

Financial Sector (Collection of Data) (reporting standard) determination Nos. 42 to 60 of 2012

EXPLANATORY STATEMENT

Prepared by the Australian Prudential Regulation Authority (APRA)

Financial Sector (Collection of Data) Act 2001, subsections 13(1) and 15(1)
Acts Interpretation Act 1901, subsection 33(3)

Under paragraph 13(1)(a) of the *Financial Sector (Collection of Data) Act 2001* (FSCODA), APRA has the power to determine reporting standards, in writing, with which financial sector entities must comply. Such standards relate to reporting financial or accounting data and other information regarding the business or activities of the entities. Subsection 15(1) of FSCODA provides that APRA may declare a date on and after which reporting standards are to apply.

Subsection 33(3) of the *Acts Interpretation Act 1901* provides that where an Act confers a power to issue an instrument the power shall, unless the contrary intention appears, be construed as including a power exercisable in the like manner and subject to the like conditions (if any) to revoke and vary any such instrument.

On 20 December 2012, APRA made the following determinations (the instruments) under the relevant provisions of the FSCODA and Acts Interpretation Act for life companies:

1. Financial Sector (Collection of Data) (reporting standard) determination No. 42 of 2013, which makes *Reporting Standard LRS 001 Reporting Requirements*;
2. Financial Sector (Collection of Data) (reporting standard) determination No. 43 of 2013, which revokes *Reporting Standard LRS 110.0 Capital Adequacy* made on 17 July 2009 and makes a new *Reporting Standard LRS 110.1 Prescribed Capital Amount*;
3. Financial Sector (Collection of Data) (reporting standard) determination No. 53 of 2013, which revokes *Reporting Standard LRS 300.0 Statement of Financial Position* made on 17 July 2009 and makes a new *Reporting Standard LRS 300.0 Statement of Financial Position*;
4. Financial Sector (Collection of Data) (reporting standard) determination No. 54 of 2013, which revokes *Reporting Standard LRS 310.0 Statement of Financial Performance* made on 17 July 2009 and makes a new *Reporting Standard LRS 310.0 Income Statement*;
5. Financial Sector (Collection of Data) (reporting standard) determination No. 55 of 2013, which revokes *Reporting Standard LRS 330.0 Summary of Revenue and Expenses* made on 17 July 2009 and makes a new *Reporting Standard LRS 330.0 Summary of Revenue and Expenses*;
6. Financial Sector (Collection of Data) (reporting standard) determination No. 56 of 2013, which revokes *Reporting Standard LRS 340.0 Retained Profits* made

on 17 July 2009 and makes a new *Reporting Standard LRS 340.0 Retained Profits*;

7. Financial Sector (Collection of Data) (reporting standard) determination No. 57 of 2013, which revokes *Reporting Standard LRS 400.0 Statement of Policy Liabilities* made on 17 July 2009 and makes a new *Reporting Standard LRS 400.0 Statement of Policy Liabilities*;
8. Financial Sector (Collection of Data) (reporting standard) determination No. 58 of 2013, which revokes *Reporting Standard LRS 420.0 Assets Backing Policy Liabilities* made on 17 July 2009 and makes a new *Reporting Standard LRS 420.0 Assets Backing Policy Liabilities*;
9. Financial Sector (Collection of Data) (reporting standard) determination No. 59 of 2013, which revokes *Reporting Standard LRS 430.0 Sources of Profit* made on 17 July 2009 and makes a new *Reporting Standard LRS 430.0 Sources of Profit*; and
10. Financial Sector (Collection of Data) (reporting standard) determination No. 60 of 2013, which revokes the following reporting standards:
 - a. *Reporting Standard LRS 100.0 Solvency* made on 17 July 2009;
 - b. *Reporting Standard LRS 120.0 Management Capital* made on 17 July 2009;
 - c. *Reporting Standard LRS 210.0 Derivatives, Commitments and Off-Balance Sheet Items* made on 17 July 2009;
 - d. *Reporting Standard LRS 220.0 Large Exposures* made on 17 July 2009;
 - e. *Reporting Standard LRS 410.0 Capital Measurement Statistics* made on 17 July 2009; and
 - f. *Reporting Standard LRS 901 Transitional Arrangements 2008* made on 6 December 2007.

The instruments commence on 1 January 2013. The instruments are being registered after this date; however the requirements apply to reporting periods ending no earlier than 28 February 2013. No life company will be impacted by the retrospective registration as the time for lodging forms with APRA will arise no earlier than 20 business days after 28 February 2013.

On 20 December 2012, APRA made the following determinations that were then varied and re-signed on 12 February 2013 (the instruments):

1. Financial Sector (Collection of Data) (reporting standard) determination No. 44 of 2013, which makes *Reporting Standard LRS 112.0 Determination of Capital Base*;
2. Financial Sector (Collection of Data) (reporting standard) determination No. 45 of 2013, which makes *Reporting Standard LRS 112.3 Related Party Exposures*;

3. Financial Sector (Collection of Data) (reporting standard) determination No. 46 of 2013, which makes *Reporting Standard LRS 114.0 Asset Risk Charge*;
4. Financial Sector (Collection of Data) (reporting standard) determination No. 47 of 2013, which makes *Reporting Standard LRS 114.2 Derivatives Activity*;
5. Financial Sector (Collection of Data) (reporting standard) determination No. 48 of 2013, which makes *Reporting Standard LRS 114.3 Off-balance Sheet Business*;
6. Financial Sector (Collection of Data) (reporting standard) determination No. 49 of 2013, which makes *Reporting Standard LRS 115.0 Insurance Risk Charge*;
7. Financial Sector (Collection of Data) (reporting standard) determination No. 50 of 2013, which makes *Reporting Standard LRS 117.0 Asset Concentration Risk Charge*;
8. Financial Sector (Collection of Data) (reporting standard) determination No. 51 of 2013, which makes *Reporting Standard LRS 118.0 Operational Risk Charge*; and
9. Financial Sector (Collection of Data) (reporting standard) determination No. 52 of 2013, which makes *Reporting Standard LRS 200.0 Capital Adequacy Supplementary Information*.

The instruments commence on 12 February 2013. The instruments are being registered after this date; however the requirements apply to reporting periods ending no earlier than 28 February 2013. No life company will be impacted by the retrospective re-signing and registration as the time for lodging forms with APRA will arise no earlier than 20 business days after 28 February 2013.

1. Background

APRA commenced a review of the regulatory capital framework for general insurers and life companies (LAGIC review) in 2010. The broad aims of the review were to:

- improve the risk sensitivity and appropriateness of the capital standards in general insurance and life insurance (including friendly societies); and
- where appropriate, improve the alignment of the capital standards across the industries that APRA supervises.

APRA has made a range of amendments to its prudential framework to give effect to the findings of the review. The revised approach provides a clearer view of the financial position of life companies through a direct comparison of the amount of eligible capital with required capital. As a result of the changes, there is a common capital framework for required capital and eligible capital across general insurers and life companies. The minimum capital requirement is known as the Prudential Capital Requirement (PCR). This comprises a prescribed capital amount plus any supervisory adjustment determined by APRA. Life companies must at all times satisfy minimum requirements for the composition of their capital bases and ensure that the capital base exceeds the PCR.

2. Purpose and operation of the instruments

The purpose of making the instruments is to introduce new and amended reporting standards and revoke existing reporting standards in relation to life companies in order to implement the changes arising from the LAGIC review.

The implementation of the revised capital framework under LAGIC requires substantive changes to the reporting requirements for both general insurers and life companies. Specifically, in the case of changes to reporting requirements for life companies, definitions of the capital base are included that are consistent with those applicable to general insurers and ADIs. The methodology for calculating the prescribed capital amount is also specified, including the introduction of explicit risk charges for asset risk, asset concentration risk, insurance risk and operational risk.

The changes in reporting requirements in relation to life companies and registered NOHCs of life companies are effected through the instruments.

The new reporting standards and associated reporting forms are issued under the FSCODA. These reporting standards enable the reporting requirements of the revised prudential framework to take effect.

The collection of quarterly and annual data under the new life company prudential reporting requirements will commence for the first reporting period ending on or after 1 January 2013.

3. Consultation

APRA undertook consultation on the LAGIC review between May 2010 and October 2012, including four rounds of industry consultation, three technical papers and two quantitative impact studies.

In addition to extensive consultation in relation to the prudential requirements, APRA released the following consultation materials in relation to the reporting requirements:

- June 2012 – Discussion paper ‘Review of capital standards for general insurers and life insurers – proposed revisions to reporting requirements’¹, draft versions of reporting forms and instructions, reporting standards and capital adequacy calculation workbooks and instructions;
- August 2012 – Letter to insurers ‘Additional proposed changes to the reporting standards’²; and

¹ <http://www.apra.gov.au/CrossIndustry/Consultations/Pages/LAGIC-Reporting-Requirements-June-2012.aspx>

² <http://www.apra.gov.au/CrossIndustry/Consultations/Documents/120806-letter-to-industry-LAGIC-proposed-changes-to-reporting-standards.pdf>

- October 2012 – Response paper ‘Review of capital standards for general insurers and life insurers – reporting requirements’³, final versions of all forms and instructions and reporting standards.

APRA has considered both formal and informal feedback from industry throughout the above multi-year process. Submissions received by APRA were broadly supportive of the changes. Issues considered to be significant or to have merit were incorporated into the revised capital framework.

4. Regulation Impact Statement

A Regulation Impact Statement has been prepared and has been lodged as supporting material.

5. Statement of compatibility prepared in accordance with Part 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*

The legislative instruments the subject of this explanatory statement do not engage any of the applicable rights or freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*. Accordingly, in APRA’s assessment, these legislative instruments are compatible with human rights.

³ <http://www.apra.gov.au/lifs/ReportingFramework/Pages/LAGIC-final-reporting-requirements-LI-October-2012.aspx>