STATEMENT OF INTENT - AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY

July 2014

This Statement outlines the response of the Australian Prudential Regulation Authority (APRA) to the Government’s Statement of Expectations - Australian Prudential Regulation Authority of April 2014, which sets out the Government’s expectations about the role and responsibilities of APRA, its relationship with the Government, issues of transparency and accountability, and operational matters.

APRA’s role and responsibilities

APRA’s primary role is to regulate relevant financial institutions in accordance with the laws of the Commonwealth that provide for prudential regulation or retirement income standards. In performing and exercising its functions, APRA is to balance the objectives of financial safety and efficiency, competition, contestability and competitive neutrality, and, in balancing these objectives, is to promote financial system stability in Australia.

APRA’s core mission is to establish and enforce prudential standards and practices designed to ensure that, under all reasonable circumstances, financial promises made by institutions APRA supervises are met within a stable, efficient and competitive financial system. APRA also administers the Financial Claims Schemes and, as a national statistical agency for the Australian financial sector, collects and publishes data from prudentially regulated and other financial institutions.

In undertaking its core mission, APRA places a strong emphasis on an active programme of prudential supervision. APRA’s supervisory approach is based on the fundamental premise that the primary responsibility for financial soundness and prudent risk management within an APRA-regulated institution rests with its board of directors and senior management. APRA’s role is to promote prudent behaviour by institutions through a robust prudential framework of legislation, prudential standards and prudential guidance, which aims to ensure that risk-taking is conducted within reasonable bounds and that risks are clearly identified and well-managed.

APRA takes a risk-based approach to supervision that is designed to identify and assess those areas of greatest risk to an APRA-regulated institution (or to the financial system as a whole) and then direct supervisory resources and attention to these risks. APRA seeks to ensure that its supervisory judgments are accurate, timely and robust and that its responses are targeted and proportionate.

In doing so, APRA does not pursue a zero failure objective. Rather, APRA seeks to maintain a low incidence of failure of APRA-regulated institutions while not impeding continued improvement in efficiency or hindering competition. APRA endorses the view expressed in the Government’s Statement of Expectations that ‘... it is not possible or efficient to eliminate all risks and that trade-offs in risk reductions are necessary.’ APRA cannot eliminate the risk that any institution might fail and it recognises that attempting to do so would impose an unnecessary burden on institutions and the financial system. APRA’s objective is to identify likely failure of an APRA-regulated institution early enough so that corrective action can be promptly initiated or orderly exit achieved.

APRA’s integrated structure and risk-based supervisory approach enable it to deal efficiently and effectively with the evolution of the financial sector, and the wide range of financial institutions within it.
The global financial crisis provided a searching test of Australia’s prudential regime and financial stability arrangements, the strength of which have been widely accepted as an important contributing factor to Australia’s continued economic and financial stability through the crisis. Strong and safe financial institutions that will meet their financial promises under all reasonable circumstances, and a stable financial system, are fundamental for fostering growth and sustainable competition.

The Government’s deregulation agenda

APRA supports the Government’s commitment to reducing red tape and compliance costs for business and the community. APRA is currently undertaking a structured consultation with industry designed to identify specific, quantifiable options for cost savings related to APRA’s regulatory and supervisory framework that can be realised without compromising sound prudential outcomes. APRA intends to undertake such reviews periodically.

Much of APRA’s prudential framework has been updated within the past three years. In doing so APRA adopted, and will continue to adopt, a principles-based and outcomes-focused approach, although detailed requirements are unavoidable in certain areas. When any further changes to the prudential framework are made, APRA will comply with the Government’s enhanced Regulatory Impact Analysis requirements and Regulatory Burden Measurement framework. To date, APRA has had a 100 per cent record of compliance with the requirements of the Office of Best Practice Regulation.

Relationship between APRA and the Government

APRA welcomes the Government’s recognition of, and respect for, the statutory independence of APRA, and its acknowledgement that confidence in the regulatory framework requires that APRA is, and is seen to be, exercising independent judgment. APRA's effectiveness as a prudential regulator – its ability and willingness to act - depends crucially on having a clear and unambiguous mandate and operational independence, a robust set of prudential requirements, an active program of risk-based supervision, and adequate resources to meet its statutory objectives.

In undertaking its role and responsibilities, APRA will take into account the Government’s broad policy framework, including the deregulation agenda as noted above.

APRA will continue to consult thoroughly with Government and relevant stakeholders when making any material changes to the prudential framework. APRA will also continue to consult with Government and relevant stakeholders where a proposed exercise of APRA powers would have significant implications for the financial markets or regulated population. The outcomes or recommendations of relevant Government-established panels, reviews or inquiries will also be considered.

Relationship with the Responsible Minister

APRA will continue to provide the Responsible Minister and Treasury portfolio Ministers with accurate, considered and timely advice on significant issues in its core areas of business. This includes any substantial problems or disruption in financial markets identified by APRA in the course of performing its functions.

Relationship with Treasury

APRA will maintain its close relationship with Treasury and continue to provide relevant information to Treasury including information and other material provided by APRA to Ministers.
APRA will also continue to provide to Treasury advice and recommendations in relation to policy and legislative changes that would, in APRA’s opinion, improve the regulatory framework or reduce compliance costs for business and the community, without compromising sound prudential outcomes. This will include, in particular, advice on changes required where it is evident that the Australian financial system faces new risks that need prudential oversight.

Regulatory cooperation

APRA will continue its close effective collaboration with other domestic regulatory agencies and, in so doing, will seek to avoid duplicated effort. APRA’s active role in the Council of Financial Regulators will continue.

International regulatory cooperation has intensified since the global financial crisis. APRA will seek to maintain robust, effective and collaborative working relationships with its counterpart prudential regulators in overseas jurisdictions, to assist in our prudential oversight of APRA-regulated institutions operating internationally. APRA also intends to retain an active role in relevant international groups and forums for banking, insurance and pensions, so as to bring an Australian perspective to efforts to strengthen the global financial system and to remain well-briefed on international developments.

APRA will continue to implement relevant global standards in a manner that is appropriate for Australian circumstances. Consistency with global standards is critical to ensuring the attractiveness of Australian financial institutions to providers of funding and capital. This attractiveness results in greater appetite for, and lower costs of, Australian debt and equity instruments in global markets, and business opportunities that rely on an institution’s soundness being readily transparent.

Transparency and accountability

APRA strongly supports arrangements for effective accountability and appropriate transparency in its operations as an independent prudential regulator. Accordingly, APRA will work with the Government as it implements the Productivity Commission’s Regulator Audit Framework to supplement the extensive accountability and transparency mechanisms that are currently in place.

APRA seeks to maintain an open, productive and cooperative relationship with the institutions it regulates, built on mutual respect. This is consistent with the emphasis placed by the Statement of Expectations on encouraging industry participants to communicate considered and candid views to APRA. Institutional and other stakeholder feedback is valued by APRA; we will continue to periodically survey stakeholders and publish the results, along with quantitative information about our supervisory performance.

As noted above, APRA’s long-standing practice of consulting widely on reforms to the prudential framework will also continue. As we have done in the past, (non-confidential) submissions received will be made public, and APRA will provide feedback on how it has taken account of the input received.

Organisational governance and financial management

APRA will continue its commitment to providing value for money through effective and efficient delivery of its activities, and to ensuring that it operates in accordance with relevant legislation and Government requirements.

APRA’s risk-based supervisory approach requires astute judgment by supervisory staff and confidence based on experience. Maintaining a high-quality workforce with deep industry
understanding and supervisory acumen will remain a top priority for APRA. The expert skills that APRA needs are also in demand in the financial sector, so it is critical that APRA maintain its attractiveness as an employer.

Effective supervision requires timely and proportionate attention to the material overseas activities of APRA-regulated institutions. APRA will continue to undertake a risk-based approach to such activities, subject to Government requirements.

Conclusion

We welcome and endorse the Government’s vision for APRA.

In pursuing its statutory objectives, APRA promotes financial safety through its principles-based regulatory framework and risk-based supervisory approach. APRA is committed to being an insightful, forward-looking, outcomes-focused and consultative prudential regulator, in line with international best practice.

APRA looks forward to working constructively with the Government to ensure the Australian community continues to enjoy the benefits of strong and safe financial institutions and a stable, efficient and competitive financial system.