

Annex A: Proposed revisions

APS 111 Capital Adequacy: Measurement of Capital

APRA proposes to update APS 111 to incorporate definitions of specific and general provisions, which were reflected in previous letters to industry, into the prudential framework. APRA intends to update CPS 001 with these definitions.

42. Tier 2 Capital consists of:

(c) subject to paragraphs 43 and 44 of this Prudential Standard, general provisions held against non-defaulted exposures that represent a purely forward-looking amount for future losses that are, presently unidentified unless APRA determines otherwise; and

43. For the purposes of paragraph 42(c) of this Prudential Standard, general provisions may be included in Tier 2 Capital gross of tax effects up to the following limits:

Attachment D – Regulatory adjustments

7. For the purposes of deducting from the relevant category of Regulatory Capital:

an ADI may net any specific provisions held against the relevant defaulted exposures or holdings, or the relevant non-defaulted exposures or holdings that represent identified losses, before making the necessary deductions from the relevant category of Regulatory Capital.

APS 220 Credit Risk Management

APRA proposes to update APS 220 to incorporate definitions of specific and general provisions, which were reflected in previous letters to industry, including to clarify the treatment of Stage 1 and 2 expected credit loss provisions. APRA intends to update CPS 001 with these definitions.

110. Stage 1 expected credit loss provisions under Australian Accounting Standards must be treated as general provisions for regulatory purposes. Stage 2 expected credit loss provisions under Australian Accounting standards must be treated as specific provisions for regulatory purposes, except that Stage 2 expected credit loss provisions held against performing exposures that represent a purely forward-looking amount for future losses that are presently unidentified may be treated as general provisions for regulatory purposes. Stage 3 expected credit loss provisions must be treated as specific provisions for regulatory purposes.

110.111. Prescribed provisions are minimum provisions that an ADI must hold. Where an ADI establishes provisions under Australian Accounting Standards in excess of those prescribed, the ADI must continue for regulatory capital and APRA reporting purposes, to include any excess provisions as part of its specific provisions or general provisions held against performing exposures that represent unidentified losses, as appropriate.

Attachment B – Prescribed provisioning

1. Where an ADI undertakes prescribed provisioning, the level of prescribed provisions must be reported to APRA notwithstanding the level of any provisions which an ADI may have actually raised, or the form in which such provisions have been reported, in its audited published financial reports. Where an ADI establishes such provisions in excess of those prescribed, the ADI must continue, for capital and APRA reporting purposes to include any excess provisions, as part of its specific provisions or general provisions held against performing exposures that represent unidentified losses, as appropriate.

2. The amount of prescribed provisions that an ADI is required to hold will, unless otherwise agreed with APRA, be in addition to any general provisions held against performing exposures that represent unidentified losses which it may hold.

5. Alternatively, where an ADI can satisfy APRA that the level of provisioning prescribed under this Attachment is higher than it might prudently require, the ADI may seek APRA's written agreement to report a lower level of such provisions as specific provisions. The difference between the level of provisions prescribed under this Attachment and that which it is agreed an ADI might prudently report may instead be included as part of the ADI's general provisions held against performing exposures that represent unidentified losses or, alternatively,

may be returned to Common Equity Tier 1 Capital as agreed with APRA. An ADI will need to fully satisfy APRA that its estimates of its provisioning needs are both prudent and comprehensive.

APG 210 Liquidity

APRA proposes to introduce four new paragraphs to clarify the classification of deposit funding following an industry review of liquidity reporting. This clarification is intended to improve the accuracy of liquidity reporting by making the instructions easier to navigate and contextualise for MLH ADIs.

Deposit funding classification

153. A prudent MLH ADI would review periodically the classification of its deposit funding.

154. An MLH ADI's retail deposit funding includes deposits from natural persons and SMSFs.

155. APRA also considers retail deposit funding to include deposits from personal investment entities (PIEs) that are operated and controlled by a small number of related individuals. In cases where the ADI has insufficient information to determine whether the PIE has these characteristics, the deposit funding may still be considered as retail if the total aggregated funding raised from the PIE customer is less than \$2 million (on a consolidated basis where applicable). Otherwise, APRA considers this to be deposit funding from a financial institution.

156. Deposit funding from a non-financial SME customer where the total balance is greater than \$2 million (on a consolidated basis where applicable) should be considered as deposit funding from a non-financial corporate. Furthermore, deposit funding from national, state, territory and local governments such as councils, regardless of the total balance, is considered to be from a non-financial corporate or public sector entity.

APS 330 Public Disclosure

APRA proposes to add minor clarifications related to disclosure requirements to support implementation of the new APS 330 that comes into effect in January 2025.

32-33. Unless otherwise directed by APRA, an ADI must implement the relevant disclosure templates developed by the BCBS from time to time by the applicable implementation date provided by the BCBS.

Attachment A – Modifications to disclosure requirements in the BCBS Standard

18. Provisions under the ECL accounting method referred to in the BCBS Standard must receive the following treatment for disclosures purposes:

(a) Stage 1 expected credit loss provisions must be treated as general provisions~~12-month ECL Stage 1 provisions would be treated as general provisions;~~

(b) Stage 2 expected credit loss provisions must be treated as specific provisions, except that Stage 2 expected credit loss provisions held against performing exposures that represent a purely forward-looking amount for future losses that are presently unidentified may be treated as general provisions~~ECL Stage 2 provisions would be treated as specific provisions where these provisions do not represent a purely forward-looking amount for future losses that are presently unidentified. If some Stage 2 loans do represent a purely forward-looking amount for future losses that are presently unidentified, they would be treated as general provisions;~~ and

(c) Stage 3 expected credit loss provisions must be treated as specific provisions~~ECL Stage 3 provisions would be treated as specific provisions.~~

26. A reference to 'originator' or 'sponsor' means an 'originating ADI' as defined in paragraph 120(o) of Prudential Standard APS 120 Securitisation (APS 120).

27-28. An ADI is not required to complete securitisation disclosures relating to mixed asset pools.

31-32. An ADI is not required to comply with the market risk disclosures requirements set out in the BCBS Standard. An ADI must instead disclose the items set out in Table 1 and Table 2 to the extent applicable on a semi-annual basis.

Operational risk

32-34. An ADI must also disclose its operational risk capital overlays when making disclosures relating to operational risk regulatory capital requirements. This must involve including an additional line-item titled 'Other regulatory capital charges' that captures operational risk capital overlays as part of an ADI's minimum required operational risk capital disclosure template.

Macroprudential supervisory measures

33-36. An ADI that is required by APRA to disclose templates relating to G-SIB indicators must do so annually by 31 July, following the date on which the G-SIB indicators are based.

35-39. An ADI is not required to disclose the BCBS template relating to the summary comparison of accounting assets vs leverage ratio exposure measure on a quarterly basis. An ADI is required to disclose this template on a semi-annual basis.

36-41. An ADI is not required to disclose its performing loans and securities with a risk weight of less than or equal to 35 per cent under the Basel II standardised approach for credit risk as part of their Net Stable Funding Ratio disclosure requirements. Instead, an ADI must disclose its performing loans and securities that are standard loans to individuals with a loan-to-value ratio of 80 per cent or below.

GPS 310 Audit and Related Matters

APRA proposes to include a table summarising the level of assurance required from auditors (by GI reporting standard) into an Attachment to provide clarity to industry.

Attachment E – Auditable annual returns

The Auditor must provide assurance on the annual data provided to APRA in relation to the below reporting standards made under the Collection of Data Act:

Level 1 (or Licensed insurer)

<u>RETURN</u>	<u>REPORTING STANDARD</u>	<u>LEVEL OF ASSURANCE³⁵</u>
<u>GRS 110.0</u>	<u>Prescribed Capital Amount</u>	<u>REASONABLE</u>
<u>GRS 111.0</u>	<u>Adjustment and Exclusions</u>	<u>REASONABLE</u>
<u>GRS 112.0</u>	<u>Determination of Capital Base</u>	<u>REASONABLE</u>
<u>GRS 112.3</u>	<u>Related Party Exposures</u>	<u>REASONABLE</u>
<u>GRS 114.0</u>	<u>Asset Risk Charge</u>	<u>REASONABLE</u>
<u>GRS 114.1</u>	<u>Assets by Counterparty Grade</u>	<u>REASONABLE</u>
<u>GRS 114.2</u>	<u>Derivatives Activity</u>	<u>REASONABLE</u>
<u>GRS 114.3</u>	<u>Off-balance Sheet Business</u>	<u>REASONABLE</u>
<u>GRS 114.4</u>	<u>Details of Investment Assets</u>	<u>REASONABLE</u>
<u>GRS 115.0</u>	<u>Outstanding Claims Liabilities – Insurance Risk Charge</u>	<u>REASONABLE</u>
<u>GRS 115.1</u>	<u>Premiums Liabilities – Insurance Risk Charge</u>	<u>REASONABLE</u>
<u>GRS 116.0</u>	<u>Insurance Concentration Risk Charge</u>	<u>REASONABLE</u>
<u>GRS 116.1</u>	<u>Probable Maximum Loss for LMIs – Standard Loans</u>	<u>REASONABLE</u>
<u>GRS 116.2</u>	<u>Probable Maximum Loss for LMIs – Non-Standard Loans</u>	<u>REASONABLE</u>
<u>GRF 116.3</u>	<u>Probable Maximum Loss for LMIs – Commercial Loans</u>	<u>REASONABLE</u>
<u>GRS 116.4</u>	<u>LMI Concentration Risk Charge</u>	<u>REASONABLE</u>
<u>GRS 116.5</u>	<u>Probable Maximum Loss for LMIs – Additional Information</u>	<u>REASONABLE</u>
<u>GRS 117.0</u>	<u>Asset Concentration Risk Charge</u>	<u>REASONABLE</u>
<u>GRS 118.0</u>	<u>Operational Risk Charge</u>	<u>REASONABLE</u>

GRS 300.0	Statement of Financial Position	REASONABLE
GRS 310.0	Statement of profit or loss and other comprehensive income	REASONABLE
GRS 310.3	Details of Income and Expenses	REASONABLE
GRS 311.0	Statement of Profit or Loss and Other Comprehensive Income by Product Group	LIMITED
GRS 320.0	Liability Roll Forwards	REASONABLE
GRS 400.0	Statement of Risk by Country³⁶	NONE
GRF 410.0	Movement in Outstanding Claims Liabilities	REASONABLE
GRS 420.0	Insurance Revenue and Incurred Claims by State and Territory of Australia³⁶	NONE
GRS 440.0	Claims Development Table	REASONABLE
GRS 460.0	Reinsurance Assets by Counterparty³⁶	NONE
GRS 460.1	Exposure Analysis by Reinsurance Counterparty³⁶	NONE
GRS 600.0	Supplementary Capital Data: Premiums and Claims	LIMITED

[Level 2 \(or Insurance Group\)](#)
Group Auditors must provide limited assurance on the annual data reported by Level 2 insurers.
³⁵ Reasonable Assurance and Limited Assurance are defined in the Framework for Assurance Engagements issued by the AUASB.
³⁶ In accordance with Insurance Exemption Determination No.1 of 2023, these returns for insurers do not require an audit opinion.

HPS 112 Capital Adequacy: Measurement of Capital

APRA proposes to update HPS 112 to replace 'health fund', which is not a defined term, to 'fund', which is defined (Paragraph 3 of HPS 112).

Attachment E - Loss absorption at the point of non-viability: Additional Tier 1 and Tier 2 Capital instruments

2. A non-viability event is:

- (a) in relation to a private health insurer when APRA notifies the private health insurer that APRA considers;
- (i) conversion or write-off of a capital instrument is necessary because, without it, a particular ~~health~~ fund or the private health insurer would become non-viable; or
 - (ii) without a public sector injection of capital or equivalent support, a particular ~~health~~ fund or the private health insurer would become non-viable;

LPS 112: Capital Adequacy Measurement of Capital

A formula specified in LPS 112 to calculate the illiquidity premium can no longer be applied, as the Reserve Bank of Australia ceased publishing the information required to calculate it. This change makes permanent the interim approach to calculating the illiquidity premium which industry was advised of in December 2023.

Attachment F - Definition of Adjusted Policy Liabilities

7. The illiquidity premium (in basis points) added to the risk-free forward rates for the first 10 years after the reporting date is:

~~Illiquidity premium = 33 per cent x A spread 3 year~~

~~The spread must be:~~

- ~~(a) obtained from 'Statistical Table F3—Aggregate Measures of Australian Corporate Bond Spreads and Yields' (Table F3) published by the RBA on its website. 'A spread 3 year' is the spread to Australian Commonwealth~~

~~Government Securities (CGS) for non-financial corporate bonds with broad credit rating (as determined by Standard and Poor's) of A and target tenor of 3 years; or~~

~~(b) if obtaining the spread from Table F3 is impractical due to the delay between the reporting date and the date of publication of Table F3, a best estimate assumption of the spread to be published in Table F3 may be used. The assumption must be made having regard to reasonably available statistics and other information and be neither deliberately overstated nor deliberately understated.~~

~~Illiquidity premium = 33 per cent x (A yield 3 year – CGS yield 3 year)~~

~~Where:~~

~~• 'A yield 3 year' is obtained from 'Table F3 – Aggregate Measures of Australian Corporate Bond Yields' published by the Reserve Bank of Australia (RBA) on its website⁴⁸. 'A yield 3 year' is the yield for non-financial corporate bonds with broad credit rating (as determined by Standard and Poor's) of A and target tenor of 3 years; and~~

~~• 'CGS yield 3 year' is the yield for Australian Commonwealth Government Securities (CGS) with a target tenor of 3 years.~~

~~⁴⁸ Available at Statistical Tables | RBA~~

LPS 117: Capital Adequacy: Asset Concentration Risk Charge

APRA proposes to clarify the asset exposure limits for bank bonds and Negotiable Certificates of Deposit, previously addressed in a 2002 [letter](#) to industry.

25. Where the asset or credit exposure is in respect of bank bills, bank deposits, bank guarantees, ~~or~~ letters of credit issued by a bank, [bank bonds or Negotiable Certificates of Deposit \(NCDs\) issued by a bank](#), bank for this purpose means:

Attachment A – Asset exposure limits

1. The limits by type of asset exposure are:

(c)	Bank bills, bank guarantees, and letters of credit issued by a bank, bank bonds and NCDs issued by a bank ; or Assets guaranteed by an overseas provincial government (equivalent in status to an Australian State government), in the country in whose currency the liabilities of a statutory fund or a general fund are denominated:	The greater of: i) 25% of VAF; and ii) AUD 22 million.
(d)	Bank deposits	The greatest of: i) 50% of VAF less the value of the assets of the fund secured by bank bills, bank guarantees, letters of credit issued by a bank, bank bonds and NCDs issued by a bank ; ii) 25% of VAF; and iii) AUD 22 million.

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.