

GRF_114_0: Asset Risk Charge

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

Explanatory notes

Look-through treatment

For asset and liability items that have been treated on a look-through basis for the purpose of *Prudential Standard GPS 114 Capital Adequacy: Asset Risk Charge* (GPS 114), the effective underlying exposures after adjustments for look-through as well as their resultant impacts on capital base respectively are to be reported in this form.

Derivative treatment

All items should be reported gross of impacts from derivatives. The fair value of open derivative positions should be captured in items 1.5 and 1.11.

Assets subject to stress

All components of assets that are either:

- deducted from total assets for the purpose of determining capital base; or
- subject to the Asset Concentration Risk Charge

are to be excluded from the calculation of Asset Risk Charge.

Include investment income receivable with the asset that generated the income when reporting on this form.

Asset stress scenario

Where it is determined that under a certain asset stress scenario there would be an improvement of capital base (i.e. a zero risk charge component), it is not required to report the components of impact on capital base for that asset stress scenario as at the end of the relevant reporting period. All asset stress scenarios that would give rise to a positive risk charge component must be reported.

Application to Category C insurers

For Category C insurers, the Asset Risk Charge is to be applied only to the assets in Australia of the Category C insurer.

Instructions for specific items

Section 1: Asset Risk Charge Calculation

(1) Adjusted pre-stress value – Total amount

This column must be used by Category A, B, D and E insurers only. It reports the value of all relevant items within the balance sheet of the reporting insurer as at the reporting date. The reported figures are before the application of any designated asset stresses, net of the effect of any look-through adjustments.

(2) Adjusted pre-stress value – Inside Australia amount

This column must be used by Category C insurers only. It reports the value of all relevant items inside Australia from the balance sheet of the reporting Category C insurer as at the reporting date. The reported figures are before the application of any designated asset stresses, net of the effect of any look-through adjustments.

(3) to (12) Impact on Capital Base

These columns report the impacts on the capital base of the reporting insurer arising from the application of the real interest rates stress (upwards and downwards), expected inflation stress (upwards and downwards), currency stress (upwards and downwards), equity stress, property stress, credit spreads stress and default stress respectively. Specifications of the stresses are determined in accordance with GPS 114.

The figures reported should be the contribution of the relevant items towards the change in capital base under the scenario considered. For example, negative values would be reported for decreases to assets and increases to liabilities. Positive values would be reported for increases to assets and decreases to liabilities.

(3) RIR Upwards

The real interest rates stress measures the impact on an insurer's capital base of changes in real interest rates. It also affects nominal interest rates.

The upward movement in real and nominal interest rates is 0.25 times the nominal risk-free interest rate. The upward movement is limited to a maximum of 200 basis points.

(4) RIR Downwards

The downward movement in real and nominal interest rates is 0.2 times the nominal risk-free interest rate. The downward movement is limited to a maximum of 200 basis points.

(5) INF Upwards

The expected inflation stress measures the impact on an insurer's capital base of changes to expected Consumer Price Index inflation rates. It also affects nominal interest rates.

The upward movement is 125 basis points.

(6) INF Downwards

The downward movement is 100 basis points.

(7) CUR Upwards

The currency stress measures the impact on an insurer's capital base of changes in foreign currency exchange rates.

The upward movement is an increase of 25 per cent in the value of the Australian dollar against all foreign currencies.

(8) CUR Downwards

The downward movement is a decrease of 25 per cent in the value of the Australian dollar against all foreign currencies.

(9) Equity

The equity stress measures the impact on an insurer's capital base of a fall in equity and other asset values.

This stress applies to both listed and unlisted equity assets and to any other assets that are not considered in any of the other asset risk stresses. This stress also includes an increase to equity volatility.

(10) Property

The property stress measures the impact on an insurer's capital base of changes in property and infrastructure asset values.

(11) Credit Spreads

The credit spreads stress measures the impact on an insurer's capital base of an increase in credit spreads and the risk of default.

This stress applies to interest bearing assets, including cash deposits and floating rate assets. Credit derivatives and zero-coupon instruments such as bank bills must also be included.

(12) Default

The default stress measures the impact on an insurer's capital base of the risk of counterparty default. It applies to reinsurance assets, over the counter derivatives, unpaid premiums and all other credit or counterparty exposures that have not been

affected by the credit spreads stress. In accordance with GPS 114, only the central estimates of reinsurance assets are to be subject to default stress.

1. Items subject to stress

1.1. Cash and liquid assets

This is the value, as at the relevant date, of notes and coins; deposits withdrawable or redeemable within 24 hours; and securities purchased under agreements to resell.

This amount should correspond to Item 1 in *GRF 300.0 Statement of Financial Position* (GRF 300.0).

1.2. Non-reinsurance receivables

This is the value, as at the relevant date, of non-reinsurance receivables of the reporting insurer.

It is automatically calculated as the sum of Items 1.2.1 to 1.2.4.

1.2.1. Non-reinsurance recoveries

This is the value, as at the relevant date, of non-reinsurance recoveries receivable by the reporting insurer.

This amount should correspond to Item 2.2 in GRF 300.0.

1.2.2. Net premiums receivable

This is the amount related to insurance premiums due but not yet received as at the relevant date, net of provision for doubtful debts.

This amount should correspond to Item 2.3.10 in GRF 300.0.

1.2.3. Current tax assets

This is the value of current tax assets determined in accordance with Australian Accounting Standards.

This amount should correspond to Item 2.6 in GRF 300.0.

1.2.4. Other receivables

This is the amount of non-reinsurance receivables which have not been reported in items 1.2.1 to 1.2.3.

1.3. Investments

This represents the aggregate value of investments that are reported in *GRF 114.4 Details of Investment Assets* (GRF 114.4). Derivative instruments that are used to hedge investments in these forms are not to be included.

It is automatically calculated as the sum of Items 1.3.1 to 1.3.5.

1.3.1. Interest rate investments

This is the value of debt securities held by the reporting insurer as at the relevant date, plus the value of deposits and placements that have been classified by the reporting insurer as assets backing insurance liabilities for statutory reporting purposes. A debt security is a transferable instrument evidencing a relationship of indebtedness. It is characterised by having a definable return that is not based on the economic performance of the issuing entity.

This amount should correspond to Item 4 in Section 1 of GRF 114.4.

1.3.2. Equities

This is the value, as at the relevant date, of equity securities and of subordinated debt securities. Equity securities are, as defined by the Australian Accounting Standards, contracts that evidence a residual interest in the assets of an entity after deducting all its liabilities. This includes equity securities lent or sold by the entity under repurchase agreements, where the transaction does not result in the transfer of the rights of ownership of the securities away from the entity to another party. Subordinated debt is a debt security where the claim to repayment ranks lower in priority to other claims.

This amount should correspond to Item 2 in Section 2 of GRF 114.4.

1.3.3. Property

This is the value of property held by the reporting insurer as at the relevant date, in accordance with the classification and measurement basis under the relevant Australian Accounting Standards.

This amount should correspond to Item 1 in Section 3 of GRF 114.4.

1.3.4. Loans and advances

This is, as at the relevant date, the principal amount of loans and advances provided, net of associated provisions for impairment and deferred fee income, and including any accrued interest. Loans and advances are those financial assets categorised as "Loans and receivables" in the accounting standards other than "Trade receivables" and "Cash".

This amount should correspond to Item 1 - Column 4 in Section 4 of GRF 114.4.

1.3.5. Indirect investments

This is the value, as at the relevant date, of the net assets of unit trusts or managed investment schemes invested in by the reporting insurer, or mandates individually managed on behalf of the reporting insurer.

This amount should correspond to Item 1 in Section 5 of GRF 114.4.

1.4. Deferred tax assets

The deferred tax assets relates to the value of tax benefits that may be recognised in future financial periods, as consistent with the asset risk scenario under consideration.

1.5. Derivatives

This is the value of all open derivative positions reported as assets in GRF 300.0.

This amount should correspond to Item 4 in GRF 300.0.

1.6. Investments in related entities

This is the value of strategic investments / acquisitions of the reporting insurer. Do not include investments that constitute assets backing general insurance liabilities.

This amount should correspond to Item 10 in GRF 300.0.

1.7. Other assets

This is the value of the assets that have not been reported in items 1.1 to 1.6 above but does not include assets in excess of the concentration limits set out in *Prudential Standard GPS 117 Capital Adequacy: Asset Concentration Risk Charge* or assets which are deducted from capital base such as surplus in defined benefit superannuation funds of which the reporting insurer is an employer-sponsor.

1.8. Net outstanding claims liabilities

This is the value, as at the relevant date, of the net outstanding claims liabilities determined in accordance with *Prudential Standard GPS 320 Actuarial and Related Matters* (GPS 320).

This amount should correspond to the total net outstanding claims liabilities reported in Column 10 of Section 3 in *GRF 115.0 Outstanding Claims Liabilities – Insurance Risk Charge*.

1.9. Adjusted net premiums liabilities

This is the value, as at the relevant date, of the net premium liabilities determined in accordance with GPS 320.

This amount should correspond to the total net premium liabilities reported in Column 10 of Section 3A in *GRF 115.1 Premiums Liabilities – Insurance Risk Charge*.

1.10. Deferred tax liabilities

This is the value of income taxes payable in future periods in respect of taxable temporary differences. The definition is interpreted consistently with *Australian Accounting Standard AASB 112 Income Taxes*.

1.11. Derivatives

This is the value of all open derivatives positions reported as liabilities in GRF 300.0.

This amount should correspond to Item 22.1 in GRF 300.0.

1.12. Other liabilities

This consists of all other liabilities of the reporting insurer not separately identified in Items 1.8 to 1.11.

1.13. Reinsurance assets for default stress

This is the value, as at the relevant date, of the central estimates of reinsurance assets of the reporting insurer. This must only be used for calculating the default stress.

It is automatically calculated as the sum of Items 1.13.1 to 1.13.3.

1.13.1. Reinsurance recoverables on outstanding claims and paid claims

This is the value of the central estimate of reinsurance recoverables in relation to reinsurance contracts for both paid and outstanding claims. This item does not include amounts under reinsurance contracts that do not meet the reinsurance documentation test or governing law requirements under *Prudential Standard GPS 230 Reinsurance Management* (GPS 230).

1.13.2. Deferred reinsurance expense

This is the value of central estimate of premiums ceded to reinsurers which are deferred in accordance with the pattern of reinsurance service received as per *Australian Accounting Standard AASB 1023 General Insurance Contracts* (AASB 1023). This item does not include amounts under reinsurance contracts that do not meet the reinsurance documentation test or governing law requirements under GPS 230.

1.13.3. Other reinsurance assets

This is the value of the central estimate, as at the relevant date, of any asset recognised by the reporting insurer that relates to reinsurance, other than those reported in 1.13.1 or 1.13.3.

1.14. Off-balance sheet exposures

This is the value of off-balance sheet exposures that are subject to the Asset Risk Charge.

2. Impact on capital base

The impact on the capital base of each asset risk stress scenario is calculated automatically as the sum of Items 1.1 to 1.14. A negative number indicates a reduction in the capital base.

3. Risk charge components

The risk charge component for each asset risk stress scenario is the reduction in the capital base from item 2, reported as a positive value with a minimum of zero. It is calculated automatically.

4. Aggregated risk charge component

The aggregated risk charge component must be calculated using the aggregation formula and correlation matrix in GPS 114. The formula allows for the likelihood of the asset risk stress scenarios occurring simultaneously.

4.1. Impact of diversification

This item must be calculated as the sum of the risk charge components used in calculating the aggregated risk charge component, less the aggregated risk charge component.

5. Less: Tax benefits deduction

This represents the tax benefits deducted from the aggregated risk charge component as determined in accordance with GPS 114. This comprises the tax benefits resulting from the Asset Risk Charge stresses, reduced to allow for the reduction in Asset Risk Charge due to the aggregation formula.

6. Adjustments to Asset Risk Charge as approved by APRA

If APRA is of the view that the Standard Method for calculating the Asset 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 Risk Charge, APRA may adjust the Asset 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.

7. Asset Risk Charge

The Asset Risk Charge relates to the risk of an adverse movement in a reporting insurer's capital base due to credit or market risks. It is determined in accordance with GPS 114.

It is automatically calculated as Item 4 less Item 5 plus Item 6.

Section 2: Additional information

8. Assets fair values subject to credit spreads stress

This table reports the fair value of assets that are subject to the credit spreads stress, subdivided by counterparty grade and the following categories:

- bonds and other non-securitised assets (Item 8.1);
- structured and securitised assets (Item 8.2); and
- re-securitised assets (Item 8.3).

The counterparty grade is to be determined in accordance with GPS 001. Assets guaranteed by an Australian state or territory government must be reporting in the counterparty grade that applies after rating up one grade in accordance with GPS 114.

8.4. Total fair value by grade

This item is automatically calculated as the sum of Items 8.1 to 8.3.

9. Stressed asset values post credit spreads stress

This table reports the stressed value of assets that are subject to the credit spreads stress, subdivided by counterparty grade and the following categories:

- bonds and other non-securitised assets (Item 9.1);
- structured and securitised assets (Item 9.2); and
- re-securitised assets (Item 9.3).

The counterparty grade is to be determined in accordance with GPS 001. Assets guaranteed by an Australian state or territory government must be reporting in the counterparty grade that applies after rating up one grade in accordance with GPS 114.

9.4. Total stressed assets by grade

This item is calculated automatically as the sum of Items 9.1 to 9.3.

10. Yields used in stress scenarios

10.1. Dividend yield used in determination of equity stress (%)

This is the dividend yield of the ASX 200 index as at the reporting date, used in determining the reduction in equity asset values under the equity stress scenario. This item is only required if the risk charge component for the equity stress is greater than zero.

10.2. Rental yield used in determination of property stress (%)

This is the average rental yield for the property assets based on current leases as at the reporting date and net of expenses. If rental yields and falls in value have been determined separately for each property asset, an estimate of the average rental yield should be entered for this item. This item is only required if the risk charge component for the property stress is greater than zero due to property assets.

10.3. Earnings yield used in determination of property stress (%)

This is the average earnings yield before taxes as at the reporting date, used in determining the reduction in infrastructure asset values under the property stress scenario. This item is only required if the risk charge component for the property stress is greater than zero due to infrastructure assets.