THE PRUDENTIAL FRAMEWORK

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The breadth and pace of change to APRA's prudential framework slowed during 2013/14, following the extensive reform agenda of the previous few years.

For the ADI industry, the regulatory reform agenda has been largely driven by the international priorities set by the G20. In 2013/14, the primary focus of these internationally-driven reforms was on the implementation of a new liquidity regime, as well as the development of additional capital requirements for ADIs deemed systemically important in a domestic context. While an increasing number of elements of the global reform agenda being pursued by the G20 are gradually being finalised, a range of initiatives still remain to be completed in the years ahead.

International bodies such as the International Monetary Fund (IMF), Financial Stability Board (FSB) and the Basel Committee on Banking Supervision are subjecting national regulatory arrangements to greater scrutiny of their adherence to internationally-agreed minimum standards. In this context, in 2013/14 Australia's Basel III capital framework was subject to peer review by other Basel Committee jurisdictions as part of the Committee’s Regulatory Consistency Assessment Programme (RCAP). The RCAP assesses the content and substance of a jurisdiction’s bank capital requirements, their consistency with the minimum standards set out in the Basel framework, and the significance of any deviations. Pleasingly, APRA’s requirements were found to be closely aligned with the Basel capital framework: 12 out of 14 assessed components were found to be ‘Compliant’. The two components that were graded ‘Largely Compliant’ were the ‘Definition of Capital’ and the ‘Internal Ratings-Based Approach for Credit Risk’, where there are some variations from the Basel framework. These were, however, not regarded as material overall, and the overall framework for ADI capital adequacy in Australia was assessed as ‘Compliant’.

In addition, APRA also proposed revisions to the prudential framework for securitisation, and made improvements to capital raising options for mutual ADIs. While the internationally-driven reforms have as their goal strengthening the safety and soundness of financial institutions, these latter initiatives were designed, at least in part, with additional objectives also in mind: that is, to aid a restoration of sound securitisation markets, and to improve the capacity of mutual ADIs to compete on a more equitable basis with shareholder-owned institutions.

APRA’s prudential policy agenda in other industries has in recent years been largely domestic in nature, spanning three main initiatives. The first, largely completed in 2012/13, was updating and harmonising the capital adequacy framework for general and life insurers, designed to produce both more risk-sensitive and more efficient regulatory requirements. The second, now also largely complete, flowed from the Stronger Super reforms and involved a substantial enhancement to the prudential regime for superannuation, including the granting of prudential standards-making powers to APRA. The third is the development of a prudential framework for conglomerate groups and, related to this, harmonising and enhancing APRA’s requirements for risk management. These last initiatives are now nearing completion.
As part of the Government’s policy to boost productivity and reduce regulation, APRA is currently undertaking a project to identify areas where regulatory cost savings for the industry and APRA may be achieved, without jeopardising the overall effectiveness of the prudential framework. Working with input from industry, APRA has identified a range of areas where refinements to the prudential framework may be able to be made without unduly compromising sound prudent outcomes. A prioritisation process is being undertaken to identify specific options to pursue, having regard to the extent of compliance cost savings available, effort likely to be involved in making any changes and the likely prudential impact. APRA expects to be able to announce an initial set of proposals in the near future.

CROSS-SECTORAL ISSUES

Risk management

APRA is committed to harmonising and consolidating its prudential standards across APRA-regulated industries where this is appropriate. Such an approach is both efficient, particularly for financial groups that operate in more than one industry sector, and consistent with APRA’s competitive neutrality objective. As a result, consolidated ‘behavioural’ prudential standards are now in place for ADIs, general insurers and life insurers for governance, outsourcing, business continuity management, and fitness and propriety.

During 2013/14, APRA finalised a cross-sectoral prudential standard on risk management, applying to ADIs and insurers. As well as consolidating existing individual industry standards, Prudential Standard CPS 220 Risk Management included enhanced requirements in some areas. The most important of APRA’s proposed risk management enhancements were:

- the requirement that APRA-regulated institutions have a Board Risk Committee that provides the board with objective, non-executive oversight of the implementation and ongoing operation of the institution’s risk management framework; and
- the requirement that institutions designate a Chief Risk Officer who is involved in, and provides effective challenge to, activities and decisions that may materially affect the risk profile of the institution.

Consequent to this new standard, APRA proposed modifications to Prudential Standard CPS 510 Governance to ensure consistency with the new risk management standard.

The release of APRA’s final risk management and governance prudential standards included an accompanying draft prudential practice guide on risk management. Consultation on the draft prudential practice guide identified several concerns, some of which APRA considered are better addressed by further change to the risk management prudential standard rather than the practice guide. Subsequent to the end of the financial year, APRA has undertaken another brief round of public consultation on these clarifying changes to the prudential standard and the revised draft prudential practice guide. It is still expected that the new standards will come into effect from 1 January 2015 as originally planned.
Supervision of conglomerate groups

Since its establishment, APRA has been conscious of the need to understand and assess the financial and operational aspects of conglomerate groups – which today dominate the Australian financial sector – as well as the individual APRA-regulated institutions within them. History, including the recent global financial crisis, has demonstrated that it is extremely difficult to prevent financial stress within one entity of a conglomerate group (regulated or not) from severely damaging or causing the failure of related financial institutions.

APRA has been working for some years on a prudential framework for conglomerate (‘Level 3’) groups. This culminated in the release of APRA’s planned final framework in August 2014.

Level 3 groups are groups containing APRA-regulated institutions that perform material activities across more than one APRA-regulated industry and/or in one or more non-APRA-regulated industries. Unlike ring-fencing approaches being advocated in some other jurisdictions, APRA does not seek to prescribe the business that regulated financial groups may undertake, or impose particular corporate structures. Rather, APRA’s philosophy is to allow regulated groups a high degree of freedom to organise their affairs as they see fit, provided they can demonstrate appropriate governance arrangements, risk-management capabilities and capital strength.

APRA’s Level 3 framework will assist it to ensure that its supervision adequately captures the risks to which APRA-regulated institutions within Level 3 groups are exposed and which, because of the operations or structures of the group, are not adequately captured by the existing prudential arrangements for stand-alone entities (Level 1 supervision) and single-industry groups (Level 2 supervision).

The framework has four broad components:

- a Level 3 group must have a robust governance framework that is applied appropriately throughout the group;
- a Level 3 group must have an effective group-wide risk management framework in place;
- a Level 3 group must have sufficient capital to support the risks of the entire group, including material risks that arise from non-APRA-regulated activities; and
- the intragroup exposures and external aggregate exposures of a Level 3 group must be transparent and prudently managed.

APRA has identified eight conglomerate groups to which it intends to apply the framework. These groups control approximately 80 per cent of the assets of all APRA-regulated institutions. The importance of strong group-wide governance, risk management and capital adequacy is therefore critical not just to these groups, but to the stability of the financial system more broadly.
When releasing its planned final framework in August 2014, APRA also indicated that the implementation date for the framework would be deferred, pending the outcomes of deliberations on these matters, and broader regulatory arrangements, being undertaken by the Financial System Inquiry (FSI). APRA also committed to ensuring the affected groups have a minimum of 12 months’ transition time before any new standards come into force. However, as currently proposed, the conglomerate groups to which APRA intends to apply the Level 3 framework will not need additional capital to meet the new requirements.

AUTHORISED DEPOSIT-TAKING INSTITUTIONS

Basel III and associated reforms

Basel III is a comprehensive set of reforms, developed by the Basel Committee on Banking Supervision, to strengthen the resilience of the banking sector to future financial shocks. The Basel III reforms focus on revisions to the capital and liquidity frameworks of banks. They have been supplemented by additional measures to be applied to banks that are deemed to be systemically important in a global or domestic context.

Capital

APRA commenced its formal consultation process on the Basel III capital reforms in September 2011, and the new requirements came into force at the beginning of 2013, consistent with the internationally-agreed timetable. A key aspect of these reforms was a strengthening of requirements to ensure that capital instruments were truly loss absorbing. In particular, Basel III requires that non-common equity regulatory capital issued by ADIs must be able to be written off or converted to ordinary shares if specific limits relating to capital levels, or the issuer’s general viability, are breached. This particular aspect of Basel III posed a challenge for mutual ADIs because conversion to common equity is not possible under a mutual corporate structure.

APRA considered it important that mutual ADIs had access to Basel III-compliant non-common equity regulatory capital, and worked with ASIC, mutual ADIs and their industry body – the Customer Owned Banking Association (COBA) – during the year to develop a solution. In October 2013, APRA issued a formal consultation letter proposing that mutual ADIs be allowed to issue Basel III-compliant instruments that could, if the relevant conversion provisions were triggered, convert to ‘mutual equity interests’ in the issuing ADI. On conversion, mutual equity interests could then be included as Common Equity Tier 1 capital for capital-adequacy purposes.

Feedback from industry was supportive of APRA’s proposals and in April 2014 an amended Prudential Standard APS 111 Capital Adequacy: Measurement of Capital was released. Mutual ADIs have welcomed the changes made by APRA which provide them with additional flexibility in their capital management and improved options for capital raising.
Capital comparison table

In common with many other regulators, APRA has imposed prudential requirements in Australia that go beyond the minimum requirements set out by the Basel Committee. These requirements improve both the quality and adequacy of the capital held by ADIs.

Large, internationally active ADIs have expressed concern, however, about the transparency of the impact of APRA’s policy choices. While it is well-known and acknowledged that APRA imposes robust capital requirements on Australian ADIs, understanding the impact of those choices on reported capital ratios can be difficult to assess. This is made additionally complex by the fact that other regulators may impose additional – though different – requirements in their own jurisdictions. This makes comparison between the capital ratios of internationally active banks difficult.

Australia’s largest banks are currently among the most highly rated in the world, both in terms of their debt ratings and equity market valuations. It is therefore not obvious that APRA’s approach has placed Australian ADIs at any competitive disadvantage, a conclusion also noted in the FSI’s Interim Report. Nevertheless, in response to these concerns, APRA has committed to working with industry to develop a reporting template that would facilitate clearer comparisons between the reported capital ratios of Australian and overseas banks. Discussions with industry on the appropriate content and format of such a template are ongoing.

Domestic systemically important banks

The Basel Committee’s framework for dealing with domestic systemically important banks (D-SIBs) was finalised in October 2012, and subsequently endorsed by the G20 Leaders. The principles-based D-SIB framework responds to the strongly held view that financial firms should not be too big to fail, and that taxpayers should not bear the cost of their resolution. The framework builds on, but differs in important respects from, the regime for global systemically important banks (G-SIBs) endorsed by the G20 Leaders in November 2011.

The G-SIB regime focusses on large, internationally active banks with significant cross-border activities. It addresses the ‘too big to fail’ issue through requiring higher capital requirements, strengthened supervisory oversight and robust recovery and resolution plans. No Australian ADI is on the current list of G-SIBs, although Australia’s four major banks participate in the annual G-SIB data collection and assessment process.

The D-SIB framework is less prescriptive than the G-SIB regime. It comprises principles for establishing a methodology to identify D-SIBs and the higher capital requirement for banks so identified. The framework also emphasises that other policy tools, such as more intensive supervision, should play an important role in dealing with D-SIBs.
In December 2013, APRA published an information paper setting out its framework for dealing with D-SIBs. The information paper provides details on the methodology APRA has used to identify D-SIBs in Australia, which has regard to the Basel Committee’s four key indicators of systemic importance: size, interconnectedness, substitutability and complexity. Based on its assessment of these indicators, APRA has determined that the four major banks are clearly D-SIBs, and that no other Australian bank is close to the D-SIB threshold.

The additional capital requirement for D-SIBs is intended to reduce the probability of failure compared to non-systemic institutions, reflecting the greater impact a D-SIB failure would likely have on the domestic financial system and economy. Based on a range of considerations, APRA determined that an additional requirement of one per cent of risk-weighted assets should apply to the four banks concerned. This additional capital must be in the form of Common Equity Tier 1, and will be implemented as an extension of the capital conservation buffer as defined in Prudential Standard APS 110 Capital Adequacy. The D-SIB framework is scheduled to come into effect from 1 January 2016.

Liquidity

The Basel III liquidity reforms are designed to promote stronger liquidity buffers and more prudent funding structures so as to make banking systems more resilient to liquidity stresses. The reforms introduce, for the first time, two quantitative global standards: the Liquidity Coverage Ratio (LCR), aimed at strengthening the short-term resilience of banks, and the Net Stable Funding Ratio (NSFR), aimed at promoting longer-term resilience by incentivising banks to fund their activities with more stable sources of funding. The reforms also involve a strengthening of governance and risk management in relation to liquidity risk – the so-called qualitative requirements – consistent with the Basel Committee’s revised Principles for Sound Liquidity Risk Management and Supervision.

APRA released an initial consultation package on the Basel III liquidity reforms in November 2011. During the second half of 2013, APRA consulted on a revised version of the proposals. In December 2013 the final policy framework was announced. The new LCR framework does not apply to all ADIs; rather, it applies only to larger ADIs where cash flow modelling is warranted. Smaller ADIs remain subject to the Minimum Liquidity Holdings approach that has been in place for many years. APRA also indicated that, by virtue of the provision of a Committed Liquidity Facility to ADIs by the RBA, Australian ADIs subject to the LCR could meet the new requirements in full by the internationally-agreed start date of 1 January 2015. As a result, no phase-in arrangements were needed.
In April 2014, the reporting requirements for the LCR were finalised, and ADIs began reporting under the new reporting standard from June 2014. APRA also took the opportunity of upgraded reporting to remove certain supervisory reporting arrangements, discontinuing with immediate effect a monthly template completed by 23 ADIs and a template completed by 30 ADIs twice a month. As part of that announcement, APRA also began a consultation process on a daily crisis reporting template which all ADIs would need to be able to produce immediately in the event of a liquidity crisis, or if APRA otherwise requests this information.

The final format of the NSFR is still being considered by the Basel Committee, and is expected to be announced shortly. APRA will commence consultation on domestic implementation in due course. The NSFR will likely commence no earlier than 2018.

Disclosure
The Basel Committee has long recognised the importance of effective disclosure to enhance market discipline and thereby assist in promoting a safe and sound banking system. APRA agrees with this view, and the ADI prudential framework includes a set of public disclosure requirements consistent broadly with international norms.

During the year APRA developed, and recently released, a consultation package addressing the following enhancements to its disclosure requirements:

- liquidity-related disclosures for ADIs subject to the LCR regime;
- disclosure requirements in relation to the leverage ratio, which would initially only apply to ADIs accredited to use the internal ratings-based approach to capital adequacy; and
- disclosure requirements, that would apply only to the four major banks, in relation to the 12 indicators used in the G-SiB assessment methodology.

In addition, the RCAP assessment of Australia’s implementation of the Basel framework identified a number of minor omissions in the Australian requirement that APRA proposes to rectify over time, as the opportunity presents itself to update the relevant prudential standards.

Consultation on these additional disclosure requirements close at end-October 2014. APRA’s intention is to finalise the new disclosures by year-end 2014, following consideration of the submissions received.

Securitisation
The securitisation market in Australia has been an important contributor to competition, efficiency and contestability in the ADI industry. Provided securitisation transactions are well structured, transparent and based on good quality assets, the benefits of securitisation outweigh the additional risks associated with this financing technique.

In April 2014, APRA released for consultation a discussion paper on its proposals to simplify the prudential framework for securitisation for ADIs. APRA’s proposals take into account the lessons learned from the global financial crisis — in particular, that securitisation globally had become excessively complex and opaque — as well as global reform initiatives to improve transparency and incentive arrangements within securitisation structures.
APRA’s proposed approach to securitisation included the following features:

- a set of key principles that apply to securitisation, rather than an expanded set of prudential requirements;
- a simple credit-class structure, which reduces the likelihood of opaque risk transfer and improves system stability;
- a simple ‘skin-in-the-game’ requirement to mitigate agency risks;
- explicit recognition of funding-only securitisation, with a simple but robust prudential regime that also allows for revolving securitisations or master trusts;
- simpler requirements for capital relief, matching risk to the amount of regulatory capital held;
- better integration of securitisation with the ADI liquidity regime; and
- clarification of the treatment of warehouses and similar structures.

APRA does not intend to finalise any reforms to its prudential framework for securitisation before the completion of the FSI and the Government’s responses to the FSI’s recommendations. The final reform proposals will need to also have regard to proposed revisions to the securitisation framework by the Basel Committee, which were first published for consultation in December 2013. It is therefore likely that, following consideration of submissions received on the first round of consultation, APRA will release a second package of proposals for consultation in 2015.

Residential mortgage lending

Residential mortgage lending has been a significant source of balance sheet growth and profitability for ADIs over a long period. Residential mortgages constitute the largest credit exposure in the Australian banking system, and well over half the total credit exposures of many ADIs.

Credit standards in residential mortgage lending have been a major focus of APRA’s prudential supervision of ADIs, particularly in the current environment of strong competitive pressures on pricing and standards. These issues, and APRA’s supervisory and policy responses to them, have been discussed in more detail in Chapter 2. Of particular note has been the release, in response to APRA’s observation of increased lending with higher risk characteristics, of a draft prudential practice guide in May 2014 that provides guidance to ADIs on sound risk management practices for residential mortgage lending. Prudential Practice Guide 223 Residential Mortgage Lending outlines prudent practice in addressing housing credit risk within an ADI’s risk management framework, in applying sound loan-origination criteria and appropriate security valuation methods, in the management of hardship loans and in establishing a robust stress-testing framework. APRA expects to release the guidance in November 2014.
Banking Act exemption orders

A number of institutions that undertake ‘banking business’, as defined in the Banking Act 1959, are currently exempted from the need to be authorised as deposit-taking institutions. Such exemptions are generally historical in nature. The exemptions cover Registered Financial Corporations (RFCs) and religious charitable development funds (RCDFs), the latter of which are funds that have been set up to borrow and use money for religious and/or charitable purposes. APRA has been reviewing the operation of these exemptions, in light of the IMF’s recommendations from the 2012 Financial Sector Assessment Program review that APRA tighten the conditions for exemption from the Banking Act.

In response to the high-profile collapse of Banksia Securities Limited, the Government asked in December 2012 that ASIC and APRA consult on a number of proposals to strengthen the regulation of finance companies that issue debentures to retail investors. The Government endorsed APRA’s recommendation to establish a clearer distinction between debentures and deposit products offered by ADIs. Consistent with the announcement, APRA released a consultation package on its proposals to restrict the use of certain terms by RFCs, including the words ‘deposit’ and ‘at-call’, and to require all debenture offerings to have a minimum maturity of 31 days.

In that same package, APRA also proposed to remove the exemption order for RCDFs, so that RCDFs wishing to continue to accept retail funding would need to become either an ADI or an RFC, or operate a managed investment scheme. After reviewing submissions and gathering further information about RCDF business models, APRA decided to revise this proposal and not require that RCDFs wishing to offer products to retail investors operate under a different regulatory regime. Rather, APRA proposed to apply additional conditions to the exemption order for RCDFs consistent with those proposed for RFCs. This revised approach was set out in a response to submissions paper released in August 2013.

APRA continues to consult with relevant parties on the proposed changes. In December 2013, APRA wrote to RFCs to advise them of a deferral in commencement of any changes. In May 2014, APRA also wrote to RCDFs to advise them that the current banking exemption order applying to RCDFs would be extended from 30 June 2014 to 31 December 2014. APRA has also indicated that, once the policy proposals are finalised, appropriate transition arrangements will be available to allow those RFCs and RCDFs most affected by any changes to adjust their operations accordingly.

Crisis preparedness

While APRA places a strong emphasis on an active program of prudential supervision, it does not pursue a zero-failure objective. It therefore needs to be prepared for the possibility of an institution failing or other threats to the stability of the Australian financial system. This requires APRA to have procedures and documentation to support the assessments, processes and decisions required – often in a short time with limited information – in the event of a financial crisis. APRA also undertakes crisis simulation exercises to test APRA’s capabilities in the areas of supervisory assessment and diagnostics, inter-agency coordination and information sharing.
Financial Claims Scheme (FCS)
The purpose of the Financial Claims Scheme (FCS) is to protect depositors of ADIs and policyholders of general insurers from loss following the failure of any of these institutions. APRA is responsible for administering the FCS.

For ADIs, the scheme protects depositors up to the limit of the scheme ($250,000 per account-holder, per ADI) and seeks to ensure they have timely access to their funds in the unlikely event that an ADI fails. To facilitate timely payment of funds to the correct beneficiaries, an amended version of Prudential Standard APS 910 Financial Claims Scheme commenced in July 2013, to ensure ADIs are operationally ready to meet payment, reporting and communication requirements should they be declared under the FCS. APS 910 requires that ADIs are pre-positioned for possible declaration under the FCS by having the capability to obtain a 'single customer view'. That is, ADIs must be able to view an individual customer’s balances with the ADI across multiple products and business lines. In meeting APS 910 requirements, ADIs have the flexibility to establish and configure their internal systems in the manner that best meets their business objectives. APRA also issued technical guidance to assist ADIs with APS 910, consisting of approved forms for FCS payments and reports, and an information paper released in August 2013. In addition, APRA released answers to a number of FCS technical Frequently Asked Questions during the year to help ADIs implement the new requirements.

Crisis management legislation
APRA’s resolution regime is broadly consistent with minimum international standards, including the Key Attributes of Effective Resolution Regimes for Financial Institutions. However, there remain gaps and deficiencies in APRA’s resolution powers that, if addressed, would increase the likelihood of financial distress being resolved effectively and efficiently without taxpayer funds being put at risk. This proposed alignment with international standards has been placed on hold pending the outcome of the FSI.

Loss absorbing capacity
Ensuring regulatory capital instruments issued by regulated institutions are genuinely available to absorb loss in times of financial stress is an important component of the post-crisis strengthening of the financial system. In Australia, provisions to convert to equity, or write off, non-equity capital instruments in the event of pre-specified triggers are achieved via contractual means (unlike some jurisdictions, where this may be achieved by statutory mechanisms). In June 2014, Treasury released a consultation paper proposing legislative amendments to ensure that these contractual loss absorption provisions operate as intended.
GENERAL AND LIFE INSURANCE

Reinsurance counterparty data collection

The exposure of the general insurance industry to reinsurers is a material source of counterparty risk. That risk heightens after domestic or global catastrophes, when the exposure of insurers to reinsurers is likely to crystallise into claims against reinsurance policies. For some time, APRA has been receiving some information on the reinsurance counterparties of individual insurers, but that information is incomplete and difficult to aggregate.

In 2010/11, APRA undertook a one-off data collection to assess the degree of industry exposure to large reinsurers. This data collection provided valuable insight into the industry position and concentrations of exposures to reinsurers. In the second half of 2013, APRA consulted on the introduction of a regular reporting requirement on exposures to reinsurers. The new reporting requirement was finalised in December 2013, and implemented with insurers’ annual returns from 1 January 2014. The consultation process led to a number of changes designed to make it easier for insurers to meet the requirement without compromising APRA’s prudential objectives.

In December 2013, APRA also consulted with the life insurance industry on proposed enhancements to its existing formal data collection on reinsurance counterparty exposures for life insurers. APRA will release its response to submissions on these changes, which are relatively minor amendments to existing reporting instructions, in the near future.

Group insurance arrangements for life insurers

In December 2013, APRA released draft guidance to insurers on good practice as it applies to the identification of risk, tender responses and data management in group insurance arrangements. While the main focus of the draft guidance concerned insurance provided to an RSE licensee, many of the practices detailed are relevant for group insurance contracts more generally. The draft guidance also addresses the implications for insurers of APRA’s prudential requirements for RSE licensees relevant to group risk arrangements.

The need for guidance in this area has been highlighted by the pressures evident in the group insurance market in recent times. APRA is currently considering submissions from industry and will finalise the guidance shortly.
Data confidentiality

In February 2013, APRA released two discussion papers outlining proposed changes to its life and general insurance statistical publications. The discussion papers also proposed to determine non-confidential all data submitted by insurers to APRA under the Financial Sector (Collection of Data) Act 2001.

In May 2013, APRA responded to submissions received in respect of the proposed changes to its insurance statistical publications, but indicated that consultation on data confidentiality would continue. This consultation has proceeded principally via a number of roundtable discussions with industry associations. In December 2013, APRA released an interim result from that process, determining a significant part of the collection not to be confidential.

Discussions are continuing with industry on the remaining elements of the collection, where APRA is considering the benefits that may result from disclosure of these data, as well as undertaking further consideration of industry feedback in deciding what other insurance data should be determined non-confidential.

SUPERANNUATION

Implementing Stronger Super reforms

Since 2011, APRA has been working to implement a new prudential and reporting framework for the superannuation industry in Australia. These reforms aim to strengthen the governance, improve the efficiency and transparency, and enhance the regulatory settings of the superannuation system in Australia. In particular, the reforms strengthen trustee duties, establish a new superannuation product (MySuper), and streamline superannuation transactions (SuperStream).

The final pieces of legislation making up the Stronger Super reform package were passed by Parliament in June 2013. APRA’s implementation of the reforms over 2013/14 included introducing prudential standards for superannuation. APRA also released new and updated prudential practice guides for superannuation in the second half of 2013. Reporting under the first tranche of a suite of significantly enhanced reporting standards for the superannuation industry commenced from 1 July 2013.

During the reform process, APRA engaged extensively with a broad range of stakeholders on all elements of the new framework. This engagement will continue as the final elements of the statistical reporting framework are completed in 2015.
Prudential standards and guidance

The Stronger Super legislative amendments give APRA the power to issue prudential standards in superannuation, bringing superannuation into line with the ADI and insurance sectors in which prudential standards have played a central role in APRA’s prudential framework for many years.

After extensive industry consultation over 2012, APRA finalised a suite of 14 prudential standards applying to superannuation. These standards took effect from 1 July 2013, and address areas such as RSE licensee governance, risk management, investment governance and insurance in superannuation. Where appropriate, APRA has sought to harmonise standards and maintain cross-industry consistency on topics common to other APRA-regulated industries, although the nature of the superannuation industry means that industry-specific standards were required in some areas. Taken together, the new standards will significantly strengthen the prudential oversight of trustees and enhance the protection of fund members’ interests.

To support implementation of the prudential standards by RSE licensees, and consistent with APRA’s risk-based supervisory approach, APRA has also developed prudential practice guides for superannuation. These guides set out APRA’s view of sound practice in particular areas and do not create enforceable requirements. After industry consultation, APRA finalised the suite of 18 prudential practice guides for the superannuation industry in December 2013, which largely replace previous superannuation circulars and guidance notes.

APRA will continue to identify opportunities to improve and expand the guidance material made available to RSE licensees. A new guide on fraud-risk management, to support RSE licensees in meeting the requirements of Prudential Standard SPS 220 Risk Management, will be released for consultation in late 2014.

Reporting standards

APRA requires regulated institutions to provide APRA with comprehensive statistical data on a regular basis. The objective of these data collections and publications is to inform and support APRA’s prudential supervision, and to provide appropriate transparency and disclosure in relation to the operations of the industries it regulates.

In June 2013, after extensive industry consultation, APRA issued a set of 32 final reporting standards for superannuation, developed as part of the Stronger Super reforms. This involved a significant updating of APRA’s existing reporting requirements, which had not changed since their introduction in 2004. The new reporting standards were supplemented by the issue of three further reporting standards in September 2013 relating to the MySuper product dashboard, product disclosure statement fees and costs, and investment performance.
APRA is implementing the new statistical collection on a phased basis. New reporting requirements relating to MySuper products, prudential requirements and fund-level financial statements came into effect on 1 July 2013. Additional reporting requirements take effect from 1 July 2014 and 1 July 2015.

In March 2014, APRA delayed until 1 July 2015 the start date for part of the new reporting relating to select investment options. This followed the Government’s deferral of choice product dashboard requirements, which link closely to APRA’s collection of select investment option data. It also responded to industry feedback identifying specific areas of the requirements that required clarification or that presented specific challenges. In July 2014 APRA released a discussion paper on select investment option reporting, with the new requirements expected to be finalised early in 2015.

SuperStream

The SuperStream measures are intended to enhance the productivity and efficiency of the superannuation system. The reforms seek to make processing superannuation transactions easier, cheaper and faster; provide better information to RSE licensees, employers and fund members; and facilitate consolidation of redundant superannuation accounts. SuperStream addresses the business processes associated with contributions, rollovers and the consolidation of superannuation accounts. Ultimately, the reforms are expected to lead to lower fees and improved processing timeframes for members.

APRA has worked closely with Treasury and the ATO during development of the SuperStream requirements. The legislation and supporting regulations that establish data and payment standards for contributions and rollovers under the SuperStream reforms have begun to take effect. Standards for rollovers commenced on 1 July 2013, and standards for contributions from employers came into effect on 1 July 2014, subject to transitional arrangements extending to 1 July 2015 in some cases.

APRA has consulted on a draft data collection form that will assist Treasury benchmark progress and evaluate the outcomes of SuperStream. This form is expected to be finalised in early 2015.
### APRA-regulated institutions

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<td>-4.1%</td>
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<tr>
<td>Representative offices of foreign banks</td>
<td>16</td>
<td>13</td>
<td>-18.8%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General insurers</td>
<td>121</td>
<td>115</td>
<td>-5.0%</td>
<td>118.0</td>
<td>114.4</td>
<td>-3.1%</td>
</tr>
<tr>
<td>Life insurers</td>
<td>28</td>
<td>28</td>
<td>0.0%</td>
<td>256.7</td>
<td>282.7</td>
<td>10.1%</td>
</tr>
<tr>
<td>Friendly societies</td>
<td>13</td>
<td>12</td>
<td>-7.7%</td>
<td>6.3</td>
<td>6.6</td>
<td>4.8%</td>
</tr>
<tr>
<td>Licensed trustees³</td>
<td>190</td>
<td>165</td>
<td>-13.2%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Superannuation entities⁴⁵</td>
<td>3,379</td>
<td>3,128</td>
<td>-7.4%</td>
<td>970.1</td>
<td>1,128.3</td>
<td>16.3%</td>
</tr>
<tr>
<td>Public offer funds</td>
<td>161</td>
<td>160</td>
<td>-0.6%</td>
<td>754.4</td>
<td>903.2</td>
<td>20.0%</td>
</tr>
<tr>
<td>Non-public offer funds</td>
<td>125</td>
<td>98</td>
<td>-21.6%</td>
<td>208.5</td>
<td>215.5</td>
<td>3.4%</td>
</tr>
<tr>
<td>Small APRA funds</td>
<td>2,950</td>
<td>2,745</td>
<td>-6.9%</td>
<td>2.0</td>
<td>2.1</td>
<td>5.0%</td>
</tr>
<tr>
<td>Approved deposit funds</td>
<td>66</td>
<td>59</td>
<td>-10.6%</td>
<td>0.1</td>
<td>0.1</td>
<td>0.0%</td>
</tr>
<tr>
<td>Eligible rollover funds</td>
<td>16</td>
<td>13</td>
<td>-18.8%</td>
<td>5.1</td>
<td>5.3</td>
<td>3.9%</td>
</tr>
<tr>
<td>Pooled superannuation trusts⁶</td>
<td>61</td>
<td>53</td>
<td>-13.1%</td>
<td>99.4</td>
<td>108.2</td>
<td>8.9%</td>
</tr>
<tr>
<td>Non-operating holding companies</td>
<td>25</td>
<td>25</td>
<td>0.0%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,944</strong></td>
<td><strong>3,655</strong></td>
<td><strong>-7.3%</strong></td>
<td><strong>4,528.3</strong></td>
<td><strong>4,928.0</strong></td>
<td><strong>8.8%</strong></td>
</tr>
</tbody>
</table>

**Notes:**

1. Asset figures for end-June 2014 are based on most recent returns. Asset figures for end-June 2013 have been revised slightly from APRA’s 2013 Annual Report in line with the audited returns received during the year.
2. The ADI classification does not include representative offices of foreign banks.
3. Licensed trustees does not include groups of individual trustees (GITs). As at end-June 2014, there were three GITs.
4. Superannuation figures from September 2013 are reported under the new reporting framework. Prior figures are based on the previous reporting framework. The change in total assets reflects, to some extent, the effects of transition to the new reporting framework.
5. Superannuation entities comprise registered and unregistered entities. From 1 July 2006, all trustees operating APRA-regulated superannuation entities were required to hold an RSE licence and register their superannuation entities with APRA. A small number of unregistered entities are still in the process of winding-up or transferring trusteeship to an RSE licensee.
6. Pooled superannuation trust assets are not included in totals as these assets are already recorded in other superannuation categories.
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