Financial Sector (Collection of Data) (reporting standard) determination No. 44 of 2013

Reporting Standard LRS 112.0 Determination of Capital Base

Financial Sector (Collection of Data) Act 2001

I, Ian Laughlin, delegate of APRA, under paragraph 13(1)(a) of the *Financial Sector (Collection of Data) Act 2001* (the Act) DETERMINE *Reporting Standard LRS 112.0 Determination of Capital Base*, in the form set out in the Schedule, which applies to the financial sector entities to the extent provided in paragraph 3 of the reporting standard.

Under section 15 of the Act, I DECLARE that the reporting standard shall begin to apply to those financial sector entities on 1 January 2013.

This instrument commences on the day it is signed.

Dated: 12 February 2013

[Signed]

Ian Laughlin
Member

Interpretation

In this Determination:

APRA means the Australian Prudential Regulation Authority.

financial sector entity has the meaning given in section 5 of the Act.

Schedule

Reporting Standard LRS 112.0 Determination of Capital Base comprises the 25 pages commencing on the following page

Reporting Standard LRS 112.0

Determination of Capital Base

Objective of this Reporting Standard

This Reporting Standard sets out the requirements for the provision of information to APRA relating to the determination of a life company's capital base.

It includes Forms *LRF 112.0 Determination of Capital Base (SF), LRF 112.1 Determination of Capital Base (GF)* and *LRF 112.2 Determination of Capital Base (Entity),* and associated specific instructions and must be read in conjunction with the general instruction guide and *Prudential Standard LPS 112 Capital Adequacy: Measurement of Capital*.

Authority

1. This Reporting Standard is made under section 13 of the *Financial Sector (Collection of Data) Act 2001* (Collection of Data Act).

Purpose

2. Information collected in Forms *LRF 112.0 Determination of Capital Base (SF), LRF 112.1 Determination of Capital Base (GF)* and *LRF 112.2 Determination of Capital Base (Entity)* (the LRF 112 series) is used by APRA for the purpose of prudential supervision including assessing compliance with capital standards.

Application and commencement

3. This Reporting Standard applies to all life insurance companies including friendly societies (together referred to as 'life companies') registered under the *Life Insurance Act 1995* (Life Insurance Act). This Reporting Standard applies for reporting periods ending on or after 1 January 2013.

Information required

4. A life company must provide APRA with the information required by the LRF 112 series for each reporting period.

5. The information reported to APRA under this Reporting Standard is not required to be given to policy owners pursuant to section 124 of the Life Insurance Act. It does not constitute a reporting document for the purposes of section 124.

Forms and method of submission

6. The information required by this Reporting Standard must be given to APRA in electronic format using the 'Direct to APRA' application or, where 'Direct to APRA' is not available, by a method notified by APRA prior to submission.

Note: The 'Direct to APRA' application software may be obtained from APRA.

Reporting periods and due dates

7. Subject to paragraph 8, a life company must provide the information required by this Reporting Standard:

   (a) in respect of each quarter based on the financial year of the life company on an unaudited basis; and

   (b) in respect of each financial year of the life company on an audited basis.

Note 1: This means that this form will be submitted five times for a full financial year.

Note 2: The annual audited form must be submitted in conjunction with the annual auditor's report, as required under *Prudential Standard LPS 310 Audit and Related Matters* (LPS 310).

8. If, having regard to the particular circumstances of a life company, APRA considers it necessary or desirable to obtain information more or less frequently than as provided by subparagraph 7(a) or 7(b), APRA may, by notice in writing, change the reporting periods, or specify reporting periods, for the particular life company.

9. The information required by this Reporting Standard in respect of a life company must be provided to APRA:

   (a) within the time stated in *Reporting Standard LRS 001 Reporting Requirements* (LRS 001); or

   (b) in the case of information provided in accordance with paragraph 8, within the time specified by notice in writing.

Quality control

10. The information provided by a life company under this Reporting Standard must be the product of systems, processes and controls that have been reviewed and tested by the Auditor of the life company. This will require the Auditor to review and test the life company's systems, processes and controls supporting the reporting of the information to enable the life company to provide reliable financial information to APRA. This review and testing must be done on:

(a) an annual basis or more frequently if necessary to enable the Auditor to form an opinion on the reliability and accuracy of data; and

(b) at least a limited assurance engagement consistent with professional standards and guidance notes issued by the Auditing and Assurance Standards Board (AUASB) as may be amended from time to time, to the extent that they are not inconsistent with the requirements of LPS 310.

11. All information provided by a life company under this Reporting Standard must be subject to systems, processes and controls developed by the life company for the internal review and authorisation of that information. It is the responsibility of the Board and senior management of the life company to ensure that an appropriate set of policies and procedures for the authorisation of data submitted to APRA is in place.

12. Actuarial valuations and calculations included in or used in the preparation of the information provided to APRA must be in accordance with the prudential standards in force for the reporting period. However, life companies may use reasonable estimates when preparing information that will not be audited (i.e. for the first four submissions of information for a full financial year).

Authorisation

13. When an officer of a life company provides the information required by this Reporting Standard using the 'Direct to APRA' software, it will be necessary for the officer to digitally sign the relevant information using a digital certificate acceptable to APRA.

14. An officer of a life company submitting information under this Reporting Standard must be authorised by either:

(a) the Principal Executive Officer of the life company; or

(b) the Chief Financial Officer of the life company.

Variations

15. APRA may, by written notice to the life company, vary the reporting requirements of the LRF 112 series in relation to that life company.

Interpretation

16. In this Reporting Standard (including the attachments):

(a) unless the contrary intention appears, words and expressions have the meanings given to them in *Prudential Standard LPS 001 Definitions* (LPS 001); and

(b) ***capital standards*** means the prudential standards which relate to capital adequacy as defined in LPS 001;

Chief Financial Officer means the chief financial officer of the life company, by whatever name called;

financial year has the meaning in the *Corporations Act 2001*

general instruction guide refers to the general instruction guide set out in Attachment A of LRS 001;

Principal Executive Officer means the principal executive officer of the life company, by whatever name called, and whether or not he or she is a member of the governing board of the entity;

reporting period means a reporting period under subparagraph 7(a) or 7(b) or, if applicable, paragraph 8.

LRF_112_0: Determination of Capital Base (SF)

Australian Business Number	Entity identifier, to be provided
Institution Name	Life companies, including friendly societies
Reporting Period	As at end of each quarter and as at financial year end
Scale Factor	Thousands of dollars, no decimal places
Reporting Consolidation	One form per statutory fund

Section 1: Statutory fund capital base

1. LRF 300.1: Net assets as per Life Insurance Act	
2. Seed capital transferred from management fund	
3. Less: Regulatory adjustments to net assets	
3.1. Holdings of life company's own Tier 1 Capital instruments	
3.2. Excess of deferred tax assets over deferred tax liabilities	
3.3. Fair value gains and losses from changes in own creditworthiness	
3.4. Goodwill and other intangible assets	
3.5. Surplus in defined benefit superannuation fund	
3.6. Deficit in defined benefit superannuation fund	
3.7. Reinsurance assets not subjected to an executed and legally binding contract	
3.8. Regulatory capital requirement of investments in subsidiary, JV and associate	
3.9. Assets under a fixed or floating charge	
3.10. Liability adjustments (see Section 2)	
3.11. Fair value adjustments	
3.12. Adjustments to net assets of the fund due to shortfall in Tier 2 Capital	
3.13. Other net asset adjustments	
4. Other adjustments to net assets as approved by APRA	
5. Tier 2 Capital	
5.1. Eligible Tier 2 Capital instruments issued by the fund	
5.2. Less: All holdings of own Tier 2 Capital instruments	
5.3. Adjustments and exclusions to Tier 2 Capital	
5.4. Transitional Tier 2 Capital	
6. Capital base	

Section 2: Additional information - Capital base

1. Liability adjustments	
1.1. Fund TOTAL: Adjusted policy liabilities	
1.2. LRF 300.1: Less: Fund TOTAL: Net policy liabilities	
1.3. LRF 300.1: Less: Fund TOTAL: Policy owner retained profits	
1.4. Additional tax benefits/(liabilities) from adjustments	

LRF_112_0 Determination of Capital Base (SF)

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

Instructions for specific items

Section 1: Statutory fund capital base

1. LRF 300.1: Net assets as per Life Insurance Act

This is the net assets of the fund as reported in *LRF 300.1 Statement of Financial Position (SF and SF Eliminations)* (LRF 300.1).

This amount must correspond to item 23 in LRF 300.1

2. Seed capital transferred from management fund

This is the amount of seed capital transferred with APRA's approval from the management fund to the approved benefit fund of a friendly society.

This amount should be reported as a positive amount.

3. Less: Regulatory adjustments to net assets

This is the total amount of regulatory adjustments applied on the fund's net assets for the purpose of determining capital base as per *Prudential Standard LPS 112 Capital Adequacy: Measurement of Capital* (LPS 112).

This is calculated automatically as the sum of item 3.1 to item 3.13

3.1. Holdings of life company's own Tier 1 Capital instruments

This is the total effective holdings of own Tier 1 Capital instruments that were issued by the life company. This includes Common Equity Tier 1 Capital and Additional Tier 1 Capital instruments held by the fund.

3.2. Excess of deferred tax assets over deferred tax liabilities

This is the amount of deferred tax assets in excess of deferred tax liabilities within the statutory fund. This assumes that deferred tax benefits in one fund can be offset by the deferred tax liabilities of another fund provided that the offset is only used once across both funds.

The deferred tax assets and deferred tax liabilities include any tax effect arising from the adjustment of policy liabilities but exclude the tax effects arising from the asset and insurance stress scenarios considered.

Where the deferred tax liabilities exceed the deferred tax assets, this value should be reported as zero. The netting of deferred tax assets and deferred tax liabilities must only be applied where the life company has a legally enforceable right to set-off current tax assets against current tax liabilities.

3.3. Fair value gains and losses from changes in own creditworthiness

This is the unrealised gains (or losses) from changes in the fair values of the liabilities of the statutory fund due to changes in creditworthiness of the life company.

This is to be reported as a positive value where there are unrealised gains or a negative value for unrealised losses.

3.4. Goodwill and other intangible assets

This is the value of goodwill and any other intangible assets, as per Attachment B of LPS 112, net of adjustments to profit or loss reflecting changes arising from any impairment and amortisation. The amounts reported must be net of any associated deferred tax liability that would be extinguished if the assets involved become impaired or derecognised under Australian Accounting Standards.

This also includes the component of investments in certain categories of subsidiaries, joint ventures and associates (as per LPS 112) that represents goodwill and any other intangible assets.

3.5. Surplus in defined benefit superannuation fund

This is the amount of surplus (if any) in defined benefit superannuation funds where the life company is an employer-sponsor, net of any associated deferred tax liabilities that would be extinguished if the assets involved become impaired or derecognised under Australian Accounting Standards.

Where the extinguished deferred tax liability of the defined benefit superannuation fund exceeds the reported surplus, this value should be reported as zero. Representations may be made to APRA to include the surplus in the capital base provided the criteria are met as per Attachment B of LPS 112.

3.6. Deficit in defined benefit superannuation fund

This is the amount of deficit (if any) in defined benefit superannuation funds where the life company is an employer-sponsor.

This only needs to be reported where the deficit is not already reflected in the net assets in LRF 300.1.

The deficit (if any) should be reported as a positive number.

3.7. Reinsurance assets not subjected to an executed and legally binding contract

This is the value of reinsurance assets (if positive) reported in relation to each reinsurance arrangement that, subject to a six month grace period from risk inception, does not comprise an executed and legally binding contract.

3.8. Regulatory capital requirement of investments in subsidiary, JV and associate

This is the deduction for the regulatory capital requirement for investments in subsidiaries, joint ventures and associates as detailed in Attachment B of LPS 112.

The deduction should be taken as the lesser of the fund's share of regulatory capital requirement and the value of the investment that is recorded on the fund's balance sheet after adjusting for any intangible component.

If the investment subject to this deduction is a non-operating holding company, a look-through approach must be applied.

This amount must correspond to the total of section 1 column 14 in LRF 112.3.

3.9. Assets under a fixed or floating charge

This is the value of assets of the fund that are under a fixed or floating charge, mortgage or other security to the extent of the indebtedness secured on those assets. This deduction may be reduced by the amount of any liability for the charge that is recognised on the fund’s balance sheet.

3.10. Liability adjustments

This is the difference between the adjusted policy liabilities and the sum of the policy liabilities and policy owners’ retained profits disclosed in the statutory accounts together with any tax effects that would result from these adjustments.

This is reported automatically as item 1 of Section 2 of this form.

3.11. Fair value adjustments

This is the amount of difference between the fair value of the assets on balance sheet and their reported value in LRF 300.1.

Where the asset fair value is less than the reported value in LRF 300.1, a positive value should be reported. Otherwise, a negative value should be reported.

3.12. Adjustments to net assets of the fund due to shortfall in Tier 2 Capital

This is the value, as at the relevant date, of any deductions (refer to Attachment B of LPS 112) from the net assets of the fund due to a shortfall in Tier 2 Capital to absorb the required deductions from this category of capital.

Any shortfall in Tier 2 Capital should be reported here as a positive amount.

3.13. Other net asset adjustments

This is the value of deductions from the net assets that the statutory fund must make as required under any prudential standards other than LPS 112.

4. Other adjustments to net assets as approved by APRA

This is the total value of any other regulatory adjustments to the net assets of the statutory or benefit fund that does not fall into the previous categories for the purpose of paragraph 39 in LPS 112.

Adjustments that would result in an increase to net assets should be reported as a positive value.

5. Tier 2 Capital

Tier 2 Capital includes components of capital that, to varying degrees, fall short of the quality of Tier 1 Capital but nonetheless contribute to the overall strength of the fund and its capacity to absorb losses.

This is calculated automatically as item 5.1 less item 5.2 plus item 5.3 plus item 5.4.

5.1. Eligible Tier 2 Capital instruments issued by the fund

This is the value of capital instruments issued by the fund that meet the eligibility criteria of Tier 2 Capital in LPS 112.

It should be reported net of any amortisation required under LPS 112.

5.2. Less: All holdings of own Tier 2 Capital instruments

This is the effective holdings of own eligible Tier 2 Capital instruments issued by the fund.

The amount of holdings should be reported as a positive figure.

5.3. Adjustments and exclusions to Tier 2 Capital

This is the amount of adjustments applied to the Tier 2 Capital that are specific to the application of the requirements in paragraph 41 of LPS 112.

Adjustments that would result in an increase to Tier 2 Capital should be reported as a positive value.

5.4. Transitional Tier 2 Capital

This is the amount of capital instrument that has been temporarily recognised and approved as Tier 2 Capital for transition purposes.

6. Capital base

The capital base represents the amount of capital eligible for the purpose of meeting the Prudential Capital Requirement at the fund level as set out in *Prudential Standard LPS 110 Capital Adequacy*.

This is calculated automatically as the sum of item 1, item 2, item 4 and item 5 less item 3.

Section 2: Additional information - Capital base

1. Liability adjustments

This is the difference between the adjusted policy liabilities and the sum of the policy liabilities and policy owners' retained profits disclosed in the statutory accounts together with any tax effects that would result from these adjustments.

This is calculated automatically as item 1.1 less item 1.2, less item 1.3, less item 1.4.

1.1. Fund TOTAL: Adjusted policy liabilities

This is the total adjusted policy liabilities determined in accordance with Attachment H of LPS 112 and aggregated across all product groups within the statutory fund.

1.2. LRF 300.1: Less: Fund TOTAL: Net policy liabilities

This is the policy liabilities as reported in LRF 300.1 net of all expected reinsurance recoveries.

This amount should be reported as a positive value where net policy liabilities are positive.

1.3. LRF 300.1: Less: Fund TOTAL: Policy owner retained profits

This is the policy owner retained profits as reported in LRF 300.1.

1.4. Additional tax benefits/(liabilities) from adjustments

This is the value of all tax effect associated with adjusting the policy liabilities. All tax benefits arising from this must be included when assessing the adjustment for deferred tax assets in item 3.2 of section 1.

Where there are tax benefits arising from the policy liability adjustments, a positive value should be reported for this item.

LRF_112_1: Determination of Capital Base (GF)

Australian Business Number	Entity identifier, to be provided
Institution Name	Life companies, including friendly societies
Reporting Period	As at end of each quarter and as at financial year end
Scale Factor	Thousands of dollars, no decimal places
Reporting Consolidation	One form per general fund

General fund capital base

1. LRF 300.2: Net assets as per Life Insurance Act	
2. Less: Regulatory adjustments to net assets	
2.1. Holdings of life company's own Tier 1 Capital instruments	
2.2. Excess of deferred tax assets over deferred tax liabilities	
2.3. Fair value gains and losses from changes in own creditworthiness	
2.4. Goodwill and other intangible assets	
2.5. Surplus in defined benefit superannuation fund	
2.6. Deficit in defined benefit superannuation fund	
2.7. Regulatory capital requirement of investments in subsidiary, JV and associate	
2.8. Assets under a fixed or floating charge	
2.9. Fair value adjustments	
2.10. Seed capital receivable from approved benefit fund	
2.11. Other net asset adjustments	
3. Other adjustments to net assets as approved by APRA	
4. Capital base	

LRF_112_1 Determination of Capital Base (GF)

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

Instructions for specific items

Section 1: General fund capital base

1. LRF 300.2: Net assets as per Life Insurance Act

This is the net assets of the general fund as reported in the *LRF 300.2 Statement of Financial Position (SF Total, GF, GF Elim, Entity)* (LRF 300.2).

This amount must correspond to item 23 in LRF 300.2.

2. Less: Regulatory adjustments to net assets

This is the total amount of regulatory adjustments applied on the general fund's net assets for the purpose of determining capital base as per *Prudential Standard LPS 112 Capital Adequacy: Measurement of Capital* (LPS 112).

This is calculated automatically as the sum of item 2.1 to item 2.11.

2.1. Holdings of life company's own Tier 1 Capital instruments

This is the total effective holdings of own Tier 1 Capital instruments that were issued by the life company. This includes Common Equity Tier 1 Capital and Additional Tier 1 Capital instruments held by the fund.

2.2. Excess of deferred tax assets over deferred tax liabilities

This is the amount of deferred tax assets in excess of deferred tax liabilities within the general fund. This assumes that deferred tax benefits in one fund can be offset by the deferred tax liabilities of another fund provided that the offset is only used once across both funds.

The deferred tax assets and deferred tax liabilities exclude the tax effects arising from the asset stress scenarios considered.

Where the deferred tax liabilities exceed the deferred tax assets, this value should be reported as zero. The netting of deferred tax assets and deferred tax liabilities must only be applied where the life company has a legally enforceable right to set-off current tax assets against current tax liabilities.

2.3. Fair value gains and losses from changes in own creditworthiness

This is the unrealised gains (or losses) from changes in the fair values of the liabilities of the general fund due to changes in creditworthiness of the life company.

This amount is to be reported as a positive value where there are unrealised gains or a negative value for unrealised losses.

2.4. Goodwill and other intangible assets

This is the value of goodwill and any other intangible assets as per Attachment B of LPS 112, net of adjustments to profit or loss reflecting changes arising from any impairment and amortisation. The amounts reported must be net of any associated deferred tax liability that would be extinguished if the assets involved become impaired or derecognised under Australian Accounting Standards.

This also includes the component of investments in certain categories of subsidiaries, associates and joint ventures (as per LPS 112) that represents goodwill and any other intangible assets.

2.5. Surplus in defined benefit superannuation fund

This is the amount of surplus (if any) in defined benefit superannuation funds where the life company is an employer-sponsor, net of any associated deferred tax liabilities that would be extinguished if the assets involved become impaired or derecognised under Australian Accounting Standards.

Where the extinguished deferred tax liability of the defined benefit superannuation fund exceeds the reported surplus, this value should be reported as zero. Representations may be made to APRA to include the surplus in the capital base provided the criteria are met as per Attachment B of LPS 112.

2.6. Deficit in defined benefit superannuation fund

This is the amount of deficit (if any) in a defined benefit superannuation fund where the life company is an employer-sponsor.

This item only needs to be reported where the deficit is not already reflected in the net assets of the fund.

The deficit (if any) should be reported as a positive number.

2.7. Regulatory capital requirement of investments in subsidiary, JV and associate

This is the dollar value of the component of investments in subsidiaries, joint ventures and associates that are subject to regulatory capital requirements, which is treated as a deduction from capital base.

The deduction should be taken as the lesser of the fund's share of regulatory capital requirement and the value of the investment that is recorded on the fund's balance sheet after adjusting for any intangible component as reported in item 2.4.

Look-through treatment should be applied where the investment concerned is a non-operating holding company.

This amount should correspond to the total of section 1 column 14 in LRF 112.3.

2.8. Assets under a fixed or floating charge

This is the value of assets of the fund that are under a fixed or floating charge, mortgage or other security to the extent of the indebtedness secured on those assets. This deduction may be reduced by the amount of any liability for the charge that is recognised on the fund’s balance sheet.

2.9. Fair value adjustments

This is the amount of difference between the fair value of the assets on the balance sheet and their reported value in LRF 300.2.

Where the asset fair value is less than the reported value in LRF 300.2, a positive value should be reported. Otherwise, a negative value should be reported.

2.10. Seed capital receivable from approved benefit fund

This is the amounts that the management fund will receive from the approved benefit fund in respect of its seed capital.

This item only applies for friendly societies and must correspond to item 10.3 in LRF 300.2.

2.11. Other net asset adjustments

This is the value of deductions from the net assets that the general fund must make as required under any prudential standards other than LPS 112.

3. Other adjustments to net assets as approved by APRA

This is the total value of any other regulatory adjustments to the net assets of the general fund that does not fall into any of the previous categories for the purpose of paragraph 39 in LPS 112.

Adjustments that would result in an increase to net assets should be reported as a positive value.

4. Capital base

The capital base relates to the amount of capital eligible for the purpose of meeting the Prudential Capital Requirement as set out in *Prudential Standard LPS 110 Capital Adequacy*.

This is calculated automatically as item 1 less item 2 plus item 3.

LRF_112_2: Determination of Capital Base (Entity)

Australian Business Number	Entity identifier, to be provided
Institution Name	Life companies, including friendly societies
Reporting Period	As at end of each quarter and as at financial year end
Scale Factor	Thousands of dollars, no decimal places
Reporting Consolidation	Life company

Life company capital base

1. Tier 1 Capital

1.1. Common Equity Tier 1 Capital

1.1.1. Paid-up ordinary shares
1.1.2. Retained earnings
1.1.3. Undistributed current year earnings
1.1.4. Accumulated other comprehensive income and other disclosed reserves
of which:
1.1.4.1. Unrealised gains or losses recognised on balance sheet
1.1.4.2. Reserves from equity-settled share-based payments
1.1.4.3. Cumulative unrealised gains or losses on hedges offsetting gains or losses Common Equity Tier 1 Capital
1.1.4.4. Foreign currency translation reserve
1.1.4.5. General reserve
1.1.4.6. Other gains and losses in accumulated comprehensive income and other disclosed

1.1.5. Less: Regulatory adjustments to Common Equity Tier 1 Capital

1.1.5.1. Holdings of own Common Equity Tier 1 Capital instruments
1.1.5.2. Excess of deferred tax assets over deferred tax liabilities
1.1.5.3. Fair value gains and losses from changes in own creditworthiness
1.1.5.4. Goodwill and other intangible assets
1.1.5.5. Surplus in defined benefit superannuation fund
1.1.5.6. Deficit in defined benefit superannuation fund
1.1.5.7. Reinsurance assets not subjected to an executed and legally binding contract
1.1.5.8. Regulatory capital requirement of investments in subsidiary, JV and associate
1.1.5.9. Assets under a fixed or floating charge
1.1.5.10. Liability adjustments
1.1.5.11. Fair value adjustments
1.1.5.12. Adjustments to Common Equity Tier 1 Capital due to shortfall in Additional Tier 1
1.1.5.13. Other Common Equity Tier 1 Capital adjustments

1.1.6. Adjustments and exclusions to Common Equity Tier 1 Capital

1.2. Additional Tier 1 Capital

1.2.1. Additional Tier 1 Capital instruments
1.2.2. Less: Holdings of own Additional Tier 1 Capital instruments
1.2.3. Less: Adjustments to Additional Tier 1 Capital due to shortfall in Tier 2 Capital
1.2.4. Adjustments and exclusions to Additional Tier 1 Capital
1.2.5. Transitional Additional Tier 1 Capital

1.3. Tier 1 Capital

2. Tier 2 Capital

2.1. Eligible Tier 2 Capital instruments
2.2. Less: Holdings of own Eligible Tier 2 Capital instruments
2.3. Adjustments and exclusions to Tier 2 Capital
2.4. Transitional Tier 2 Capital

3. Capital base

LRF 112.2 Form - 1

LRF_112_2 Determination of Capital Base (Entity)

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

Instructions for specific items

Section 1: Life company capital base

1.1. Common Equity Tier 1 Capital

This is the highest quality component of capital within the life company as determined under the eligibility criteria as set out in *Prudential Standard LPS 112 Capital Adequacy: Measurement of Capital* (LPS 112), net of all regulatory adjustments.

This is calculated automatically as the sum of item 1.1.1 to item 1.1.4 and item 1.1.6, less item 1.1.5.

1.1.1. Paid-up ordinary shares

This is the value of paid-up ordinary shares issued by the life company that meets the criteria for classification as ordinary shares for regulatory purposes as set out in Attachment A of LPS 112.

1.1.2. Retained earnings

This is the retained earnings consistent with the reported amount in *LRF 300.2 Statement of Financial Position (SF Total, GF, GF Elim, Entity)* (LRF 300.2), and *LRF 340.2 Retained Profits* (LRF 340.2). For friendly societies, this item includes unallocated benefit fund reserves.

The retained earnings reported here should not include the amount of undistributed current year earnings reported in item 1.1.3.

1.1.3. Undistributed current year earnings

The undistributed current year earnings reported should be consistent with the profit/(loss) amounts reported by the life company in *LRF 310.2 Income Statement (SF Total, GF, GF Elim, Entity)* (LRF 310.2).

This item must account for (where applicable) negative goodwill, expected tax expenses, and dividends when declared in accordance with the Australian Accounting Standards. The declared dividends reported here may be reduced by the expected proceeds, as agreed in writing by APRA, of a Dividend Reinvestment Plan to the extent that dividends are used to purchase new ordinary shares issued by the life company.

1.1.4. Accumulated other comprehensive income and other disclosed reserves

This is the total of all accumulated other comprehensive income and other disclosed reserves.

of which:

1.1.4.1. Unrealised gains or losses recognised on balance sheet

This is the total value of any disclosed reserves for unrealised gains or losses that have been recognised on the balance sheet.

1.1.4.2. Reserves from equity-settled share-based payments

This is the value of reserves associated with equity-settled share-based payments granted to employees as part of their remuneration package. Only the reserves relating to issue of new shares should be reported.

1.1.4.3. Cumulative unrealised gains or losses on hedges offsetting gains or losses in Common Equity Tier 1 Capital

This is the cumulative unrealised gains or losses on hedges offsetting the gains or losses of components of Common Equity Tier 1 Capital.

This includes cumulative unrealised gains or losses on effective cash flow hedges as defined in the Australian Accounting Standards and any fair value gains or losses on derivatives representing effective economic hedges of assets.

1.1.4.4. Foreign currency translation reserve

This is the value, of the reserve relating to exchange rate differences arising on translation of assets and liabilities to the presentation currency in accordance with Australian Accounting Standards.

1.1.4.5. General reserve

General reserves are created from the appropriation of profits by the life company after the payment of all dividends and tax.

1.1.4.6. Other gains and losses in accumulated comprehensive income and other disclosed reserves

This is the value of any other gains and losses in accumulated comprehensive income and other disclosed reserves that may be specified in writing by APRA as per LPS 112.

1.1.5. Less: Regulatory adjustments to Common Equity Tier 1 Capital

This is the total amount of regulatory adjustments applied to the life company's Common Equity Tier 1 Capital for the purpose of determining the capital base as per LPS 112.

This is calculated automatically as the sum of item 1.1.5.1. to item 1.1.5.13.

1.1.5.1. Holdings of own Common Equity Tier 1 Capital instruments

This is the value of the life company's effective holdings of own Common Equity Tier 1 Capital instruments unless exempted by APRA or eliminated under Australian Accounting Standards.

This item must also include:

- capital instruments the life company could be contractually obliged to purchase; and
- unused portion of the limits agreed with APRA as per Attachment B of LPS 112.

1.1.5.2. Excess of deferred tax assets over deferred tax liabilities

This is the amount of deferred tax assets in excess of deferred tax liabilities within the life company.

The deferred tax assets and deferred tax liabilities include any tax effect arising from the adjustment of policy liabilities but exclude the tax effects arising from the asset and insurance stress scenarios considered.

Where the deferred tax liabilities exceed the deferred tax assets, this value should be reported as zero. The netting of deferred tax assets and deferred tax liabilities must only be applied where the life company has a legally enforceable right to set-off current tax assets against current tax liabilities.

1.1.5.3. Fair value gains and losses from changes in own creditworthiness

This is the unrealised gains (or losses) from changes in the fair values of the liabilities that arose due to changes in creditworthiness of the life company.

This amount is to be reported as a positive value where there are unrealised gains or a negative value for unrealised losses.

1.1.5.4. Goodwill and other intangible assets

This is the value of goodwill and any other intangible assets as per Attachment B of LPS 112, net of adjustments to profit or loss reflecting changes arising from any impairment and amortisation. The amounts reported must be net of any associated deferred tax liability that would be extinguished if the assets involved become impaired or derecognised under Australian Accounting Standards.

This also includes that component of investments in certain categories of subsidiaries, associates and joint ventures (as per LPS 112) that represents goodwill and any other intangible assets.

1.1.5.5. Surplus in defined benefit superannuation fund

This is the amount of surplus (if any) in defined benefit superannuation funds where the life company is an employer-sponsor, net of any associated deferred tax liabilities that would be extinguished if the assets involved become impaired or derecognised under Australian Accounting Standards.

Where the extinguished deferred tax liability of the defined benefit superannuation fund exceeds the reported surplus, this value should be reported as zero. Representations may be made to APRA to include the surplus in the capital base provided the criteria are met as per Attachment B of LPS 112.

1.1.5.6. Deficit in defined benefit superannuation fund

This is the amount of deficit (if any) in a defined benefit superannuation fund where the life company is an employer-sponsor.

This Item only needs to be reported where the deficit is not already reflected in the Common Equity Tier 1 Capital.

The deficit (if any) should be reported as a positive number.

1.1.5.7. Reinsurance assets not subjected to an executed and legally binding contract

This is the value of reinsurance assets (if positive) reported in relation to each reinsurance arrangement that, subject to a six month grace period from risk inception, does not comprise an executed and legally binding contract.

1.1.5.8. Regulatory capital requirement of investments in subsidiary, JV and associate

This is the deduction for the regulatory capital requirement for investments in subsidiaries, joint ventures and associates as detailed in Attachment B of LPS 112.

The deduction should be taken as the lesser of the life company's share of regulatory capital requirements and the value of the investment that is recorded on the life company's balance sheet after adjusting for any intangible component as reported in item 1.1.5.4.

If the investment subject to this deduction is a non-operating holding company, a look-through approach must be applied.

1.1.5.9. Assets under a fixed or floating charge

This is the value of assets of the life company that are under a fixed or floating charge, mortgage or other security to the extent of the indebtedness secured on those assets. This deduction may be reduced by the amount of any liability for the charge that is recognised on the life company's balance sheet.

1.1.5.10. Liability adjustments

This is the difference between the adjusted policy liabilities and the sum of the policy liabilities (net of reinsurance) and policy owners' retained profits disclosed in the statutory accounts together with any tax effects that would result from these adjustments.

This item represents the aggregate liability adjustments made to the policy liabilities across all statutory/benefit funds.

1.1.5.11. Fair value adjustments

This is the amount of difference between the fair value of the assets on balance sheet and their reported value in LRF 300.2.

Where the asset fair value is less than the reported value in LRF 300.2, a positive value should be reported. Otherwise, a negative value should be reported.

1.1.5.12. Adjustments to Common Equity Tier 1 Capital due to shortfall in Additional Tier 1 Capital

This is the value, as at the relevant date, of any deductions (refer to Attachment B of LPS 112) from Common Equity Tier 1 Capital due to a shortfall in Additional Tier 1 Capital to absorb required deductions from this category of capital.

Where the amount of Tier 2 Capital is insufficient to cover the amount of deductions required to be made from this category of capital, the shortfall must first be deducted from Additional Tier 1 Capital and, if Additional Tier 1 Capital is insufficient to cover the amount of deductions required, the remaining amount must be deducted from Common Equity Tier 1 Capital.

Any shortfall in Additional Tier 1 Capital and Tier 2 Capital must be reported here as a positive amount.

1.1.5.13. Other Common Equity Tier 1 Capital adjustments

This is the value of deductions from Common Equity Tier 1 Capital that the life company must make as required under any prudential standards other than LPS 112.

1.1.6. Adjustments and exclusions to Common Equity Tier 1 Capital

This is the amount of adjustments applied to the Common Equity Tier 1 Capital that are specific to the application of the requirements in paragraph 41 of LPS 112.

Adjustments that would increase the amount of Common Equity Tier 1 Capital recognised should be reported as a positive value. This item includes the amounts where a capital instrument is required to be deducted and it is not possible to determine the category of capital from which it should be deducted.

1.2. Additional Tier 1 Capital

This is the value of capital instruments issued by the life company that meet the criteria for inclusion in Additional Tier 1 Capital in accordance with the relevant prudential standard, and which are not included in Common Equity Tier 1 Capital. This is net of regulatory adjustments specified in the relevant prudential standard.

This item is calculated automatically as the sum of item 1.2.1, item 1.2.4. and item 1.2.5, less item 1.2.2, less item 1.2.3.

1.2.1. Additional Tier 1 Capital instruments

This is the total amount of capital instruments issued by the life company that meet the eligibility criteria for Additional Tier 1 Capital but not the criteria for the higher quality capital, i.e. Common Equity Tier 1 Capital.

1.2.2. Less: Holdings of own Additional Tier 1 Capital instruments

This is the total effective holdings of own Additional Tier 1 Capital instruments issued by the life company.

This item is to be reported as a positive amount where the life company has holdings of its issued Additional Tier 1 Capital instruments.

1.2.3. Less: Adjustments to Additional Tier 1 Capital due to shortfall in Tier 2 Capital

This is the value, as at the relevant date, of any deductions (refer to Attachment B of LPS 112) from Additional Tier 1 Capital due to a shortfall in Tier 2 Capital to absorb required deductions from this category of capital.

Any shortfall in Tier 2 Capital must be reported here as a positive number.

1.2.4. Adjustments and exclusions to Additional Tier 1 Capital

This is the amount of adjustments applied to the Additional Tier 1 Capital that are specific to the application of the requirements in paragraph 41 of LPS 112.

Adjustments that would increase the amount of Additional Tier 1 Capital recognised should be reported as a positive number.

1.2.5. Transitional Additional Tier 1 Capital

This is the amount of capital instrument that have been temporarily recognised and approved as Additional Tier 1 Capital for transitional purposes.

1.3. Tier 1 Capital

Tier 1 Capital comprises of Common Equity Tier 1 Capital and Additional Tier 1 Capital.

This is calculated automatically as the sum of item 1.1 and item 1.2.

2. Tier 2 Capital

Tier 2 Capital includes components of capital that, to varying degrees, fall short of the quality of Tier 1 Capital but nonetheless contribute to the overall strength of the life company and its capacity to absorb losses.

This is calculated automatically as the sum of item 2.1, item 2.3 and item 2.4 less item 2.2.

2.1. Eligible Tier 2 Capital instruments

This is the value of capital instruments issued by the life company that meet the eligibility criteria for Tier 2 Capital in LPS 112.

It should be reported net of any amortisation required under LPS 112.

2.2. Less: Holdings of own Tier 2 Capital instruments

This is the total effective holdings of own eligible Tier 2 Capital instruments that were issued by the life company.

This item is to be reported as a positive amount where the life company has holdings of its own issued Tier 2 Capital instruments.

2.3. Adjustments and exclusions to Tier 2 Capital

This is the amount of adjustments applied to the Tier 2 Capital that are specific to the application of the requirements in paragraph 41 of LPS 112.

Adjustments that would increase the amount of Tier 2 Capital recognised should be reported as a positive value.

2.4. Transitional Tier 2 Capital

This is the amount of capital instrument that have been temporarily recognised and approved as Tier 2 Capital for transitional purposes.

3. Capital base

The capital base relates to the amount of capital eligible for the purpose of meeting the Prudential Capital Requirement as set out in *Prudential Standard LPS 110 Capital Adequacy* (LPS 110).

This is calculated automatically as the sum of item 1.3 and item 2.