



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 APRA-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.

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 1 January 2014.

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.

Interaction with other prudential standards

5. 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

6. For the purposes of this Prudential Standard, an intra-group transaction and exposure (ITE) is the total exposure of a **Level 3 institution** to another Level 3 institution within the same **Level 3 group**. ITEs include both on- and off-balance sheet exposures.

Responsibilities of a Level 3 Head

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, procedures, and controls to measure, manage, monitor, and report on, risks arising from ITEs between Level 3 institutions in the group.
8. The management of ITEs must be a part of a Level 3 group's risk management framework.

Responsibilities of the Board of a Level 3 Head

9. 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;

- (c) engage in active oversight, which may be via Board committee, of the approach to the identification, measurement, management and monitoring of ITEs and compliance with the ITE policy, which includes regular reviews of:
 - (i) the assessment of which ITEs are deemed to be material to the operations of the Level 3 group; and
 - (ii) escalation procedures for ITEs which facilitate responses to identified policy breaches between formal reporting cycles;
 - (d) review Board-approved policies and relevant controls for ITEs at least annually, to consider and, if appropriate, take action in relation to:
 - (i) ongoing compliance with the ITE policy;
 - (ii) areas in the ITE policy requiring improvement;
 - (iii) deficiencies that have not been adequately addressed within the allocated rectification timeframe; and
 - (iv) material changes or exceptions from established policies;
 - (e) ensure that Board-approved policies remain adequate and appropriate for identifying, measuring, managing and monitoring material risks in relation to ITEs. Any material change to established policies must be approved by the Board of the Level 3 Head; and
 - (f) ensure that those systems and controls are documented and that such documents are provided to APRA on request.
10. If an APRA-regulated institution in the Level 3 group applies terms and conditions to dealings with Level 3 institutions in the group that are not conducted on an arm's length basis, they must be approved by the Board of the Level 3 Head with justification fully and clearly documented. The Level 3 Head must provide this documentation to APRA on request.
11. The Board of a Level 3 Head must determine limits on acceptable levels of ITEs for a Level 3 institution in the Level 3 group having regard to:
- (a) the Level 3 institution's Board-approved exposures to unrelated institutions of broadly equivalent credit status; and
 - (b) the impact on the Level 3 group's capital and liquidity positions, as well as its ability to continue operating, as a result of a failure of any Level 3 institution in the group.

The ITE policy

12. The ITE policy for a Level 3 group must:

- (a) be conceptually sound, consistently implemented, transparent and capable of independent review and validation;
 - (b) be sufficiently comprehensive to capture all material ITEs; and
 - (c) clearly articulate responsibilities, compliance obligations and reporting relationships.
13. The ITE policy must contain a description of the procedures for identifying, reviewing, controlling and reporting material ITEs within the Level 3 group. This must include:
- (a) a clear statement of the responsibilities and compliance obligations on **senior management** of the Level 3 group, any relevant Board committee and the Board of the Level 3 Head in relation to the monitoring and management of group-wide ITEs;
 - (b) prudent limits on ITEs that are material to the Level 3 group (refer to paragraph 11);
 - (c) the circumstances in which ITE limits may be exceeded and the authority required for approving such excesses;
 - (d) procedures for resolving any conflict of interest arising in relation to ITEs;
 - (e) requirements relating to ITEs arising from the participation of APRA-regulated institutions in Level 3 group operations (refer to paragraphs 15 to 17 inclusive);
 - (f) requirements for the transparency of **third party** dealings associated with ITEs;
 - (g) thresholds and procedures for reporting to the Board of the Level 3 Head material changes during formal reporting cycles and outside formal reporting cycles;
 - (h) a timetable for a regular review of the reports by the Board of the Level 3 Head; and
 - (i) a timetable for the regular review of the operation of the ITE policy by senior management of the Level 3 group to consider and, if appropriate, take action in relation to:
 - (i) ongoing compliance with the ITE policy, systems and procedures;
 - (ii) areas in the ITE policy, systems and procedures requiring improvement;
 - (iii) deficiencies that have not been adequately addressed within the allocated rectification timeframe; and

- (iv) material changes or exceptions from established policies that have had an impact on the operations of the policy.
14. A Level 3 Head must conduct stress testing and scenario analysis in relation to the Level 3 group's ITEs to assess the impact of changes in market conditions or key risk factors on the group's risk profile and earnings arising from those ITEs.

Participation in group-wide operations

15. A Level 3 Head must establish policies and procedures to address risks arising from the participation of any APRA-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).
16. APRA-regulated institutions in a Level 3 group may participate in Level 3 group-wide operations provided:
- (a) dealings with other parties arising from participation in group-wide operations are appropriately documented in written agreements¹;
 - (b) these operations do not undermine the safety and soundness of any APRA-regulated institution in the Level 3 group;
 - (c) the arrangements covering participation in group-wide operations do not prevent APRA from being able to obtain information required for the supervision of either individual APRA-regulated institutions or the Level 3 group as a whole; and
 - (d) 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 within the Level 3 group.
17. The participation of APRA-regulated institutions in Level 3 group-wide operations must be approved by the Board of the APRA-regulated institution and the Board of the Level 3 Head. In approving such activities, the Board of the APRA-regulated institution and the Board of the Level 3 Head must:
- (a) have regard to the risks posed to the APRA-regulated institution on a standalone basis as a result of its participation in such activities; and
 - (b) be satisfied that these ITEs are appropriately addressed by the Level 3 group's risk management policies.

Internal reporting systems

18. A Level 3 Head must develop and maintain reporting systems in relation to material ITEs.

¹ Outsourcing of material business activities to a related entity must satisfy the prudential requirements set out in *Prudential Standard CPS 231 Outsourcing*.

19. Reports on material ITEs must be provided to APRA on request.

Limits and approvals

20. 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.² 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 number of exposures, their individual 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.
21. APRA may also require a Level 3 Head to reduce the Level 3 group's ITEs. Where, in APRA's opinion, a Level 3 institution in the group is exposed to a significant level of ITEs in a related Level 3 institution or a group of related Level 3 institutions, APRA may require the Level 3 Head to ensure that relevant ITEs are not increased.
22. APRA by written notice to the Level 3 Head impose limits on the Level 3 group's ITEs and, at APRA's discretion, may determine how a Level 3 Head must calculate the ITEs.

Notification requirements

23. A Level 3 Head must notify APRA immediately of any significant breach of the requirements of this Prudential Standard or the Board-approved ITE policy, including remedial actions taken or planned to deal with the breach.

Adjustments and exclusions

24. APRA may, by notice in writing to a Level 3 Head, adjust or exclude a specific prudential requirement in this Prudential Standard in relation to the Level 3 Head.³

² A Level 3 supervisory adjustment is an adjustment that APRA may require to the Level 3 capital adequacy requirement.

³ 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.