

GRF_117_0: Asset Concentration Risk Charge

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

Section 1: Large exposures

Explanatory notes

Reporting threshold

This section is to be completed for each exposure to an asset, a counterparty or a group of counterparties that is greater than 10 per cent of the capital base (or adjusted net assets in Australia for a Category C insurer) of the reporting insurer. Where the aggregate exposure to a group of related counterparties is over the 10 per cent threshold, report the exposure to each individual counterparty separately, even if the individual exposure is less than the threshold.

Collateral and guarantees

For exposures that are supported by collateral, guarantees or letters of credit (eligible credit support):

- If the exposure is covered by more than one collateral / guarantee / letter of credit, split the original exposure into multiple rows for each eligible credit support applicable.
- If the eligible credit support provided doesn't cover the full value of the exposure, split the original exposure into multiple rows: one for the part that is covered, and one for the part that remains uncovered.

Instructions for specific items

Section 1: Large exposures

(1) Name of counterparty

This is the name of the counterparty to the exposure, if applicable.

(2) Counterparty group name

This is the name of the group to which the counterparty to the exposure belongs.

Where the counterparty does not belong to a group, enter the same counterparty name as appears in Column 1.

(3) ACN / ABN

Where relevant, column reports the Australian Company Number (ACN) of the reported counterparty. In cases where a counterparty doesn't have an ACN but it does have an Australian Business Number (ABN) or an Australian Registered Body Number (ARBN), the ABN or ARBN should be reported. If a counterparty does not have an ACN, ABN, or ARBN the column should be left blank.

Input the number without spaces.

(4) Type of exposure

Indicate the appropriate category for the exposure.

(5) Description

Provide a brief description of the type of exposure reported in column 4.

(6) Non-APRA authorised reinsurer

Indicate whether the counterparty reported in column 1 is a non-APRA authorised reinsurer.

(7) Related party

Indicate whether the counterparty reported in column 1 is a related party of the reporting insurer.

(8) Counterparty grade

Report the grade of the counterparty reported in column 1.

(9) Name of provider of collateral / guarantee

If the insurer holds collateral against the asset or if the asset has been guaranteed, report the name of the entity providing the collateral or guarantee.

If no collateral or guarantee is provided, report 'N/A'.

(10) Counterparty grade after collateral / guarantee

This relates to exposures that are covered by collateral or guarantee. Report the counterparty grade applicable to the collateral or guarantee.

(11) Exposure amount: On-balance sheet

This represents the fair value of the exposure, net of provision for doubtful debts, recognised on-balance sheet.

(12) Exposure amount: Off-balance sheet

This represents the fair value of the exposure, net of provision for doubtful debts, recognised off-balance sheet.

(13) Total exposure

This represents the fair value of the exposure, net of provision for doubtful debts, and includes both on-balance sheet and off-balance sheet amounts.

It is automatically calculated as Column 11 plus Column 12.

Section 2A: Asset Concentration Risk Charge limits

Explanatory notes

Limits

These are the limits for reinsurance exposures and non-reinsurance exposures derived in accordance with Attachment A of *Prudential Standard GPS 117 Capital Adequacy: Asset Concentration Risk Charge* (GPS 117).

Section 2B: Asset Concentration Risk Charge – reinsurance exposures

Explanatory notes

Reinsurance exposures

Reinsurance exposures must be reported in the following order for each group of related counterparties:

- Combine all exposures to Grade 5 and below
- Combine all exposures to Grade 4.

Reporting threshold

This section is to be completed for each exposure to a group of related counterparties that will trigger an Asset Concentration Risk Charge limit as specified in GPS 117.

Application to Category C insurers

For Category C insurers, the Asset Concentration Risk Charge calculation is to be applied to the assets in Australia.

Instructions for specific items

(1) Counterparty group name

This is the name of the group to which the counterparty to the reinsurance exposure belongs.

(2) Eligible credit support applied?

If the reinsurance exposure is covered by an eligible collateral, guarantee, or letter of credit, indicate whether the insurer has applied the eligible credit support to calculate the asset concentration risk charge.

(3) Asset exposure category after eligible credit support

For exposures that are covered by eligible credit support, report the counterparty grade grouping (counterparty grades 5, 6 or 6; or counterparty grade 4) applicable to the exposure after the eligible credit support.

(4) Net exposure

This is the fair value of the exposure, net of provision for doubtful debts and any regulatory adjustments to capital base related to this exposure, that is subject to asset concentration risk charge. For reinsurance exposures regulatory adjustments would consist of reinsurance assets that do not meet the reinsurance documentation test and the governing law requirements as per *Prudential Standard GPS 230 Reinsurance Management* (GPS 230).

(5) Asset Concentration Risk Charge limit

This is the appropriate asset concentration limit as specified in GPS 117 for reinsurance exposures to Grade 5, 6 and 7 counterparties or Grade 4 counterparties belonging to the same group.

(6) Adjustment for cumulative exposures

This is the adjustment for cumulative exposures that needs to be made in line with paragraph 18 of GPS 117.

(7) Exposure subject to Asset Concentration Risk Charge

This is the total exposure that is subject to the Asset Concentration Risk Charge and is automatically calculated as the sum of Columns 4 and 6.

(8) Asset Concentration Risk Charge

This is the excess (if any) of the net exposure amount over and above the respective Asset Concentration Risk Charge limit.

It is automatically calculated as Column 7 less Column 5, subject to a floor of zero.

Section 2C: Asset Concentration Risk Charge – non-reinsurance exposures

Explanatory notes

Reporting threshold

This section is to be completed for each exposure to a group of related counterparties that will trigger an Asset Concentration Risk Charge limit as specified in GPS 117.

Application to Category C insurers

For Category C insurers, the Asset Concentration Risk Charge calculation is to be applied to the assets in Australia.

Instructions for specific items

(1) Counterparty group name

This is the name of the group to which the counterparty to the non-reinsurance exposure belongs.

(2) Eligible credit support applied?

If the non-reinsurance exposure is covered by an eligible collateral, guarantee, or letter of credit, indicate whether the insurer has applied the eligible credit support to calculate the asset concentration risk charge.

(3) Asset exposure category after eligible credit support

For non-reinsurance exposures, this categorises the exposure into one of the following in accordance with Attachment A of GPS 117: Related party (APRA-regulated group); Unrelated party (APRA-regulated group); and Other.

(4) Net exposure

This is the fair value of the exposure, net of provision for doubtful debts any regulatory adjustments to capital base related to this exposure, that is subject to asset concentration risk charge.

(5) Of which: Long term exposure

For exposures categorised as 'Unrelated party (APRA-regulated group)', this is the fair value of the exposure to long-term assets, net of provision for doubtful debts and after amounts that are deducted from the capital base. Long term exposures are those assets with a residual maturity of greater than one year.

(6) Asset Concentration Risk Charge limit

This is the appropriate Asset Concentration Risk Charge limit as specified in GPS 117 for non-reinsurance exposures.

(7) Asset Concentration Risk Charge limit – Long term

This is the appropriate Asset Concentration Risk Charge limit for long-term exposures to unrelated parties that are part of an APRA-regulated group as per Attachment A of GPS 117.

(8) Asset Concentration Risk Charge

This is the excess (if any) of the net exposure amount over and above the respective Asset Concentration Risk Charge limit.

It is automatically calculated as the greater of Column 4 less Column 6, and Column 5 less Column 7, subject to a floor of zero.

Section 3: Totals and risk charges

Instructions for specific items

3.1. Reinsurers with counterparty grade 4

This represents the Asset Concentration Risk Charge for reinsurance exposures to reinsurers with a counterparty grade of 4 with the counterparty grade determined in accordance with *Prudential Standard GPS 001 Definitions* (GPS 001).

3.2. Reinsurers with counterparty grade 5, 6 or 7

This represents the Asset Concentration Risk Charge for reinsurance exposures to reinsurers with a counterparty grade of 5, 6 or 7 with the counterparty grade determined in accordance with GPS 001.

3.3. Reinsurance Asset Concentration Risk Charge

This represents the Asset Concentration Risk Charge for reinsurance exposures and is the sum of the Asset Concentration Risk Charges for reinsurance exposures across all counterparty grades.

It is automatically calculated as the sum of Item 3.1 and 3.2.

3.4. Related parties part of an APRA-regulated group

This represents the Asset Concentration Risk Charge for non-reinsurance exposures to related parties that are part of an APRA-regulated group, determined in accordance with GPS 117.

3.5. Unrelated parties part of an APRA-regulated group

This represents the Asset Concentration Risk Charge for non-reinsurance exposures to unrelated parties that are part of an APRA-regulated group, determined in accordance with GPS 117.

3.6. Other

This represents the Asset Concentration Risk Charge for non-reinsurance exposures that are not to governments with a counterparty grade of 1 or 2, related parties that are part of an APRA-regulated group, or unrelated parties that are part of an APRA-regulated group, determined in accordance with GPS 117.

3.7. Non-reinsurance Asset Concentration Risk Charge

This represents the Asset Concentration Risk Charge for non-reinsurance exposures and is the sum of the Asset Concentration Risk Charges for each non-reinsurance exposure category.

It is automatically calculated as the sum of Items 3.4 to 3.6.

3.8. Adjustments to Asset Concentration Risk Charge as approved by APRA

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

Approved adjustments are to be reported separately in the associated table highlighting the description of the adjustment given, transitional status and amount of adjustment applied. An increase in the risk charge is to be reported as a positive amount.

This is calculated automatically as the sum of Column 3 in the table that follows.

3.9. Asset Concentration Risk Charge

The Asset Concentration Risk Charge is the minimum amount of capital required to be held against asset concentration risks. It is the sum of the Asset Concentration Risk Charges for reinsurance and non-reinsurance exposures.

It is automatically calculated as the sum of Items 3.3, 3.7 and 3.8.