



Note for consultation:
Blue highlights
clarifications with respect to
Board requirements.

Prudential Standard 3PS 222

Intra-group Transactions and Exposures

Objective and key requirements of this Prudential Standard

This Prudential Standard requires a Level 3 Head to ensure that associations and dealings within the Level 3 group—APRA-regulated do not expose prudentially regulated institutions within the Level 3 group ~~are not exposed~~ to excessive risk ~~as a result of their associations and dealings within the group~~.

The ultimate responsibility for the intra-group transactions and exposures policy of a Level 3 group rests with the Board of its Level 3 Head.

The key requirements of this Prudential Standard are that a Level 3 Head must:

- have a policy for the Level 3 group that deals with the measurement, management and monitoring of, and reporting on, intra-group transactions and exposures between members of the group;
- develop and implement effective systems and processes to manage, monitor and report on intra-group transactions and exposures; and
- meet minimum requirements with respect to dealings between institutions in the Level 3 group and certain related matters.

The requirements in this Prudential Standard are in addition to the obligations imposed on prudentially regulated institutions under other Prudential Standards.

Authority

1. This Prudential Standard is made under:
 - (a) section 11AF of the *Banking Act 1959* (Banking Act);
 - (b) section 32 of the *Insurance Act 1973* (Insurance Act); and
 - (c) section 230A of the *Life Insurance Act 1995* (Life Insurance Act).

Application

2. This Prudential Standard applies to each **Level 3 Head**.
3. This Prudential Standard commences on ~~[implementation date to be notified]~~ 1 July 2017.

Interpretation

4. Terms that are defined in *Prudential Standard 3PS 001 Definitions* appear in bold the first time they are used in this Prudential Standard.
5. Where this Prudential Standard provides for APRA to exercise a power or discretion, this power or discretion is to be exercised in writing.

~~Interaction with other prudential standards~~

- ~~6. The requirements in this Prudential Standard are in addition to the obligations imposed on APRA-regulated institutions under other Prudential Standards.~~

Intra-group transactions and exposures

- ~~7.6.~~ For the purposes of this Prudential Standard, an intra-group transaction and exposure (ITE) is the total exposure, including on- and off-balance sheet exposures, of a **Level 3 institution** to another Level 3 institution within the same **Level 3 group**.
- ~~8.7.~~ A Level 3 Head must have an 'ITE policy' that addresses all material risks arising in relation to ITEs associated with operations undertaken by Level 3 institutions in the Level 3 group. The policy must include systems and procedures to identify, measure, monitor, evaluate, report and control or mitigate all material risks arising from ITEs between Level 3 institutions in the group.
- ~~9.8.~~ A Level 3 Head must conduct forward-looking scenario analysis and stress testing of the Level 3 group's material ITEs. The analysis must assess the impact of changes in market conditions and key risk factors on these ITEs, and how these changes impact the group's risk profile, capital strength and earnings.

~~10.9.~~ The management of ITEs must be a part of a Level 3 group's risk management framework.¹

The role of the Board of a Level 3 Head

~~11.10.~~ The Board of a Level 3 Head must:

- (a) approve the ITE policy for the Level 3 group;
- (b) **ensure** that adequate systems and controls are in place to identify, measure, manage, monitor and report on material ITEs in the Level 3 group in a timely manner and that those systems and controls are documented;
- (c) engage in oversight, which may be via a board committee, of the approach to the identification, measurement, management and monitoring of ITEs and compliance with the ITE policy, which includes receiving regular reviews of which ITEs are deemed to be material to the operations of the Level 3 group; and
- ~~(d) — review Board-approved the ITE policiesy and relevant controls for ITEs, at least annually, to ensure that these policies this policy remains adequate and appropriate for identifying, measuring, managing and monitoring material risks in relation to ITEs; and~~
- ~~(e)(d) ensure that those systems and controls are documented.~~

~~12.11.~~ If ~~an APRA-regulated institution~~ prudentially regulated institution in the Level 3 group proposes to accept terms and conditions, in dealing with Level 3 institutions in the group, that are not consistent with terms and conditions that would be negotiated on an arms-length basis in such a dealing, those terms and conditions must first be approved by the Board of the Level 3 Head with justification fully and clearly documented.

The ITE policy

~~13.12.~~ The ITE policy for a Level 3 group must:

- (a) be conceptually sound, consistently implemented, transparent and be subject to independent review;
- (b) capture all material ITEs;
- (c) include limits on acceptable levels of ITEs for a Level 3 institution in the Level 3 group having regard to:
 - (i) the Level 3 institution's Board-approved limits on exposures to unrelated institutions of broadly equivalent credit status; and

¹ Refer to *Prudential Standard CPS 220 Risk Management* (CPS 220).

- (ii) the potential impact on the Level 3 group's capital and liquidity positions, as well as the institution's ability to continue operating, as a result of a failure of any other institution in the group; and
- (d) include a description of the procedures for identifying, reviewing, controlling and reporting material ITEs within the Level 3 group. This must include:
 - (i) a clear statement of the respective responsibilities and compliance obligations on the Board of the Level 3 Head, its board committees and **senior management** of the Level 3 group in relation to the monitoring and management of material ITEs;
 - (ii) escalation procedures for ITEs that facilitate responses to identified policy breaches between formal reporting cycles;
 - (iii) the circumstances in which ITE limits may be exceeded and the authority required for approving such excesses;
 - (iv) procedures for resolving any conflict of interest arising in relation to ITEs;
 - (v) procedures for the participation of ~~APRA-regulated institution~~prudentially regulated institution in Level 3 group-wide operations;
 - (vi) processes to ensure the transparency of dealings with entities external to the Level 3 group that are ~~third party~~ dealings associated with ITEs;
 - (vii) thresholds and procedures for reporting material changes to the Board of the Level 3 Head, ~~material changes~~ in both formal reporting cycles and outside formal reporting cycles; and
 - (viii) a timetable for a regular review of the reports by the Board of the Level 3 Head.

Participation in group-wide operations

~~14.13.~~ A Level 3 Head must establish policies and procedures to address risks posed to the group from the participation of any ~~APRA-regulated institution~~prudentially regulated institution in Level 3 group-wide operations including, but not limited to, sharing premises with other Level 3 institutions, centralising back-office functions or outsourcing services to other Level 3 institutions.

~~15.14.~~ Where ~~an APRA-regulated institution~~prudentially regulated institution participates in Level 3 group-wide activities, a Level 3 Head must:

- (a) consider the risks posed to that institution on a standalone basis as a result of its participation in such activities;

- (b) be satisfied that these ITEs are appropriately addressed by the Level 3 group's risk management policies;
- (c) ensure dealings with other parties arising from participation in group-wide operations are appropriately documented in written service agreements²;
- (d) facilitate APRA being able to obtain information required for the supervision of either individual ~~APRA-regulated institution~~prudentially regulated institutions or the Level 3 group as a whole; and
- (e) ensure that there is a clear obligation under the written arrangements for any service provider to comply with any direction given by APRA in relation to the operations of any ~~APRA-regulated institution~~prudentially regulated institution within the Level 3 group.

Internal reporting systems

~~16.15.~~ A Level 3 Head's management information systems must incorporate reporting systems in relation to ITEs across the Level 3 group.³

~~17.16.~~ Reports on material ITEs must be provided to APRA on request.

Limits and approvals

~~18. If, in APRA's view, a Level 3 group is exposed to a significant level of ITEs, APRA may apply a Level 3 supervisory adjustment. In determining any supervisory adjustment, APRA may take account of the following factors:~~

- ~~(a) whether the Level 3 group has been acting in a manner that is consistent with the group's policy on ITEs;~~
- ~~(b) the characteristics of ITEs, including their number, size and nature;~~
- ~~(c) the characteristics of the Level 3 group, including the nature of its business and the experience of its management; and~~
- ~~(d) other relevant factors on a case-by-case basis.~~

~~Where, in APRA's view, the Level 3 group is exposed to a significant level of ITEs, APRA may require a Level 3 Head to limit or reduce the Level 3 group's level of ITEs. APRA may also determine how a Level 3 Head must calculate the ITEs.~~

17. In determining any requirement to limit or reduce the Level 3 group's level of ITEs, or how a Level 3 Head must calculate an ITE, APRA may take account of the following factors:

² Outsourcing of material business activities to a related entity must satisfy the prudential requirements set out in *Prudential Standard CPS 231 Outsourcing*.

³ Refer to CPS 220.

- (a) whether the Level 3 group has been acting in a manner that is consistent with the ITE policy;
- (b) the characteristics of ITEs, including their number, size and nature;
- (c) the characteristics of the Level 3 group, including the nature of its business and the experience of its management; and
- (d) other relevant factors to be considered on a case-by-case basis.

Notification requirements

~~19.~~18. A Level 3 Head must notify APRA as soon as practicable, and no more than 10 business days, after it becomes aware:

- (a) of a breach of the limits in the ITEs policy;
- (b) of any significant breach of, or material deviation from, the ITE policy; or
- (c) that the ITE policy did not adequately address a material risk;⁴

and including advise of remedial actions taken, or planned to be taken, to deal with the issue.

~~20.~~19. A Level 3 Head must submit to APRA a copy of its ITE policy as soon as practicable, and no more than 10 business days, after Board approval.

Adjustments and exclusions

~~21.~~20. APRA may adjust or exclude a specific requirement in this Prudential Standard in relation to the Level 3 Head.⁴

⁴ Refer to subsection 11AF(2) of the Banking Act, subsection 32(3D) of the Insurance Act and subsection 230A(4) of the Life Insurance Act.