

LRF_117_0 Asset Concentration Risk Charge

These instructions must be read in conjunction with the general instruction guide.

Explanatory notes

Reporting materiality

Where the Appointed Actuary is of the view that asset concentration limits associated with the value of assets of the fund (VAF) determined for reinsurance asset exposures, are not relevant for reporting the asset exposures in the fund, the life company is not required to report the VAF. As an example, exposures in the fund may be significantly diversified such that they would be substantially under the limit expressed in terms of VAF. In these circumstances, the reporting of VAF used for asset concentration limits of reinsurance assets is optional.

However, there must be periodic assessments (no less frequent than once a year) in place so that the VAF is calculated and reported to APRA.

The stressed value of reinsurance assets for each reinsurance counterparty must be reported to APRA in Section 2 at the same time as the VAF used for asset concentration limits for reinsurance assets in Item 1.2. At other times the reporting of stressed reinsurance assets is optional if their value is below the Asset Concentration Risk Charge limit.

Instructions for specific items

1.1. VAF used for concentration limits of non-reinsurance assets

This is the value of the assets of the fund determined for the purpose of calculating asset concentration limits for non-reinsurance asset exposures in the fund. This must be equal to the total assets as reported in *LRF 300.1 Statement of Financial Position (SF and SF Eliminations)* (LRF 300.1).

1.2. VAF used for concentration limits for reinsurance assets

This is the adjusted value of the assets of the fund determined for the purpose of calculating asset concentration limits for reinsurance asset exposures in the fund.

This is calculated automatically as item 1.2.1 less item 1.2.2 plus item 1.2.3 less item 1.2.4.

1.2.1. LRF 300: Total assets

This is the total asset of the fund as reported in LRF 300.1.

1.2.2. Less: Gross policy liabilities ceded under reinsurance

This is the value of the gross policy liabilities expected to be recovered through reinsurance. The reported amount must be consistent with the reinsurance assets reported under LRF 300.1.

Where the reinsurance asset is a positive amount, the amount should be reported with a positive sign.

1.2.3. Stressed policy liabilities gross of reinsurance

This is the total value of stressed policy liabilities determined in accordance with *Prudential Standard LPS 115 Capital Adequacy: Insurance Risk Charge* (LPS 115), but gross of all expected reinsurance recoveries.

1.2.4. Less: Stressed policy liabilities net of reinsurance

This represents the total value of stressed policy liabilities determined in accordance with LPS 115, net of all expected reinsurance recoveries.

A positive value should be reported where the net stressed policy liabilities are positive.

2. Capital base

The capital base relates to the amount of capital eligible for the purpose of meeting the Prudential Capital Requirement as set out in *Prudential Standard LPS 110 Capital Adequacy*.

The amount reported must correspond to item 6 in *LRF 112.0 Determination of Capital Base (SF)* (LRF 112.0), or item 4 in *LRF 112.1 Determination of Capital Base (GF)* (LRF 112.1).

Specialist reinsurer

Specialist reinsurer refers to a statutory fund of a registered life company where all policies referable to the fund are reinsurance policies and none of the policies are owned by a related entity of the life company.

Section 1: Large exposures

Explanatory notes

Reporting threshold

This section is to be completed for each non-reinsurance exposure to an asset, a counterparty or a group of counterparties where the fair value of the exposure, after adjusting for derivatives, is greater than one per cent of the fund's total assets.

This section is to be completed for each exposure to a reinsurance counterparty or group of reinsurance counterparties regardless of size.

Instructions for specific items

1(1) Name of counterparty

This column reports the registered business name of the counterparty entity to which the exposure is held.

1(2) Name of counterparty group

This column reports the registered business name of the corporate group to which the counterparty entity belongs.

Where the counterparty does not belong to a group, enter the same counterparty name as appears in Column 1.

1(3) ACN / ABN

Where relevant, this column reports the Australian Company Number (ACN) of the reported counterparty. In cases where a counterparty does not have an ACN but it does have an Australian Business Number (ABN) or an Australian Registered Business Number (ARBN), the ABN or ARBN should be reported. If a counterparty does not have an ACN, ABN, or ARBN the column should be left blank.

Input the number without spaces.

1(4) Type of exposure

This column reports the category of the reported exposure in accordance with the breakdown of asset exposures within Attachment A of *Prudential Standard LPS 117 Capital Adequacy: Asset Concentration Risk Charge* (LPS 117).

An appropriate asset exposure category is to be selected from the drop down list.

1(5) Name of provider of eligible credit support

This column reports the registered business name of the counterparty (if any), providing eligible credit support (an eligible collateral item, guarantee, or letter of credit) to the reporting life company's asset exposures.

If no collateral or guarantee is provided, report 'N/A'.

1(6) Type of exposure after eligible credit support

This column reports the category of exposure where the eligible credit support held replaces the underlying asset exposure.

An appropriate asset exposure category is to be selected from the drop down list.

1(7) Counterparty grade after eligible credit support

This column reports the APRA counterparty grade of the exposure after applying the eligible credit support.

1(8) Exposure amount – on-balance sheet

This column reports the amount of on-balance sheet exposure (after allowance for eligible credit support). With the exception of exposures to reinsurance counterparties (see below), amounts reported here should be at fair value.

Reinsurance counterparty exposures should be reported here as the adjusted reinsurance assets, rather than the on-balance sheet exposure. The adjusted reinsurance asset (in respect of the exposure to a reinsurance counterparty) is the amount by which the adjusted policy liabilities of the fund (as determined under *Prudential Standard LPS 112 Capital Adequacy: Measurement of Capital*) would increase, if the adjusted policy liabilities were determined gross of that particular reinsurance exposure.

1(9) Exposure amount – off-balance sheet

This column reports the amount of off-balance sheet exposure (after allowance for eligible credit support).

Amounts reported here should be at fair value.

1(10) Exposure amount - total

This column reports the amount of total exposure (after allowance for eligible credit support).

This column is calculated automatically as the sum of column (8) and column (9).

Section 2: Asset Concentration Risk Charge**Explanatory notes****Reporting threshold**

This section is to be completed for each exposure to a group of related counterparties that is over the Asset Concentration Risk Charge limit specified in LPS 117.

Exposures to reinsurance counterparties that are below the Asset Concentration Risk Charge limit must be reported at least once each year, at the same time as Item 1.2 ‘VAF used for asset concentration limits for reinsurance assets’ is reported.

Instructions for specific items**(1) Counterparty group name**

This is the name of the group to which the counterparty to the exposure belongs.

(2) Eligible credit support applied?

If the exposure is covered by eligible credit support, indicate whether the fund has applied the eligible credit support to calculate the Asset Concentration Risk Charge.

(3) Type of exposure after eligible credit support

This column reports the category of exposure where the eligible credit support held replaces the underlying asset exposure for the purposes of calculating the Asset Concentration Risk Charge.

An appropriate asset exposure category is to be selected from the drop down list.

(4) Net exposure

This column reports the fair value of the exposure (except for reinsurance exposures, see below), net of provision for doubtful debts and any regulatory adjustments to capital base related to this exposure, that is subject to the Asset Concentration Risk Charge.

For reinsurance exposures, the stressed value of reinsurance assets is used instead of fair value. The stressed value of a reinsurance asset is the amount by which the stressed policy liabilities of the fund (as determined under LPS 115) would increase, if the stressed policy liabilities were determined gross of that particular reinsurance exposure. The stressed value of reinsurance assets, summed across all exposures, may not necessarily be the same as the difference between Item 1.2.3 and Item 1.2.4.

(5) Asset Concentration Risk Charge limit

This column reports the appropriate asset concentration limit as per LPS 117 including Attachment A for each asset exposure.

The determination of asset concentration limits are to account for any cumulative exposures through different classes of assets to a single counterparty or a counterparty group as per paragraph 19 of LPS 117.

(6) Asset Concentration Risk Charge

This column reports the excess (if any) of the net exposure amount over and above their respective asset concentration limits.

This column is calculated automatically as column (4) less column (5), subject to a floor of zero.

Section 3: Totals and risk charges**Instructions for specific items****4. Aggregate of excess exposures subjected to asset concentration risk charge**

This is the aggregation of all the asset exposures in excess of their respective asset concentration risk limits.

This is calculated automatically as the sum of item 4.1 to item 4.8.

4.1. Bank bills or assets guaranteed by OS provincial government whose currency the fund liabilities are denominated

This is the total amount of bank bill exposures, or the total amount of assets which are guaranteed by an overseas provincial government in the country in whose currency the liabilities of this statutory, benefit or general fund are denominated, which are in excess of the determined asset concentration limits.

This is calculated automatically as the sum of the totals in Section 2, Column (6) where the exposure is category (a) in Section 2, Column (3).

4.2. Bank deposits

This is the total amount of bank deposit exposures in excess of the determined asset concentration limits.

This is calculated automatically as the sum of the totals in Section 2, Column (6) where the exposure is category (b) in Section 2, Column (3).

4.3. Reinsurance with non-related registered life company or APRA approved reinsurance for OS business, with a related entity of a registered life company that has a specialist reinsurer statutory fund

This is the total amount of assets associated with a reinsurance arrangement with a non-related, registered life company, or the total amount of assets associated with an approved reinsurance arrangement in respect of overseas business, with a related entity of a registered life company that has a specialist reinsurer statutory fund as defined in *Prudential Standard LPS 001 Definitions*.

This is calculated automatically as the sum of the totals in Section 2, Column (6) where the exposure is category (c) in Section 2, Column (3).

4.4. Outstanding premiums receivable by reinsurer from registered life company

This is the total amount of outstanding premiums receivable by a reinsurer under a reinsurance policy with a registered life company.

This is calculated automatically as the sum of the totals in Section 2, Column (6) where the exposure is category (d) in Section 2, Column (3).

4.5. Other actively traded security, non-traded security, loan or reinsurance with grade 1, 2, or 3 counterparties, real estate or other income producing real property asset

This is the total amount of actively traded security not captured in the above categories; non-traded security, loan, or assets associated with reinsurance arrangements with APRA counterparty grades of 1, 2 or 3; real estate assets; and other income producing real property assets.

This is calculated automatically as the sum of the totals in Section 2, Column (6) where the exposure is category (e) in Section 2, Column (3).

4.6. Reinsurance with approved retrocessionaires (current grade 1, 2, or 3)

This is the total amount of assets associated with a retrocession arrangement where the retrocessionaire has a current APRA counterparty grade of 1, 2 or 3.

This only applies to specialist reinsurers. This is calculated automatically as the sum of the totals in Section 2, Column (6) where the exposure is category (f) in Section 2, Column (3).

4.7. Reinsurance with approved retrocessionaires (grade 1, 2, or 3 at time of agreement)

This is the total amount of assets associated with a retrocession arrangement where the retrocessionaire is currently below APRA counterparty grade 3, but had an APRA counterparty grade 1, 2 or 3 at the time the arrangement was entered into.

This only applies to specialist reinsurers. Amounts reported should sum up all excess retrocession exposures based on the determined asset concentration limits. This is calculated automatically as the sum of the totals in Section 2, Column (6) where the exposure is category (g) in Section 2, Column (3).

4.8. Asset not covered by any of the above categories

This is the value of all other assets not falling within the above categories.

This is calculated automatically as the sum of the totals in Section 2, Column (6) where the exposure is category (h) in Section 2, Column (3).

5. Adjustments to asset concentration risk charge as approved by APRA

If APRA is of the view that the Standard Method for calculating the asset concentration risk charge component of the prescribed capital amount does not produce an appropriate outcome in respect of a life company, or a life company has used inappropriate judgement or estimation in calculating the asset concentration risk charge, APRA may adjust the asset concentration risk charge calculation for that regulated institution.

Approved adjustments are to be reported separately in the associated table highlighting the description of the adjustment given, transitional status and the amount of adjustment applied. Adjustments that would result in an increase to the asset concentration risk charge should be reported as a positive value. Where the adjustment is a transitional adjustment, the end date for the transitional period is to be clearly included in the description of the item.

This is calculated automatically as the sum of column 3 in the table that follows.

6. Asset Concentration Risk Charge

The asset concentration risk charge is the minimum amount of capital required to be held against asset concentration risks. The asset concentration risk charge relates to the risk of a life company's concentration in particular assets resulting in adverse movements in the life company's capital base.

This is calculated automatically as the sum of item 4 and item 5.