



1 September 2010

**To: Chief Executive Officers (or equivalents) of all APRA regulated groups (other than Foreign Branches, RSE licensees and RSA providers)**

**PARENT ENTITY FINANCIAL STATEMENTS - ONGOING APRA REPORTING**

We are seeking the co-operation of all APRA regulated groups in continuing to include full parent entity financial statements, including notes, in their group annual financial reports to shareholders or members.

For practical purposes, where an entity has already decided to remove its parent entity financial statements from its group annual financial report for the 2010 year-end and is currently too far into the year-end reporting process to reverse this decision, it is requested that parent entity financial statements be included in its group annual financial reports in future years.

Yours sincerely,

Charles Littrell  
Executive General Manager  
Policy, Research and Statistics

**To: Chief Executive Officers (or equivalents) of all APRA regulated groups (other than Foreign Branches, RSE licensees and RSA providers)**

## **PARENT ENTITY FINANCIAL STATEMENTS - ONGOING APRA REPORTING**

Dear Sir/Madam,

In setting its prudential and reporting requirements, APRA seeks to coordinate effectively with public financial reporting requirements levied on all corporations. This letter outlines APRA's intended response to recent reporting-related changes to the Corporations Act 2001 (the Act). APRA is seeking the co-operation of all APRA regulated groups<sup>1</sup> in continuing to include full parent entity financial statements, including notes, in their group annual financial reports to shareholders or members.

Complete and properly annotated financial statements are important inputs to APRA's prudential supervision. APRA needs to understand the ability of the parent entity to meet its obligations and support depositors and policyholders, on a stand alone as well as a consolidated basis. We wish to fully understand the financial position and risks of the parent. APRA presently accesses parent entity financial statements, including the relevant notes, principally through the group annual financial report. We wish to continue this practice as it is a reliable and efficient means for APRA to obtain this information.

### **Recent Change to the Act**

A recent amendment to the Act, effective 28 June 2010, removed the requirement for companies to include full unconsolidated parent entity financial statements in their group annual financial reports under Chapter 2M of the Act where consolidated financial statements are required. This change does not apply to financial reports lodged under Chapter 7 of the Act, where full parent entity financial statements including notes must still be presented.

### **ASIC Requirements - AFS Licensees**

All Australian Financial Services (AFS) licensees continue to be required to lodge a full set of non public financial statements, including notes, with ASIC each year under section 989B in Chapter 7 of the Act. Nearly all parent entities of financial services groups are AFS licensees. As noted above, under Chapter 7, AFS licensees must lodge their single entity financial statements with ASIC. Where they have controlled entities and the economic entity is a reporting entity, they must also include consolidated financial statements in their annual financial reports.

An ASIC Class Order, effective 29 July 2010, allows companies that are parent entities to choose whether or not they continue to include full parent entity financial statements in their group annual financial reports under Chapter 2M.

### **APRA Regulated Entities**

The net result from changes to the Act are that APRA regulated entities that are both parent entities and AFS licensees may choose to continue their practice, of including parent entity financial statements in their annual report, or separately providing parent entity (and consolidated) financial statements to ASIC.

A small number of APRA regulated parent entities are not AFS licensees, and under the Act may choose not to produce full unconsolidated parent entity financial statements.

---

<sup>1</sup> Other than Foreign Branches, RSE licensees and RSA providers.

## APRA's Preferences

Whatever the merits of these approaches from the perspective of other financial statement users, APRA's preferences are:

- First, that parent entities continue to report full parent entity financial statements, including notes, in their group annual financial reports to shareholders or members, rather than provide such financial reports only to ASIC; and

APRA would prefer that AFS licensees that are APRA regulated entities and that are parent entities satisfy their section 989B financial reporting requirements by continuing to include their parent entity financial statements, including notes, in adjacent columns with the consolidated financial statements in their group annual financial reports. APRA also encourages such entities to adopt a similar approach in their Chapter 2M financial reports and include full parent entity financial statements, and notes, in adjacent columns to their consolidated financial statements, by relying on the ASIC class order. The one group annual financial report that includes both the full parent entity and consolidated financial statements and notes will satisfy both the section 989B AFS licensee requirements and APRA's prudential needs. APRA considers that this approach is likely to produce the highest quality parent entity financial statement reporting, and as a practical matter continues with current practice.

Should a group in this position elect to remove its parent entity financial statements from its group annual financial report, however, APRA does not intend to take any statutory action to require such reports to be submitted direct to APRA. I note that in such cases APRA may need to pay more direct supervisory attention to the quality of the production process for parent entity returns.

- Second, that parent entities exempted from full parent entity financial statement reporting nonetheless continue with this reporting.

In those isolated cases where a parent entity is not an AFS licensee, APRA would prefer that these groups voluntarily continue to include full parent entity financial statements, including notes, in their group annual financial reports. In certain circumstances, APRA is prepared if necessary to exercise its statutory powers to mandate continued reporting of full parent entity financial statement data to APRA. It is obviously prudent for APRA to collect full financial statements for all APRA regulated entities.

APRA seeks early advice from any prudentially regulated group<sup>2</sup> which does not intend to include full parent entity financial statements, including notes, in their group annual financial reports to shareholders or members.

This letter does not affect any regulated entity that has no controlled entities.

Please contact your APRA supervisor should you have any queries in this matter.

Yours sincerely,



*Charles Littrell*  
Executive General Manager  
Policy, Research and Statistics

---

<sup>2</sup> Ibid.