

Reporting Form GRF 110.0_G

Minimum Capital Requirement (Level 2 Insurance Group)

Instruction Guide

Introduction

This form collects information on:

- a summary of the risk charges;
- the Minimum Capital Requirement (MCR);
- the capital base; and
- whether the Level 2 insurance group complies with the capital requirements as prescribed in *Prudential Standard GPS 111 Capital Adequacy: Level 2 Insurance Groups (GPS 111)*.

Most of the individual risk charges and capital base summarised on this form (with the exception of Derivatives Activities. Concentration Risk and APRA-approved variations of capital charges) are calculated in other forms. The form will automatically calculate the MCR of the Level 2 insurance group based on the information reported for each risk charge. Additionally, information relating to the capital surplus/deficiency and capital ratios will be calculated automatically.

Audit requirements

The annual return of *GRF 110.0_G Minimum Capital Requirement (Level 2 Insurance Group)* required under paragraphs 3 and 5(c) of *Reporting Standard GRS 110.0_G* must be subject to a limited assurance¹ review by the Group Auditor (see *Prudential Standard GPS 311 Audit and Actuarial Reporting and Valuation: Level 2 Insurance Groups (GPS 311)*).

The Group Auditor must prepare a review report on the basis of a limited assurance engagement in accordance with the requirements of GPS 311. Assurance in the review report will be provided in the form of negative assurance. To express negative assurance in the review report, the auditor will use limited procedures to obtain sufficient appropriate evidence. Enquiries of the Level 2 insurance group's staff and analytical procedures will be the primary tools used to obtain evidence. These procedures will not provide all the evidence that would be required in an audit.

¹ Limited assurance is as defined in *Prudential Standard GPS 001 Definitions (GPS 001)*.

The scope and nature of audit testing required is outlined in the *Standard on Assurance Engagement ASAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information* issued by the Auditing and Assurance Standards Board.

Reporting entities

GRF 110.0_G Minimum Capital Requirement (Level 2 Insurance Group) is to be completed by the parent entity of a Level 2 insurance group as defined under *Prudential Standard GPS 001 Definitions (GPS 001)*.

Consolidation at Level 2 should cover the Level 2 insurance group as defined under GPS 001.

Unit of measurement

This form is to be presented in Australian dollars (**AUD**), rounded to thousands of dollars, with no decimal place. Ratios are expressed to two decimal places.

Amounts denominated in foreign currency are to be converted to AUD in accordance with Australian accounting standards.

Transactions arising under foreign currency derivative contracts at the reporting date must be prepared in accordance with Australian accounting standards.

Materiality

GRF 110.0_G Minimum Capital Requirement (Level 2 Insurance Group) is to be prepared based on the concept of materiality as applied in Australian accounting standards subject to APRA's discretion. APRA's discretion is likely to apply in instances where the application of materiality criteria is not suitable for prudential reporting purposes.

Reporting period

Level 2 insurance groups are required to report the information in the reporting form. This information is to be reported on three occasions in a Level 2 insurance group's financial year. A Level 2 insurance group is required to submit:

- semi-annual return which is to be completed in respect of each half year from the start of the financial year of the Level 2 insurance group; and
- an audited annual return which will be based on a limited assurance review by the Group Auditor (see Audit requirements).

The financial information requested in this form is to be reported as at the last day of the reporting period on a financial year to date basis of the Level 2 insurance group.

Reporting lag

Submission times for Level 2 reporting forms are as follows (in accordance with *GRS 110.0_G Minimum Capital Requirement*):

- The semi-annual return is to be lodged within three months after the end of the reporting period.
- The audited annual return is to be lodged within four months after the end of the reporting period.

Adjustments

The parent entity of a Level 2 insurance group may apply in writing to APRA to vary the reporting requirements of *GRF 110.0_G Minimum Capital Requirement (Level 2 Insurance Group)* in relation to that Level 2 insurance group. APRA may, at its discretion, approve such an application in writing.

Specific instructions

1. GRF 131.0_G Total off-balance sheet exposure risk charge

This represents the total capital charge applicable for the off-balance sheet exposures of the Level 2 insurance group. This amount is calculated in item titled 'Total Off-Balance Sheet Exposure Risk Charge' in *GRF 131.0_G Off-Balance Sheet Exposure Risk Charge (Level 2 Insurance Group)*. This figure needs to be manually entered into this data field in *GRF 110.0_G Minimum Capital Requirement (Level 2 Insurance Group)*.

2. GRF 141.0_G Listed equity holdings risk charge

This represents the total investment risk charge applicable for holdings of listed equities. This amount is calculated in the item titled 'Listed Equity Holdings Risk Charge' in *GRF 141.0_G Listed Equity Holdings and Risk Charge (Level 2 Insurance Group)*. This figure needs to be manually entered into this data field in *GRF 110.0_G Minimum Capital Requirement (Level 2 Insurance Group)*.

3. GRF 150.0_G Asset exposure concentration risk charge

This represents the total investment concentration risk charge for exposures listed in *GRF 150.0_G Asset Exposure Concentrations and Risk Charge (Level 2 Insurance Group)*. This figure represents the item 'Net concentration risk charge' calculated in *GRF 150.0_G Asset Exposure Concentrations and Risk Charge (Level 2 Insurance Group)*. This figure needs to be manually entered into this data field in *GRF 110.0_G Minimum Capital Requirement (Level 2 Insurance Group)*.

4. GRF 300.0_G Statement of financial position - Investment risk charge

This represents the total investment risk charge for all applicable assets listed in *GRF 300.0_G Statement of Financial Position (Level 2 Insurance Group)*. This figure represents the sum of the individual investment risk charges calculated under the column heading 'Investment Risk Charge' and is reported for item 8. 'Total Assets' in *GRF 300.0_G Statement of Financial Position (Level 2 Insurance Group)*. It excludes derivatives and other assets that are subject to a risk charge under the form *GRF 141.0_G* and *GRF 301.0_G*. This figure needs to be manually entered into this data field in *GRF 110.0_G Minimum Capital Requirement (Level 2 Insurance Group)*.

5. GRF 301.0_G Reinsurance assets and risk charge

This figure represents the sum of the individual investment risk charges calculated under the column heading 'Investment Risk Charge' and is reported for item 5 'Net Reinsurance Assets' in *GRF 301.0_G Reinsurance Assets and Risk Charge (Level 2 Insurance Group)*. This figure needs to be manually entered into this data field in *GRF 110.0_G Minimum Capital Requirement (Level 2 Insurance Group)*.

6. Derivatives Activity and Risk Charge

This represents the required capital charge associated with a Level 2 insurance group's exposure to derivative financial instruments and is based on the method for calculating the Investment Risk Capital Charge under the Prescribed Method as set out in GPS 111 and *Prudential Standard GPS 114 Capital Adequacy: Investment Risk Capital Charge (GPS 114)*.

Reporting Supplement for Derivatives Activities and Risk Charge

In determining the Investment Risk Capital Charge for each type of derivative contract, Level 2 insurance groups will need to complete the necessary calculations outside of this reporting form. These calculations do not constitute part of the formal accounts but must be submitted to APRA separately unless APRA advises otherwise. The reporting supplement is to be submitted to the Level 2 insurance group's APRA Responsible Supervisor.

Derivative financial instruments

Derivatives expose Level 2 insurance groups to a full range of investment risks, even though in many cases there may be no, or only a small, initial outlay. Level 2 insurance groups must set aside capital to cover the Investment Risk of these transactions particularly where derivatives are used for reasons other than to hedge an underlying physical position.

Where the insurer has derivatives over listed equities, the investment risk capital charge is applied on a portfolio basis and consists of the equity market risk component and equity basis risk component and may include a counterparty risk component (see paragraph 47 of GPS 114).

Exclude:

- Derivative margin accounts, which hold deposits lodged with an exchange or clearing house as collateral to cover adverse movements in market prices. These balances are to be reported in *GRF 300.0_G Statement of Financial Position (Level 2 Insurance Group)*;
- The equity market risk component and basis risk component of derivatives over listed equities. These are to be reported under item 1.3 'Derivative position' in *GRF 141.0_G Listed Equity Holdings and Risk Charge (Level 2 Insurance Group)*. However, the counterparty risk component of derivatives over listed equities which are not traded on futures and options exchanges or subject to daily mark-to-market and margin payment must be included in this form as required by paragraphs 47 to 50 of GPS 114; and
- Repurchase/Resale agreements despite their similarity to FRAs and/or swaps.

For the purposes of this reporting form derivatives activity has been separated into:

- Interest rate contracts;
- Foreign exchange contracts;

- Equity contracts;
- Precious metals contracts (excluding gold); and
- Other market-related contracts.

Investment Capital Factor %

The investment capital factors to be used are specified in GPS 114. These are based on the rating of the counterparty to the derivative contract.

Potential exposure add-on factors %

Level 2 insurance groups are required to take into account the potential exposure add-on factors as specified in GPS 114:

Residual Maturity	Interest Rate Contracts	Foreign Exchange & Gold Contracts	Equity Contracts	Precious Metal Contracts (except gold)	Other Contracts
Less than 1 yr	Nil	1.0%	6.0%	7.0%	10.0%
1 year to less than 5 yrs	0.5%	5.0%	8.0%	7.0%	12.0%
More than 5 yrs	1.5%	7.5%	10.0%	8.0%	15.0%

Asset equivalent

When determining the counterparty risk component of the risk charge for each derivative instrument, the asset equivalent value of the derivative needs to be calculated. The asset equivalent of each derivative exposure is to be calculated based on the prescribed method set out in GPS 114 and should take into account the residual maturity² of the derivative financial instrument. The asset equivalent value is calculated as the sum of:

1. Positive mark-to-market value (or replacement cost) of the derivative position (refer below); plus
2. A potential exposure add-on.

Current mark-to-market value of derivative position

The current mark-to-market value of a derivative is only applicable where the position has a positive replacement value to the Level 2 insurance group. If the current mark-to-market value of the position is negative or zero, the value should not be included in the calculation, as the calculation of the asset equivalent amount captures the credit risk value of the derivative position to the group.

² Residual maturity refers to the time remaining from the reporting date to the maturity date of the derivative financial contract.

A potential exposure add-on

The potential exposure add-on for a derivative position is to be determined by multiplying the notional principal³ amount of the derivative contract by the appropriate credit conversion factors outlined in the table above. This component of the calculation is required for all derivatives regardless of whether the derivative contract has a positive, zero or negative mark-to-market value.⁴

Investment Risk Capital Charge

This is to be calculated in accordance with the prudential standard GPS 111. For each derivative instrument, the capital charge is to be calculated by multiplying the asset equivalent value by the investment capital factor applicable for each counterparty grade in accordance with GPS 111.

Risk Charge

Report the aggregate investment risk charge for:

6.1 Interest rate contracts;

This figure needs to be manually entered into this data field in *GRF 110.0_G Minimum Capital Requirement (Level 2 Insurance Group)*.

6.2 Foreign exchange contracts;

This figure needs to be manually entered into this data field in *GRF 110.0_G Minimum Capital Requirement (Level 2 Insurance Group)*.

6.3 Equity contracts;

This figure needs to be manually entered into this data field in *GRF 110.0_G Minimum Capital Requirement (Level 2 Insurance Group)*. Only include the counterparty risk component of the investment risk charge of derivatives over listed equities which are not traded on futures and options exchanges or subject to daily mark-to-market and margin payment. The equity market risk component and basis risk component of all derivatives over listed equities are to be reported under item 1.3 'Derivative position' in *GRF 141.0_G Listed Equity Holdings and Risk Charge (Level 2 Insurance Group)*.

6.4 Precious metals contracts (excluding gold); and

This figure needs to be manually entered into this data field in *GRF 110.0_G Minimum Capital Requirement (Level 2 Insurance Group)*.

³ Principal amount refers to the face value or notional principal amount of the derivative financial contract.

⁴ Mark to market value (or replacement cost) represents the difference between:

- the price of entering into a new contract to replace the original contract and
- the price of the original contract excluding transaction costs

6.5 Other market-related contracts.

This figure needs to be manually entered into this data field in *GRF 110.0_G Minimum Capital Requirement (Level 2 Insurance Group)*.

6.6 Total derivative activity and risk charge

Do not enter a value in this field as this is automatically calculated. This is the sum of the capital charges for all contract types (items 6.1 to 6.5).

7. Concentration risk charge

This represents the total Concentration Risk Capital Charge applicable for the Level 2 insurance group calculated in accordance with GPS 111.

Prudential standards GPS 111 and *Prudential Standard GPS 116 Capital Adequacy: Concentration Risk Capital Charge (GPS 116)* detail the calculation for the Prescribed Method in determining the Concentration Risk Capital Charge. GPS 116 sets out the issues that a Level 2 insurance group should consider in setting its Maximum Event Retention (MER) for catastrophe purposes.

7.1 Maximum event retention

Refer to prudential standards GPS 111 and GPS 116 for further information on the method of calculation and definitions.

This figure needs to be manually entered into this data field in *GRF 110.0_G Minimum Capital Requirement (Level 2 Insurance Group)*.

7.2 Cost of one reinstatement

This represents the cost of one reinstatement if it is not prepaid. This figure needs to be manually entered into this data field in *GRF 110.0_G Minimum Capital Requirement (Level 2 Insurance Group)*.

7.3 Total concentration risk charge

The concentration risk charge is set equal to the Level 2 insurance group's MER, plus the cost of one reinstatement of the catastrophe cover in cases where the reinstatement reinsurance cover has not been pre-paid.

Do not enter a value in this field as this is automatically calculated. This is equal to the maximum event retention plus the cost of one reinstatement (items 7.1 and 7.2).

8. GRF 210.0_G OCL - insurance risk charge

This represents the total insurance risk charge applicable in response to the risk that the true value of the net Outstanding Claims Liability (OCL) of the Level 2 insurance group is greater than the value determined under GPS 311. This figure represents the 'Total' line item under the column headed 'OCL Insurance Risk Charge' from Table 5 in *GRF 210.0A_G Outstanding Claims Liability - Insurance Risk Charge (Level 2 Insurance Group)* or GRF 210.0B_G Outstanding Claims Liability – Insurance Risk

[Charge \(Level 2 Insurance Group\)](#). This figure needs to be manually entered into this data field in *GRF 110.0_G Minimum Capital Requirement (Level 2 Insurance Group)*.

9. GRF 210.1_G Premiums liabilities - insurance risk charge

This represents the total insurance risk charge applicable in response to the risk that the true value of the net premiums liabilities of the Level 2 insurance group is greater than the value determined under GPS 311. This figure represents the 'Total' line item under the column headed 'Group PL Insurance Risk Charge' in Part [D](#) in *GRF 210.1A_G Premiums Liabilities - Insurance Risk Charge (Level 2 Insurance Group)* or *GRF 210.1B_G Premiums Liabilities – Insurance Risk Charge (Level 2 Insurance Group)*. This figure needs to be manually entered into this data field in *GRF 110.0_G Minimum Capital Requirement (Level 2 Insurance Group)*.

10. Total variation in capital charges as approved by APRA

Report the variation in capital charges in this item with a brief description (no more than 200 characters) and the amount of each variation which has been approved by APRA. A reduction in risk charges resulting from variations has to be reported as a negative number while any increase needs to be reported as a positive number.

Where a Level 2 insurance group uses the Internal Model-based Method (**IMB Method**) to determine the MCR in accordance with *Prudential Standard GPS 113 Capital Adequacy: Internal Model-based Method (GPS 113)*, the difference between the MCR determined using the Prescribed Method and the IMB Method should be reported here. During the first two years of the use of the IMB Method by an insurance group, the MCR determined using the IMB Method should be, as a minimum, at least 90 per cent of the MCR determined using the Prescribed Method.

The total variation is calculated automatically by the form.

11. Minimum capital requirement

This item is automatically calculated by the form and represents the sum of items 1-10.

12. GRF 120.0_G Determination of capital base

This represents the total eligible capital base of the Level 2 insurance group. This amount is calculated in item 3 'Total Capital Base' in *GRF 120.0_G Determination of Capital Base (Level 2 Insurance Group)*. This figure needs to be manually entered into this data field in *GRF 110.0_G Minimum Capital Requirement (Level 2 Insurance Group)*.

13. Capital surplus (deficiency)

This figure represents the value of item 12 'GRF 120.0_G Determination of Capital Base' less the amount calculated for item 11 'Minimum Capital Requirement'.

This figure is automatically calculated by the form.

14. Solvency coverage

This figure represents the value of item 12 'GRF 120.0_G Determination of Capital Base' divided by the value of item 11 'Minimum Capital Requirement'.

This figure is automatically calculated by the form.

15. Capital adequacy ratio %

This is another way of looking at the solvency coverage and represents the value of item 11 'Minimum Capital Requirement' divided by the value of item 12 'GRF 120.0_G Determination of Capital Base'.

This figure is automatically calculated by the form.