

STATEMENT OF EXPECTATIONS – AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY

This Statement outlines the Government's expectations about the role and responsibilities of the Australian Prudential Regulation Authority (APRA), its relationship with the Government, issues of transparency and accountability and operational matters. It forms part of the Government's commitment to good corporate governance of agencies and reducing the regulatory burden on business and the community.

APRA plays a key role in achieving a sound and effective prudential regulatory framework. APRA's primary role is to regulate bodies in the financial sector in accordance with the laws of the Commonwealth that provide for prudential regulation or retirement income standards. These laws are aimed at promoting financial system stability in Australia and protecting the interests of depositors, insurance policyholders and superannuation fund members, while allowing the continued development of viable, competitive and innovative industries in the financial sector. APRA also administers the Financial Claims Schemes, and collects and publishes data from prudentially regulated and other financial institutions.

It is imperative that APRA continue to act independently and objectively in performing its functions and exercising its powers as set out in the *Australian Prudential Regulation Authority Act 1998* (APRA Act). Nevertheless, the Government expects that APRA take into account the Government's broad policy framework, including its deregulation agenda, in performing its role and meeting its responsibilities.

THE GOVERNMENT'S DEREGULATION AGENDA

The Government is committed to reducing red tape and compliance costs for business and the community as a critical step towards improving Australia's productivity.

The Government is overhauling the process for creating, implementing and reviewing new regulations. This includes a process within Government whereby the costs and benefits of additional regulation are carefully balanced and the costs of new regulations are offset.

The Government expects that APRA will look for opportunities to reduce compliance costs for business and the community and contribute to the Government's \$1 billion red and green tape reduction target.

The Government also expects that APRA will comply with the Government's enhanced Regulatory Impact Analysis requirements for all regulatory proposals, including considering the impacts of regulation on business and the community and costing proposals before they are introduced using the Regulatory Burden Measurement framework.

Enhancing the effectiveness and efficiency of key economic regulators including APRA will make a major contribution to the deregulation agenda and help to boost productivity.

The Government expects that APRA will act in accordance with regulatory best practice in its decision-making, policies, processes and communication practices to maximise efficiency, effectiveness and transparency, and minimise compliance costs. APRA should regularly review its policies and procedures to identify improvements to achieve these goals.

The Government's preference is for principles-based regulation that identifies the desired outcomes, rather than prescribing how to achieve them. An outcomes-based approach is more likely to accommodate change within the economy, allow for innovation and enterprise and reduce compliance costs by allowing regulated entities to determine the best way of meeting regulatory objectives.

The Government considers that regulators should adopt a risk-based approach to compliance obligations, engagement and enforcement, allowing for proportionate approaches suited to the size, nature, complexity and risk of regulated entities. This allows regulators to achieve their objectives more efficiently and reduce the overall regulatory burden, particularly for small businesses. This approach also recognises that it is not possible or efficient to eliminate all risks and that trade-offs in risk reductions are necessary.

The Government will provide APRA with further detail about a whole-of-government risk management framework and expectations for APRA's performance against specific performance indicators in the second half of 2014.

RELATIONSHIP BETWEEN APRA AND THE GOVERNMENT

The Government recognises and respects the statutory independence of APRA and its responsibility for prudential regulation as provided by statute. Confidence in the regulatory framework requires that APRA is, and is seen to be, exercising independent judgment about the application of the regulatory framework in specific circumstances.

Nevertheless, APRA was established to administer regulatory frameworks that implement government policies and priorities relating to business regulation generally and prudential regulation in particular. Therefore, APRA should take into account the Government's broad policy framework, including the deregulation agenda. Where APRA has powers to make orders or rules, modify the law or make exemptions, and the exercise of that power would have significant implications for the market or regulated population, the Government expects that APRA will consult as appropriate with Government and stakeholders. APRA should also consider the outcomes or recommendations of relevant Government-established panels, reviews or inquiries.

RELATIONSHIP WITH THE RESPONSIBLE MINISTER

APRA plays an essential role in ensuring that the Government is well placed to respond promptly to issues that may arise in prudential regulation policy.

APRA should therefore provide Treasury portfolio Ministers with accurate and timely advice on significant issues in its core area of business. Significant issues might include: matters for which the Government is likely to be accountable in Parliament; important APRA operational or budgetary issues; and APRA's decisions regarding the appropriate action for it to take following substantial problems or disruption in the market, including substantial breaches of the prudential regulatory framework.

RELATIONSHIP WITH TREASURY

Treasury's key role is to support and advise me and other Treasury Ministers in our responsibilities by being the principal source of advice on a wide range of issues, including policy development and the performance of the regulatory system.

The Government expects that Treasury and APRA will continue to maintain a close relationship. Treasury takes into account the views and experience of APRA when considering and advising on changes to prudential regulation policy and legislation to facilitate consistency between the objectives of legislation and its practical implementation. By advising Treasury on the operational implications of Government policy initiatives, APRA contributes to policy development.

Therefore, all information, briefing, press releases and correspondence being provided to Ministers by APRA should be provided to the Secretary to the Treasury. APRA should keep the Secretary to the Treasury appropriately informed of significant high level meetings between APRA and Government Ministers and other key policy figures. APRA should also advise Treasury about changes to legislation that, in APRA's opinion, would improve the regulatory framework or minimise compliance costs for business and the community, without unduly impacting on the achievement of prudential objectives.

REGULATORY COOPERATION

The Government expects that APRA will maintain robust, effective and collaborative working partnerships with other Commonwealth and State and Territory agencies, as well as APRA's counterpart regulators in overseas jurisdictions, to ensure the proper functioning of Australia's regulatory framework. APRA should avoid the duplication of the supervisory activities of other regulators, and should consider whether outcomes could be achieved by using existing regulation administered by another regulator, in order to ensure an integrated regulatory framework and minimise compliance costs.

The Government also considers it important that prudential regulation, and APRA's standards and practices, support Australia's financial sector in globally integrated markets through implementation of relevant international standards in a manner that is appropriate for our domestic circumstances. These include the G20 reforms endorsed by the Government. APRA will also continue to monitor regulatory frameworks and practices in other countries. Engaging actively with international regulatory counterparts will assist APRA in monitoring the integrity and management practices of multinational financial institutions and in minimising regulatory barriers to trade in financial services.

TRANSPARENCY AND ACCOUNTABILITY

APRA was established as an independent body to administer the prudential regulatory framework. APRA operates as part of the Australian Government and is accountable to the Parliament, and ultimately to the public, through the Treasury Ministers, the Parliamentary Committee process and the tabling of its annual report.

The Government expects APRA to have an open and sound working relationship with the entities that it supervises. It is important that APRA encourages industry participants to communicate considered and candid views to APRA, in order to enhance the regulatory framework and outcomes, and minimise compliance costs.

ORGANISATIONAL GOVERNANCE AND FINANCIAL MANAGEMENT

APRA has capacity to employ staff under the APRA Act. Under the APRA Act, the APRA Chair and Members are required to uphold and promote the APRA Values as determined by

the APRA Chair. All APRA employees are required to adhere to the APRA Code of Conduct.

The requirements for APRA's financial management are set out in the relevant legislation and the Finance Minister's Orders. In this regard, I note that APRA must comply with the Government's recent requirements in relation to approval for overseas travel. The Government expects that APRA will continue efforts to secure improved efficiency in its operations and demonstrate value for money for the services that it delivers.

CONCLUSION

The Government's vision is for APRA to be a high performing and responsive agency that administers a principles-based regulatory framework in a way that minimises compliance costs for business and the community, is efficient and effective, and that balances the objectives of financial stability and efficiency, competition, contestability and competitive neutrality, consistent with APRA's statutory objectives set out in the APRA Act.