

AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY

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APRA

2 February 2017

TO: ALL GENERAL INSURERS AND LEVEL 2 INSURANCE GROUPS

RECOGNITION OF AUSTRALIAN REINSURANCE POOL CORPORATION (ARPC) AS EQUIVALENT TO APRA AUTHORISED REINSURER

APRA has released revised standards *GPS 114 Capital Adequacy: Asset Risk Charge* (GPS 114) and *GPS 117 Capital Adequacy: Asset Concentration Risk Charge* (GPS 117) to reflect the treatment of reinsurance recoverables from the ARPC.

In a letter to the general insurance industry on 2 November 2016, APRA proposed amendments to GPS 114 and GPS 117 to clarify that reinsurance recoverables from the ARPC are to be treated as an exposure with an Australian Government guarantee, and therefore not subject to a capital requirement for capital adequacy purposes. In addition, APRA proposed other minor clarifications to GPS 114 and GPS 117. A summary of the amendments is provided in Attachment A.

No submissions were received in response to APRA's consultation package. Therefore APRA has finalised the amendments to GPS 114 and 117 as proposed.

The changes take effect on 13 February 2017.

If you have any questions regarding these changes, please contact Peter Kohlhagen (peter.kohlhagen@apra.gov.au or 02 9210 3363).

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Pat Brennan', with a long, sweeping underline.

Pat Brennan
Executive General Manager
Policy and Advice Division

ATTACHMENT**AMENDMENTS TO PRUDENTIAL STANDARDS***Amendments to GPS 114:*

- A footnote to paragraph 73 to clarify that that reinsurance recoverables from the ARPC should be treated as though they are exposures to an APRA-authorized counterparty grade 1 entity.
- A footnote to paragraph 71 to clarify that unsecured loans that have a 100 per cent default factor applied in accordance with paragraph 71 will not be subject to credit spreads stress, real interest rates stress, expected inflation stress and currency stress.
- A footnote to paragraph 74 to clarify that novated contracts are regarded as incepting at the time specified in the contract they replaced, except where a later time is specified in the novation deed.
- Replaced “reinsurance recoverables” with “reinsurance assets” in paragraph 73 to clarify that default stress factors apply to both reinsurance recoverables and deferred reinsurance expenses.

Amendments to GPS 117:

- A footnote to paragraph 26 to clarify that exposures to the ARPC should be treated as though they are exposures to an APRA-authorized reinsurer with recognition of the guarantee provided by the Australian Government.
- Revised paragraph 24 to clarify the definition of Eligible Collateral Items as cash, government securities, or debt obligations (i.e. loans, deposits, placements, interest rate securities and other receivables) where the counterparty has a counterparty grade of 1, 2 or 3.