



28 August 2014

To: Authorised deposit-taking institutions, general insurers and life companies

Consequential changes to APRA Prudential Standards due to *Prudential Standard CPS 220 Risk Management* and revisions to *Prudential Standard CPS 510 Governance*

The new *Prudential Standard CPS 220 Risk Management* (CPS 220) and amended *Prudential Standard CPS 510 Governance* (CPS 510) are to take effect from 1 January 2015. CPS 220 is a cross-industry prudential standard and will replace existing requirements for authorised deposit-taking institutions (ADIs) that are contained within a number of ADI prudential standards. CPS 220 also replaces *Prudential Standard GPS 220 Risk Management* (GPS 220) and *Prudential Standard LPS 220 Risk Management* (LPS 220). The amendments to CPS 510 will ensure that governance requirements related to risk management are aligned with those of CPS 220.

Given CPS 220 and revised CPS 510 will take effect from 1 January 2015, APRA intends to make related amendments to a number of ADI, general insurance, life insurance and cross-industry prudential standards. These changes are being made to remove redundant detail that APRA considers is captured by the principles-based requirements in CPS 220. The proposed amendments do not include any substantive changes in overall requirements. The changes are summarised in the attachment to this letter, and shown in mark-up in the draft prudential standards being issued alongside this letter.

APRA intends to determine the attached prudential standards in November 2014 to take effect from 1 January 2015. APRA therefore requests interested parties to provide feedback on the proposed amendments by 15 October 2014. Given these amendments do no more than align these prudential standards with the already released CPS 220 and revised CPS 510 which are also to take effect from 1 January 2015, feedback should be limited to errors or omissions in the proposed amendments. APRA is not consulting on policy positions in relation to risk management or other prudential requirements.

APRA released a letter to industry on 8 May 2014 consulting on, amongst other matters relating to risk management, a definition of 'ensure' to be included in the definitions standards for each industry. In due course, APRA will respond to that consultation and the final definition of 'ensure' will be included in the final versions of the definitions standards to be determined in November.

Submissions should be made by 15 October 2014 and sent to PolicyDevelopment@apra.gov.au. Submissions should be addressed to:

Mr Pat Brennan
General Manager, Policy Development
Policy, Statistics and International
Australian Prudential Regulation Authority
GPO BOX 9836
SYDNEY NSW 2001

Yours sincerely



Charles Littrell
Executive General Manager
Policy, Statistics and International

Important disclosure notice - publication of submissions

All information in submissions will be made available to the public on the APRA website unless a respondent expressly requests that all or part of the submission is to remain in confidence. Automatically generated confidentiality statements in emails do not suffice for this purpose. Respondents who would like part of their submission to remain in confidence should provide this information marked as confidential in a separate attachment.

Submissions may be the subject of a request for access made under the Freedom of Information Act 1982 (FOIA). APRA will determine such requests, if any, in accordance with the provisions of the FOIA. Information in the submission about any APRA-regulated entity that is not in the public domain and that is identified as confidential will be protected by section 56 of the Australian Prudential Regulation Authority Act 1998 and will therefore be exempt from production under the FOIA.

Attachment

ADI prudential standards

The amendments to ADI prudential standards are mostly to remove redundant detail given the introduction of CPS 220 and revised CPS 510. The amendments are shown as mark-up in the draft prudential standards. The key changes are:

- removing the 'Risk Management Systems' section and updating footnotes in *Prudential Standard APS 310 Audit and Related Matters* (APS 310) as this is now addressed within CPS 220;
- clarifying that the external auditor may access all Board Committees;
- removing the section 'Monitoring of contagion risk' from *Prudential Standard APS 222 Associations with Related Entities* (APS 222) as this is now addressed within CPS 220;
- removing most of the 'Group risk management' section in APS 222 as this is now addressed within CPS 220. It is noted that specific notification requirements regarding circumstances that could potentially have adverse consequences for the ADI and obtaining approval for the establishment or acquisition of a regulated presence overseas (both from current paragraph 10 APS 222) are being retained within the 'Notification requirements' and 'Prior consultation requirements' sections of APS 222 respectively;
- moving the best practice disclosure details set out in paragraph 11 APS 222 to *Prudential Practice Guide CPG 220 Risk Management*;
- including CPS 220 as a prudential standard applying to Providers of Purchased Payment Facilities under *Prudential Standard APS 610 Prudential Requirements for Providers of Purchased Payment Facilities* (APS 610);
- replacing references in existing prudential standards to risk management systems requirements in APS 310 with references to the requirements in CPS 220; and
- removing references to specific paragraphs of the current CPS 510 which will be incorrect once the revised CPS 510 commences on 1 January 2015.

General insurance prudential standards

The amendments to general insurance prudential standards are shown as mark-up in the draft prudential standards. The key changes are:

- placing the unchanged¹ run-off plan requirements contained in GPS 220 in *Prudential Standard GPS 110 Capital Adequacy*, and updating a reference to these requirements in *Prudential Standard GPS 320 Actuarial and Related Matters*;
- placing the unchanged² Financial Information Declaration requirements contained in GPS 220 in *Prudential Standard GPS 310 Audit and Related Matters*;
- clarifying that the external auditor and Appointed Actuary may access all Board Committees; and
- replacing references to GPS 220 in existing prudential standards with references to CPS 220.

Life insurance prudential standards

The amendments to life insurance prudential standards are shown as mark-up in the draft prudential standards. The changes are:

- clarifying that the Appointed Actuary may access all Board Committees; and
- replacing references to LPS 220 in existing prudential standards with references to CPS 220.

Cross industry prudential standards

The amendments to cross industry prudential standards are shown as mark-up in the draft prudential standards. The changes are:

- removing references to LPS 220 and GPS 220;
- removing references to the risk management requirements of APS 310; and
- updating the terminology in the standards to be consistent with CPS 220.

¹ Note that cross references within the run-off plan requirements have been updated.

² Note that cross references within the Financial Information Declaration requirements have been updated.