



8 April 2011

To all Locally Incorporated General Insurers and Authorised Non-Operating Holding Companies (NOHCs) under the *Insurance Act 1973*

FREQUENTLY ASKED QUESTIONS (FAQS) - CAPITAL ISSUES

APRA has developed an initial set of FAQs (<http://www.apra.gov.au/GI/PrudentialFramework/Pages/prudential-standards.aspx>) in relation to the approval of capital instruments. The FAQs cover two different areas in relation to capital instruments.

The first area highlights issues that have arisen from the consideration of recent capital instrument proposals under Prudential Standard GPS 112 *Capital Adequacy: Measurement of Capital* ('GPS 112') and provides feedback on APRA's interpretation of the relevant requirements so as to ensure all potential issuers are aware of our approach and expectations.

The second area relates to the Basel III eligibility criteria. APRA intends to continue to broadly align its requirements in relation to quality of capital between insurers and authorised deposit-taking institutions and adopt equivalent capital definitions, and will be consulting further with industry on revised standards in this area. In the interim, APRA will be prepared to consider a new capital issue as eligible for consideration under any transitional arrangements provided there is no aspect that is clearly inconsistent with the Basel III requirements released in December 2010. These FAQs provide guidance on some aspects of capital instruments that have been considered to be clearly inconsistent with the Basel III requirements. This is intended to help reduce uncertainty in the period until APRA finalises its requirements. It is noted that APRA's final determination of the minimum criteria for inclusion in the capital base of insurers may vary from these interim measures. Such changes, however, would not affect the inclusion of any approved instruments in any transitional arrangements that are ultimately determined.

These FAQs do not provide an exhaustive list of examples and issues. It is APRA's intention to issue additional FAQs as new issues emerge. General insurers are encouraged to contact their responsible supervisor where they have questions regarding the interpretation of GPS 112.

Yours sincerely

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