Financial Sector (Collection of Data) (reporting standard) determination No. 7 of 2023

Reporting Standard GRS 114.2 Derivatives Activity

Financial Sector (Collection of Data) Act 2001

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. 7 of 2013, including *Reporting Standard GRS 114.2 Derivatives Activity* made under that Determination; and

(b) DETERMINE *Reporting Standard GRS 114.2 Derivatives Activity,* 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: 21 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 GRS 114.2 Derivatives Activity comprises the document commencing on the following page.

Reporting Standard GRS 114.2

Derivatives Activity

Objective of this Reporting Standard

This Reporting Standard sets out the requirements for the provision of information to APRA relating to a general insurer's derivatives activities.

It includes *Form GRF 114.2 Derivatives Activity* and associated specific instructions and must be read in conjunction with the general instruction guide.

Authority

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

Purpose

2. Information collected in *Form GRF 114.2 Derivatives Activity* (GRF 114.2) is used by APRA for the purpose of prudential supervision including assessing compliance with the capital standards.

Application and commencement

3. This Reporting Standard applies to all general insurers authorised under the *Insurance Act 1973* (insurers). This Reporting Standard applies for reporting periods ending on or after 1 April 2023.

Information required

4. An insurer must provide APRA with the information required by Form GRF 114.2 for each reporting period.

Method of submission

5. 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

6. Subject to paragraph 7, an insurer must provide the information required by this Reporting Standard:

   (a) in respect of each quarter based on the financial year of the insurer; and

   (b) in respect of each financial year of the insurer.

   Note: The annual information required from an insurer by paragraphs 4, 5 and 6(b), together with certain annual information required by other reporting standards, will form part of the insurer's yearly statutory accounts within the meaning of section 3 of the *Insurance Act 1973* (the Insurance Act). This means that the information must be audited in accordance with paragraph 49J(1)(a) of the Insurance Act. Under subsection 49J(3), the principal auditor of the insurer must give the insurer a certificate relating to the yearly statutory accounts, and that certificate must contain statements of the auditor's opinions on the matters required by the prudential standards to be dealt with in the certificate.

7. If, having regard to the particular circumstances of an insurer, APRA considers it necessary or desirable to obtain information more or less frequently than as provided by subparagraph 6(a) or 6(b), APRA may, by notice in writing, change the reporting periods, or specify reporting periods, for the particular insurer.

8. The information required by this Reporting Standard in respect of an insurer must be provided to APRA:

   (a) within the time stated in *Reporting Standard GRS 001 Reporting Requirements* (GRS 001); or

   (b) in the case of information provided in accordance with paragraph 7, within the time specified by notice in writing.

   Note: Paragraph 49L(1)(a) of the Insurance Act provides that the auditor's certificate required under subsection 49J(3) of that Act must be lodged with APRA in accordance with the prudential standards. The prudential standards provide that the certificate must be submitted to APRA together with the yearly statutory accounts. Accordingly, the auditor's certificate relating to the annual information referred to in subparagraph 6(b) must be provided to APRA by the time specified in GRS 001 (unless an extension of time is granted under GRS 001).

Quality control

9. The information provided by an insurer under this Reporting Standard must be the product of systems, processes and controls that have been reviewed and tested by the Appointed Auditor of the insurer. This will require the Appointed Auditor to review and test the insurer's systems, processes and controls designed to enable the insurer to report 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 Appointed 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 *Prudential Standard GPS 310 Audit and Related Matters*.

10. All information provided by an insurer under this Reporting Standard must be subject to systems, processes and controls developed by the insurer for the internal review and authorisation of that information. It is the responsibility of the Board and senior management of the insurer to ensure that an appropriate set of policies and procedures for the authorisation of data submitted to APRA is in place.

Authorisation

11. When an officer, or agent, of an insurer provides the information required by this Reporting Standard it will be necessary for an officer, or agent, to digitally sign the relevant information using a digital certificate acceptable to APRA.

12. If an insurer provides the information required by this Reporting Standard through an agent who submits on the insurer's behalf, the insurer must:

(a) obtain from the agent a copy of the completed form with the information provided to APRA; and

(b) retain the completed copy.

13. An officer, or agent, of an insurer who submits the information under this Reporting Standard for, or on behalf of, the insurer must be authorised by either:

(a) the Principal Executive Officer of the insurer; or

(b) the Chief Financial Officer of the insurer.

Variations

14. APRA may, by written notice to the insurer, vary the reporting requirements of Form GRF 114.2 in relation to that insurer.

Transition

15. An insurer 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; 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 insurer 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 an insurer 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 insurer is still required to provide any overdue reporting documents in accordance with the old reporting standard.

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 GPS 001 Definitions* (GPS 001); and

(b) ***Appointed Auditor*** means an auditor appointed under paragraph 39(1)(a) of the Insurance Act;

APRA-authorised reinsurer means an insurer carrying on reinsurance business. For the purposes of this definition, a Lloyd's underwriter as defined under the Insurance Act is an APRA-authorised reinsurer if it carries on reinsurance business. The Australian Reinsurance Pool Corporation is also an APRA-authorised reinsurer for the purposes of this definition;

capital standards means the prudential standards which relate to capital adequacy as defined in GPS 001;

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

financial year means the financial year (within the meaning in the *Corporations Act 2001*) of the insurer;

foreign insurer means a foreign general insurer within the meaning of the Insurance Act;

Note: A reference to a 'branch' or 'branch operation' is a reference to the Australian operations of a foreign insurer.

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

Insurance Act means the *Insurance Act 1973*;

insurer means a general insurer within the meaning of section 11 of the Insurance Act;

Note: In the forms and instructions, a reference to an 'authorised insurer', 'authorised insurance entity' or 'licensed insurer' is a reference to an insurer, and a reference to an 'authorised reinsurance entity' is a reference to an insurer whose business consists only of undertaking liability by way of reinsurance.

non-APRA-authorised reinsurer means any reinsurer that is not an APRA-authorised reinsurer;

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

reporting period means a period mentioned in subparagraph 6(a) or 6(b) or, if applicable, paragraph 7.

GRF_114_2: Derivatives Activity (GEN)

Australian Business Number	Institution Name
Reporting Period	**Scale Factor**
Quarterly / Annual	Thousands of dollars no decimal place
Reporting Consolidation	
Licensed Insurer	

NOTE: Principal amount must always be entered as positive (even for short positions)

Section 1: Direct over the counter derivatives

			Long position		Short position	
Contract type (1)	Residual maturity (2)	Counterparty grade (3)	Principal amount (4)	Fair value (5)	Principal amount (6)	Fair value (7)

Section 2: Total contracts

	Interest rate contracts		Foreign exchange contracts (including gold)		Equity contracts		Precious metal contracts (excluding gold)		Other market-related contracts	
	Principal amount (1)	Fair value (2)	Principal amount (3)	Fair value (4)	Principal amount (5)	Fair value (6)	Principal amount (7)	Fair value (8)	Principal amount (9)	Fair value (10)
1. Total over the counter derivative financial instruments classified into:										
1.1. Forwards										
1.2. Swaps										
1.3. Bought option positions:										
1.3.1. Call options										
1.3.2. Put options										
1.4. Written (sold) option positions:										
1.4.1. Call options										
1.4.2. Put options										
1.5. Credit derivatives:										
1.5.1. Credit derivatives in which the reporting insurer is providing credit protection										
1.5.2. Credit derivatives in which the reporting insurer is purchasing credit protection										
1.6. Other										
1.7. Total over the counter derivative financial instruments										

2. Total exchange traded derivative financial instruments:										
2.1. Exchange traded derivatives subject to daily mark-to-market & margin payments										
3. Total derivative financial instrument exposure										
3.1. Investment portfolio										
3.2. Other assets										
3.3. Claims liabilities										
3.4. Debt funding / borrowings										
3.5. Other										
4. Total derivative financial instruments which are with the following related parties:										
4.1. Parent entity										
4.2. Controlled entities / other branches of the parent entity										
4.3. Associates / Joint ventures										
4.4. Other related parties										

GRF_114_2 Derivatives Activity

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

Explanatory notes

Derivatives

Derivatives are generally defined as those instruments/contracts where the value is based on other products, and/or on prices associated with financial products. Derivative contracts involve: future delivery, receipt or exchange of financial items such as cash or another derivative instrument; or future exchange of real assets for financial items where the contract may be tradeable and has a market value.

The contracts can either be binding on both parties (e.g. as with a currency swap) or subject to the exercise by one party of a right contained within the contract (as with options).

Contract types

- Interest rate contracts

  An interest rate contract is any contract that transfers the interest rate risk of an underlying asset from one party to another.

- Foreign exchange contracts (including gold)

  A foreign exchange contract is any contract that transfers the exchange rate risk of an underlying asset from one party to another. A gold contract is any contract that transfers the gold price risk associated with an underlying asset from one party to another.

- Equity contracts

  An equity contract is any contract that at least partly transfers the equity risk of an underlying equity security from one party to another.

- Precious metal contracts (excluding gold)

  A precious metal contract is any contract that transfers the precious metal price risk associated with an underlying asset from one party to another. A precious metal is a classification of metals that are considered to be rare and/or have high economic value and includes silver, platinum and palladium but excludes gold.

- Other market-related contracts

  This represents any derivatives contract that is not an interest rate contract, foreign exchange contract, equity contract or precious metal contract.

Principal amount

This refers to the face value or notional principal amount of the derivative financial contract.

Principal amounts should always be recorded as positive values, even for short positions.

Fair value

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair value should be able to be determined through observation of similar transactions, quoted market prices, independent valuations or if there is no readily observable market, through the ability to liquidate the item or through assessing the net present value of future cash flows.

For section 2, report the aggregate fair value of the derivative exposure by summing the absolute fair value of each exposure.

Instructions for specific items

Section 1: Direct over the counter derivatives

The contracts to be reported in this section do not include derivatives traded on recognised futures and options exchanges.

(1) Contract type

This is the contract type for the derivative financial instrument.

From the drop-down menu, choose either: Interest rate, Foreign exchange, Equity, Precious metal or Other.

(2) Residual maturity

This refers to the time remaining from the reporting date to the maturity date of the derivative financial contract.

From the drop-down menu choose either: Less than 1 year, 1 year to less than 5 years or 5 years or more.

(3) (3) Counterparty grade

This is the counterparty grade of the counterparty to the derivative contract, determined in accordance with *Prudential Standard GPS 001 Definitions* (GPS 001).

(4) - (7) Principal amount and Fair value separated into Long and Short positions

Report the principal amount or fair value of each derivative exposure, separated into long or short positions.

A long position in an asset or instrument means that the holder of the position owns the asset or instrument. With regard to options, this refers to the purchase of the option contract itself. A short position relates to assets, or instruments, that have been contracted to be sold at a future date without the reporting insurer actually owning them at the time of entering into the contract. With regard to options, this refers to the sale of the option contract itself.

Section 2: Total contracts

1. Total over the counter derivative financial instruments classified into:

The derivative instruments to be reported in this section are those that are not traded on recognised exchanges.

1.1. Forwards

A forward contract is an agreement to exchange a predetermined amount of currency, commodity, or other financial instrument at a specified future date and at a predetermined price.

1.2. Swaps

A swap is a financial instrument representing a transaction in which two parties agree to swap or exchange some obligation, generally a series of cash flows, on differing terms.

1.3. Bought option positions

These are option positions where the reporting insurer has purchased an option position and has the right, but not the obligation, to exercise the option against the writer and request delivery or sale of the underlying security or cash settlement.

1.3.1. Call options

A bought call option gives the holder of the option the right, but not the obligation, to require the writer of the option to sell the underlying security / asset to the holder.

1.3.2. Put options

A bought put option gives the holder of the option the right, but not the obligation, to require the writer of the option to buy the underlying security / asset from the holder.

1.4. Written (sold) option positions:

These are option positions where the reporting insurer has written / sold an option position, and as a result has the obligation to deliver or purchase the underlying product of the option or settle in cash, if exercised by the holder of the option position.

1.4.1. Call options

A written call option gives the writer of the option the obligation to sell the underlying security / asset when the option is exercised by the holder of the option.

1.4.2. Put options

A written put option gives the writer of the option the obligation to buy the underlying security / asset when the option is exercised by the holder of the option.

1.5. Credit derivatives

A credit derivative enables the user to transfer the credit risk of an underlying asset from one party, the protection buyer, to another, the protection seller, in isolation from other risks.

1.5.1. Credit derivatives in which the reporting insurer is providing credit protection

This refers to credit derivatives that have been sold, or written, by the reporting insurer.

1.5.2. Credit derivatives in which the reporting insurer is purchasing credit protection

This refers to credit derivatives that have been purchased by the reporting insurer.

1.6. Other

This is defined as the totality of all other over the counter derivative financial instruments not separately identified above.

It is automatically calculated as Item 1.7 less the sum of Items 1.1, 1.2, 1.3.1, 1.3.2, 1.4.1, 1.4.2, 1.5.1 and 1.5.2.

1.7. Total over the counter derivative financial instruments

This is the total of derivative financial instruments that are not traded on recognised exchanges.

2. Total exchange traded derivative financial instruments:

2.1. Exchange traded derivatives subject to daily mark-to-market & margin payments

This refers to derivatives that are transacted on a recognised futures or options exchange and which are subject to daily mark-to-market and margin payment. These contracts are transacted in standardised parcels and a clearing house effectively becomes the counterparty to all derivative positions.

3. Total derivative financial instrument exposure

This is the total of derivative financial instruments that are over the counter and traded on recognised exchanges.

It is automatically calculated as the sum of Items 1.7 and 2.1.

3.1. Investment portfolio

This refers to derivatives exposures that relate to the reporting insurer's investment assets, either as hedging a component of the underlying investments or as an outright investment.

3.2. Other assets

This refers to derivatives exposures that relate to assets other than those classified as the reporting insurer's investment assets.

3.3. Claims liabilities

This refers to derivatives exposures in relation to claims liabilities as determined in accordance with *Australian Accounting Standard AASB 1023 General Insurance Contracts*. Claims liabilities represent the total estimated ultimate cost to an insurer of settling all claims arising from events which have occurred as at the relevant date, whether reported or not.

3.4. Debt funding / borrowings

This refers to derivatives exposures in relation to debt funding / borrowing.

3.5. Other

This refers to derivatives exposures in relation to off-balance sheet exposures of the reporting insurer, or on-balance sheet liabilities not classified as claims liabilities or debt funding / borrowing.

It is automatically calculated as Item 3 less the sum of Items 3.1 to 3.4.

4. Total derivative financial instruments which are with the following related parties:

4.1. Parent entity

This refers to derivatives that are purchased from or sold to the parent entity of the reporting insurer.

4.2. Controlled entities / other branches of the parent entity

This refers to derivatives that are purchased from or sold to a subsidiary of the reporting insurer, or another branch of the parent entity for a Category C insurer.

4.3. Associates / Joint ventures

This refers to derivatives that are purchased from or sold to an associate or joint venture of the reporting insurer.

4.4. Other related parties

This refers to derivatives that are purchased from or sold to a related party of the reporting insurer that is not the parent entity, a subsidiary, an associate or a joint venture of the reporting insurer.