported figures are before the application of any designated asset stresses, net of the effect of any look-through adjustments.

#### 1(2) to 1(11). Impact on Capital Base

These columns report the impacts on the capital base of the fund arising from the application of the real interest rates stress (upwards and downwards), expected inflation stress (upwards and downwards), currency stress (upwards and downwards), equity stress, property stress, credit spreads stress and default stress respectively. Specifications of the stresses are determined in accordance with LPS 114.

The figures reported should be the contribution of the relevant items towards the change in capital base under the scenario considered. For example, negative values would be reported for decreases to assets and increases to liabilities. Positive values would be reported for increases to assets and decreases to liabilities.

#### 1(2). RIR Upwards

The real interest rates stress measures the impact on a life company's capital base of changes in real interest rates. It also affects nominal interest rates.

The upward movement in real and nominal interest rates is 0.25 times the nominal risk-free interest rate (before the addition of the illiquidity premium, if applicable). The upward movement is limited to a maximum of 200 basis points.

#### 1(3). RIR Downwards

The downward movement in real and nominal interest rates is 0.2 times the nominal risk-free interest rate (before the addition of the illiquidity premium, if applicable). The downward movement is limited to a maximum of 200 basis points.

#### 1(4). INF Upwards

The expected inflation stress measures the impact on a life company's capital base of changes to expected Consumer Price Index inflation rates. It also affects nominal interest rates.

The upward movement is 125 basis points.

#### 1(5). INF Downwards

The downward movement is 100 basis points.

### **1(6). CUR Upwards**

The currency stress measures the impact on a life company's capital base of changes in foreign currency exchange rates.

The upward movement is an increase of 25 per cent in the value of the Australian dollar against all foreign currencies.

### **1(7). CUR Downwards**

The downward movement is a decrease of 25 per cent in the value of the Australian dollar against all foreign currencies.

### **1(8). Equity**

The equity stress measures the impact on a life company's capital base of a fall in equity and other asset values.

This stress applies to both listed and unlisted equity assets and to any other assets that are not considered in other asset risk stresses. The equity stress also includes an increase to equity volatility.

### **1(9). Property**

The property stress measures the impact on a life company's capital base of changes in property and infrastructure asset values.

### **1(10). Credit Spreads**

The credit spreads stress measures the impact on a life company's capital base of an increase in credit spreads and the risk of default.

This stress applies to interest-bearing assets, including cash deposits and floating rate assets. Credit derivatives and zero-coupon instruments such as bank bills must also be included. This stress also applies to liabilities whose value depends on the illiquidity premium.

### **1(11). Default**

The default stress measures the impact on a life company's capital base of the risk of counterparty default. It applies to reinsurance assets, over the counter derivatives, unpaid premiums and all other credit or counterparty exposures that have not been affected by the credit spreads stress.

## **1. Total assets**

This is the fair value of total assets of the fund, including income accrued but not received. This should be consistent with the amounts reported in *LRF 300.1 Statement of Financial Position (SF and SF Eliminations)* (LRF 300.1) and *LRF 300.2 Statement of Financial Position (SF Total, GF, GF Elim, Entity)* (LRF 300.2).

This is calculated automatically as the sum of items 1.1 to 1.6 for column (1) or items 1.2 to item 1.4 for other columns.

### **1.1.Assets supporting investment-linked liabilities**

This is the fair value of assets supporting investment-linked policies that do not have performance guarantees (i.e. where the value of the policy liabilities moves in harmony with the value of the supporting assets). The asset risk stresses are not applied to these assets or their associated policy liabilities.

### **1.2.Assets not supporting investment-linked liabilities**

This is the fair value of all other assets not reported in item 1.1 or in items 1.3 to 1.6.

#### **1.2.1. Cash**

Cash assets include any cash at call up to 30 days as well any cash held with non-bank financial institutions.

Note that this item does not include negotiable certificates of deposits, which should be reported under item 1.2.4.

#### **1.2.2. Investment property**

Investment property assets include properties acquired or held which is available for sale as well as infrastructure assets, after allowance for accumulated depreciation.

Owner-occupied property should be reported in item 1.2.7.

#### **1.2.3. Equities**

Equity assets include all listed and unlisted equity exposures that are either directly or indirectly held. This also includes equities held within Australia and overseas, which are not treated differently for the purpose of determining Asset Risk Charge.

This is calculated automatically as the sum of item 1.2.3.1 and item 1.2.3.2.

##### **1.2.3.1. Listed equities**

This is the value of equity interests in companies listed on the ASX or overseas exchange, after allowance for look-through (if applicable).

##### **1.2.3.2. Unlisted equities**

This is the value of equity interests in companies not listed on any stock exchange, after allowance for look-through (if applicable).

#### **1.2.4. Interest bearing securities**

This is the value of all interest bearing securities held.

#### **1.2.5. Loans**

This is the value of loans and advances. Loans and advances include financial leases and mortgages, and are typically non-negotiable on the secondary market.

#### **1.2.6. Other investment assets**

This is the value of all other assets held for investment purposes and that do not fall appropriately under any of the types above.

#### **1.2.7. Receivables**

Receivables reported do not include accrued income components from investment assets. This is to be included with the appropriate investment principal.

This includes the value of premium receivables outstanding on in-force life business and investment income receivables from the portfolio of investment assets.

#### **1.2.8. Other non-investment assets**

This is the value of all other assets not categorised above. This includes policy liabilities ceded under reinsurance as well as owner occupied property, plant and equipment. Also, consistent with item 11.5 in LRF 300.1 and LRF 300.2, this includes unreconciled suspense and clearing accounts with debit balances. For the purposes of the Asset Risk Charge, the policy liabilities ceded under reinsurance are only to be stressed in the default stress.

#### **1.3. Deferred tax assets**

The deferred tax assets relates to the value of tax benefits that may be recognised in future financial periods, consistent with the asset risk scenario under consideration.

This includes tax benefits arising from the application of the asset risk losses, all of which would be recognised as admissible. The sum of the impact on capital base arising from this item across the selected combination of asset risk stress scenarios gives the total tax benefit recognised.

#### **1.4. Derivatives**

This is the value of all open derivative positions reported as assets in LRF 300.1 and LRF 300.2.

#### **1.5. Assets deducted from capital base**

This is the total value of assets that have been deducted from the above asset categories for the purpose of determining the fund's capital base. These will not be subject to the asset risk stresses.

#### **1.6. Assets subject to asset concentration risk charge**

This is the total value of assets in excess of their respective asset concentration limits and therefore is subject to asset concentration risk charge. These will not be subject to the asset risk stresses.

### **2. Total liabilities**

This is the value of total liabilities of the fund. This should be consistent with the liabilities reported in LRF 300.1 and LRF 300.2.

This is calculated automatically as the sum of item 2.1 to item 2.8.

## **2.1. Net policy liabilities and policy owner retained profits**

This is the value of policy liabilities net of all policy liabilities ceded under reinsurance, together with policy owner retained profits, determined in accordance with the methodologies stated in *Prudential Standard LPS 340 Valuation of Policy Liabilities*. The assumptions employed in valuing the net policy liabilities and policy owner retained profits should be consistent with the asset risk scenarios under consideration. For friendly societies, as consistent with LRF 300.1 this also includes any provisions for unallocated surpluses that have been classified as liability.

## **2.2. Gross policy liabilities ceded under reinsurance**

This item is also included as part of item 1.2.7. It only needs to be recalculated for the default stress. For the default stress, the gross policy liabilities ceded under reinsurance will reduce both for this item and in item 1.2.7, and the net policy liabilities in item 2.1 will increase.

## **2.3. Current tax liabilities**

This is the value of the income taxes payable in respect of taxable profit for the current and prior period, to the extent unpaid. The definition is interpreted consistently with *Australian Accounting Standard AASB 112 Income Taxes* (AASB 112).

## **2.4. Deferred tax liabilities**

This is the value of income taxes payable in future periods in respect of taxable temporary differences. The definition is interpreted consistently with AASB 112.

## **2.5. Derivatives**

This is the value of all open derivative positions reported as liabilities in LRF 300.1 and LRF 300.2.

## **2.6. Subordinated debt**

This is the current total value of the subordinated debt that has been issued by the fund

## **2.7. Seed capital**

This is the value of seed capital that has been transferred from the management fund of a friendly society to its benefit fund. This item only applies for friendly societies.

## **2.8. Other liabilities**

This includes all other liabilities not specifically categorised above. Consistent with item 21.1 in LRF 300.1 and LRF 300.2, this includes unreconciled suspense and clearing accounts with credit balances.



### 3. Liability adjustments

The liability adjustment reflects the difference between the adjusted policy liabilities and the net policy liabilities and policy owners' retained profits for the purpose of determining the capital base under *Prudential Standard LPS 112 Capital Adequacy: Measurement of Capital* (LPS 112).

Where the asset risk stress increases the liability adjustment, the tax benefit recognised should be reported in item 1.3.

#### 3.1. Adjusted policy liabilities (net of reinsurance)

This is the total adjusted policy liabilities determined in accordance with Attachment H of LPS 112 and aggregated across all product groups within the statutory fund. The pre-stress value is the same as reported in item 1.1 of Section 2 of LRF 112.0.

##### 3.1.1. Discretionary component of adjusted policy liabilities

This is the discretionary component of the adjusted policy liabilities. It is the amount by which they would reduce if:

- future bonuses and discretionary additions were set to zero;
- policy owner retained profits, investment fluctuation reserves and unallocated surplus were set to zero; and
- surrender values were reduced to minimum termination values (or contractual minimum surrender values if greater).

### 4. Off-balance sheet exposures

#### 4.1. Total off-balance sheet assets

This reports the impact on the capital base from the changes in off-balance sheet assets under the respective asset risk stress scenarios, to the extent that the off-balance sheet assets affect the on-balance sheet assets and liabilities.

#### 4.2. Total off-balance sheet liabilities

This reports the impact on the capital base from the changes in off-balance sheet liabilities under the respective asset risk stress scenarios, to the extent that the off-balance sheet assets affect the on-balance sheet assets and liabilities.

### 5. Impact on capital base

The impact on the capital base of each asset risk stress scenario is calculated automatically as the sum of item 1, item 2, item 3, item 4.1 and item 4.2. A negative number indicates a reduction in the capital base.

## 6. Risk charge components

The risk charge component for each asset risk stress scenario is the reduction in the capital base from item 5, reported as a positive value with a minimum of zero. It is calculated automatically.

## 7. Aggregated risk charge component

The aggregated risk charge component must be calculated using the aggregation formula and correlation matrix specified in paragraphs 80 to 82 of LPS 114. The formula allows for the likelihood of the asset risk stress scenarios occurring simultaneously.

### 7.1. Impact of diversification

This item must be calculated as the sum of the risk charge components used in calculating the aggregated risk charge component, less the aggregated risk charge component.

## 8. Adjustments to asset risk charge as approved by APRA

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

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

This is calculated automatically as the sum of column 3 in the table that follows. Adjustments that would result in an increase to Asset Risk Charge 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. Asset risk charge

The Asset Risk Charge is calculated automatically as item 7 plus item 8.

## 10. Assets fair values subject to credit spreads stress

This table reports the fair value of assets that are subject to the credit spreads stress, subdivided by counterparty grade and the following categories:

- bonds and other non-securitised assets (item 10.1);
- structured and securitised assets (item 10.2); and
- re-securitised assets (item 10.3).

The counterparty grade is to be determined in accordance with *Prudential Standard LPS 001 Definitions* (LPS 001). Assets guaranteed by an Australian state or territory government must be reported in the counterparty grade that applies after rating up one grade in accordance with LPS 114.

#### **10.4. Total fair value by grade**

This item is calculated automatically as the sum of items 10.1 to 10.3.

#### **11. Stressed asset values post credit spreads stress**

This table reports the stressed value of assets that are subject to the credit spreads stress, subdivided by counterparty grade and the following categories:

- bonds and other non-securitised assets (item 11.1);
- structured and securitised assets (item 11.2); and
- re-securitised assets (item 11.3).

The counterparty grade is to be determined in accordance with LPS 001. Assets guaranteed by an Australian state or territory government must be reported in the counterparty grade that applies after rating up one grade in accordance with LPS 114.

#### **11.4. Total stressed assets by grade**

This item is calculated automatically as the sum of item 11.1 to item 11.3.

### **12. Yields used in stress scenarios**

#### **12.1. Dividend yield used in determination of equity stress**

This is the dividend yield of the ASX 200 index as at the reporting date, used in determining the reduction in equity asset values under the equity stress scenario. This item is only required if the risk charge component for the equity stress is greater than zero.

#### **12.2. Rental yield used in determination of property stress**

This is the average rental yield for the property assets based on current leases as at the reporting date and net of expenses. If rental yields and falls in value have been determined separately for each property asset, an estimate of the average rental yield should be entered for this item. This item is only required if the risk charge component for the property stress is greater than zero due to property assets.

#### **12.3. Earnings yield used in determination of property stress**

This is the average earnings yield before taxes as at the reporting date, used in determining the reduction in infrastructure asset values under the property stress scenario. This item is only required if the risk charge component for the property stress is greater than zero due to infrastructure assets.