

GRF_114_3 Off-balance Sheet Business

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

Explanatory notes

Counterparty grade

For each item in section 1, report the amounts corresponding to each counterparty grade in Columns (1) to (8). The counterparty grade is to be determined in accordance with *Prudential Standard GPS 001 Definitions* (GPS 001) and *Prudential Standard GPS 114 Capital Adequacy: Asset Risk Charge* (GPS 114), and is in reference to the obligation / asset over which the credit substitute has been written.

Instructions for specific items

Section 1: Credit substitutes provided

1. Direct credit substitutes

A direct credit substitute is any irrevocable off-balance sheet obligation that carries the same credit risk as a direct extension of credit, such as an undertaking to make a payment to a third party in the event that a counterparty fails to meet a financial obligation, or an undertaking to a counterparty to acquire a potential claim on another party in the event of default by that party (i.e. the risk of loss depends on the creditworthiness of the counterparty or the party on whom a potential claim is acquired).

1.1. Guarantees

This is the value, as at the relevant date, of guarantees that constitute direct credit substitutes. A guarantee is a pledge or agreement to be responsible for another party's debt or contractual performance if that other party does not pay or perform.

1.2. Credit derivatives

This is the value, as at the relevant date, of sold credit derivative contracts, consistent with the classification and measurement basis used for derivatives by institutions in accordance with accounting standards. A sold credit derivative is a credit derivative that has been sold, or written, by an entity. 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.

Report this item regardless of whether it is favourable or unfavourable to the reporting entity.

1.3. Standby letters of credit

This is the value, as at the relevant date, of standby letters of credit on issue that are serving as financial guarantees for loans, securities and any other financial liabilities. Report only standby letters of credit that constitute direct credit substitutes.

1.4. Bill endorsements

This is the value, as at the relevant date, of bills that have been endorsed under bill endorsement lines, but have not been accepted by, or had the prior endorsement of, another authorised deposit-taking institution. Report only bills that constitute direct credit substitutes.

1.5. Other direct credit substitutes

This is the value of all other credit substitutes that do not appropriately fall under the above categories.

This is automatically calculated as Item 1 less the sum of Items 1.1 to 1.4.

2. Performance related contingencies

Report contingent liabilities that involve an irrevocable obligation to pay a third party in the event that a counterparty fails to fulfil or perform a contractual non-monetary obligation, such as delivery of goods by a specified date, etc (i.e. the risk of loss depends on a future event that is not directly related to the creditworthiness of the counterparty involved). Include:

- issue of performance bonds;
- bid bonds;
- warranties;
- indemnities; and
- standby letters of credit in relation to a non-monetary obligation of a counterparty under a particular transaction.

3. Trade-related contingencies

This is the value, as at the relevant date, of any potential credit exposures arising from trade-related contingencies. A trade-related contingency is a contingent (off-balance sheet) liability arising from a trade-related obligation that is secured against an underlying shipment of goods for both issuing and confirming parties. This includes but is not limited to: documentary letters of credit issued; acceptances on trade bills; shipping guarantees issued; and any other trade-related contingencies.

4. Sale and repurchase agreements

This is the value, as at the relevant date, of any potential credit exposures arising from sale and repurchase agreements (also known as 'repos'). Sale and repurchase

agreements represent arrangements whereby an entity sells a loan, security or other asset to another party with a commitment to repurchase the asset at an agreed price on an agreed future date.

5. Assets sold with recourse

This is the value, as at the relevant date, of any potential credit exposures arising from assets sold with recourse. Assets sold with recourse are asset sales (to the extent that such assets are not included on-balance sheet) by an entity where the holder of the asset is entitled to 'put' the asset back to the entity within an agreed period or under certain prescribed circumstances (e.g. deterioration in the value or credit quality of the asset concerned).

6. Forward asset purchases

This is the value, as at the relevant date, of any potential credit exposures arising from forward asset purchases deemed non-market-related off-balance sheet transactions. A forward asset purchase is a commitment to purchase at a specified future date, and on pre-arranged terms, a loan, security or other asset from another entity, including written put options on specified assets with the character of a credit enhancement.

For the purposes of this item, non-market-related off-balance sheet forward asset purchases exclude:

- commitments where the entity purchasing the asset has an unequivocal right to substitute cash settlement in place of accepting delivery of the asset, and the price on settlement is calculated with reference to a general market price indicator (and not to the financial condition of any specific entity). This is deemed a market-related off-balance sheet transaction; and
- written put options expressed in terms of market rates for currencies or financial instruments bearing no credit risk. This is also deemed a market-related off-balance sheet transaction.

7. Partly paid shares and securities

This is the value, as at the relevant date, of any potential credit exposures (off-balance sheet) arising from partly paid shares and securities. This includes any amounts owing on the uncalled portion of partly paid shares, as well as securities held by an entity that represent commitments with certain drawdown by the issuer at a future date.

8. Placements of forward deposits

This is the value, as at the relevant date, of any potential credit exposures relating to the placements of forward deposits. Placements of forward deposits are off-balance sheet transactions that relate to any agreement between an entity and another party whereby the entity will place a deposit at an agreed rate of interest with that party at a predetermined future date.

9. Surety bonds

This is the value, as at the relevant date, of surety bonds which are treated as a type of direct credit substitute by the reporting insurer, in accordance with Attachment B of GPS 114.

10. All other non-market-related off balance sheet items

This is a balancing item and is the value, as at the relevant date, of all other non-market-related off-balance sheet transactions giving rise to credit risk.

This is automatically calculated as Item 11 less the sum of Items 1 to 9.

11. Total non-market-related off balance sheet business

This is the value, as at the relevant date, of all credit substitutes that are not transacted in financial markets.

11.1. Of which: deemed as Inside Australia

Of the value of all credit substitutes that are not transacted in financial markets, report the value that relates to business that is deemed to be inside Australia in accordance with *Prudential Standard GPS 120 Assets in Australia* (GPS 120).

12. Total non-market related off balance sheet business (total of item 11) which are provided to related parties

Of the value of all credit substitutes that are not transacted in financial markets, report the value that is provided to related parties.

12.1. Parent entity

This refers to credit substitutes that are not transacted in financial markets that are with/from the parent entity of the reporting insurer.

12.1.1. Controlled entities / controlled entities of parent

This refers to credit substitutes that are not transacted in financial markets that are with/from a subsidiary of the reporting insurer, or another branch of the parent entity for a Category C insurer.

12.2. Joint ventures / Associates

This refers to credit substitutes that are not transacted in financial markets that are with/from an associate or joint venture of the reporting insurer.

12.3. Other related parties

This refers to credit substitutes that are not transacted in financial markets that are with/from a related party of the reporting insurer that is not the parent entity, a subsidiary, a related party of a director, an associate or a joint venture of the reporting insurer.

This is automatically calculated as Item 12 less the sum of Items 12.1, 12.1.1 and 12.2.

Section 2: Liquidity support facilities obtained

(1) Approved balance available

Report the maximum approved amount that can be drawn down in relation to the facility.

(2) Undrawn balance available

Report the balance of the facility that has not been used or drawn down by the reporting insurer at the relevant date.

1. Standby facilities

A standby facility is an arrangement in which a party has the right but not the obligation to draw down funds to a specified limit. Generally, the drawing party is required to provide written notice to trigger draw down (access to the funds) on these facilities.

1.1. Facilities with same day draw down

Report the value of the standby facilities that are able to be drawn down (funds accessed) the same day as notice is given by the reporting insurer of its intention to draw down on the standby facility.

1.2. Facilities with 2 - 5 day draw down

Report the value of the standby facilities that are able to be drawn down (funds accessed) within two to five days after notice is given by the reporting insurer of its intention to draw down on the standby facility (i.e. a two to five day waiting period).

1.3. Facilities with greater than 5 day draw down

Report the value of the standby facilities that are only able to be drawn down (funds accessed) more than five days after notice is given by the reporting insurer of its intention to draw down on the standby facility.

2. Bill acceptance and discount facilities

Report the value, as at the relevant date, of bill acceptance and discount facilities provided to the reporting insurer. Bill acceptance and discount facilities are a form of liquidity, or funding, provided to the reporting insurer through a facility that discounts bills (e.g. bank accepted bills). Principal and interest owing on the bill is repaid or 'rolled over' by the reporting insurer on maturity of the bill.

3. Letter of credit facilities

Report the value, as at the relevant date, of letter of credit facilities committed to by the reporting insurer. A letter of credit facility is an irrevocable and unconditional undertaking to repay the principal and interest of a loan in the event of default.

4. Overdrafts

Report the value, as at the relevant date, of overdraft facilities available to the reporting insurer. Overdraft facilities are accounts which may be overdrawn up to a limit agreed by the parties involved.

5. Other liquidity support facilities

This is a balancing item and is the value, as at the relevant date, of all other off-balance sheet liquidity support facilities.

It is automatically calculated as Item 6 less the sum of Items 1 to 4 in Section 2.

6. Total liquidity support facilities

This is the total, as at the relevant date, of liquidity support facilities contracted to the reporting insurer.

7. Total which are with related entities

Report the liquidity support facilities that are provided by related entities of the reporting insurer.

7.1. Parent entity

This refers to liquidity support facilities that are from the parent entity of the reporting insurer.

7.1.1. Controlled entities / controlled entities of parent

This refers to liquidity support facilities that are from a subsidiary of the reporting insurer, or another branch of the parent entity for a Category C insurer.

7.2. Joint ventures / Associates

This refers to liquidity support facilities that are from an associate or joint venture of the reporting insurer.

7.3. Other related parties

This refers to liquidity support facilities that are from a related party of the reporting insurer that is not the parent entity, a subsidiary, a related party of a director, an associate or a joint venture of the reporting insurer.

It is automatically calculated as Item 7 less the sum of Items 7.1, 7.1.1 and 7.2.

Section 3: Charges granted

(1) Type of charge / encumbrance

Report the type of charge granted against the assets of the reporting insurer. For example, the charge could be:

- a fixed charge which is generally given in relation to a specific asset or assets and it will generally limit the ability or right of the reporting insurer to deal with those assets; or
- a floating charge which may be given over specific assets or all assets of the reporting insurer and may generally only crystallise and become a fixed charge on the occurrence of a specific event that is agreed between the parties (i.e. default on payment, or not maintaining specified interest coverage ratios).

(2) Principal value of the charge

Report the principal or face value amount of the charge or encumbrance given over assets of the reporting insurer.

(3) Outstanding value of the charge

Report the outstanding value of the charge or encumbrance (as at the relevant date) given over assets of the reporting insurer.

(4) Fair value of assets subject to the charge

Report the fair value of the assets that are subject to the charge or encumbrance. Fair value has the same meaning as in the Australian Accounting Standards.

(5) Asset subject to charge is an Inside Australia asset?

If the asset subject to the charge granted by the reporting insurer is an asset inside Australia as per GPS 120, report a 'Y', otherwise 'N'.

(6) Grade of asset subject to charge

Report the counterparty grade of the asset/counterparty that is subject to the charge or encumbrance. The counterparty grade is as per Attachment C of GPS 001.

(7) Value of insurance liabilities supported by security given

Report the value, as at the relevant date, of insurance liabilities that are supported by charges or encumbrances granted over assets of the reporting insurer.

Section 4A: Credit support received - eligible collateral provided to reporting insurer

This section provides information on eligible collateral provided to the reporting insurer. Eligible collateral includes any form of security that supports the value of assets held by the reporting insurer other than guarantees and letters of credit.

(1) Name of entity providing collateral to the reporting insurer

Report the name of the entity that is providing the eligible collateral to the reporting insurer.

(2) Relating to reinsurance recoverable due from non-APRA-authorised reinsurers?

Disclose whether the collateral is related to reinsurance recoverable due from non-APRA-authorised reinsurers by selecting 'Y' or 'N'.

(3) Fair value of eligible collateral provided

This is the fair value, as at the relevant date, of eligible collateral provided to the reporting insurer. The fair value of the outstanding balance is to be reported where appropriate. Fair value is determined in accordance with the Australian Accounting Standards.

(4) Fair value of assets subject to credit support

This is the fair value, as at the relevant date, of assets of the reporting insurer that are subject to credit support from collateral.

(5) Eligible collateral is from a related party?

For each eligible collateral item that is provided by a related party, describe the type of related party by selecting 'Parent', 'Subsidiary' or 'Other'.

(6) Type of collateral

This represents the type of collateral being provided to support the asset, e.g. cash, government securities, subordinated debt, listed equity instruments.

Section 4B: Credit support received - guarantees or letters of credit provided to reporting insurer

This section provides information on guarantees and standby letters of credit provided to the reporting insurer. A guarantee is a pledge or agreement to be responsible for another party's debt or contractual performance if that other party does not pay or perform. A standby letter of credit is an irrevocable undertaking given by a third party to pay an amount owing to the reporting insurer should the original counterparty default.

(1) Name of entity providing the guarantee or letter of credit to the reporting insurer

Report the name of the entity that is providing the guarantee or standby letter of credit to the reporting insurer.

(2) Relating to reinsurance recoverable due from non-APRA-authorised reinsurers?

Disclose whether the guarantee or standby letter of credit is related to reinsurance recoverable due from non-APRA-authorised reinsurers by selecting 'Y' or 'N'.

(3) Value of the guarantee or credit received in relation to assets of the insurer

This is the value of the guarantee or letter of credit received by the reporting insurer that is supporting assets of the reporting insurer.

(4) Counterparty rating grade of guarantor or issuer

Report the counterparty grade of the counterparty issuing the guarantee or letter of credit to the reporting insurer. The counterparty grade is as per Attachment C of GPS 001.

(5) Fair value of assets subject to credit support

This is the fair value, as at the relevant date, of assets of the reporting insurer that are subject to credit support from a guarantee or letter of credit.

(6) Guarantee / letter of credit is from a related party?

For each guarantee or letter of credit that is provided by a related party, describe the type of related party by selecting 'Parent', 'Subsidiary' or 'Other'.