GOVERNANCE STRUCTURE

APRA has responsibility for regulating institutions in the financial sector and for the development of prudential and supervisory policies relating to its role as prudential regulator, including the making of prudential standards under relevant legislation.

In performing and exercising its functions and powers, APRA is required 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 also acts as a national statistical agency for the Australian financial system and is responsible for administering the Financial Claims Schemes provided for in legislation governing the banking and general insurance industries.

APRA’s governance structure comprises at least three and no more than five Members of APRA, as specified in Part 3 of the Australian Prudential Regulation Authority Act 1998. In practice, there are three full-time Members who collectively comprise APRA’s Executive Group, which is responsible and accountable for the operation and performance of APRA.

Dr John Laker ended his term as Chairman on 30 June 2014 and a new Chairman, Mr Wayne Byres, was appointed with effect from 1 July 2014. Details on the APRA Members are provided on pages 98-99 of this Report.

The Statutory Report provided in Chapter 8 gives details of various other aspects of governance in APRA, including executive and consultative committees.

Members’ attendance at Executive Group meetings from 1 July 2013 to 30 June 2014

<table>
<thead>
<tr>
<th>Member</th>
<th>Meetings</th>
<th>Attended</th>
</tr>
</thead>
<tbody>
<tr>
<td>John Laker</td>
<td>19</td>
<td>18</td>
</tr>
<tr>
<td>Ian Laughlin</td>
<td>19</td>
<td>16</td>
</tr>
<tr>
<td>Helen Rowell</td>
<td>19</td>
<td>18</td>
</tr>
</tbody>
</table>

The Executive Group meets formally on a monthly basis, and more frequently as required, to discuss and resolve major prudential policy, supervisory and strategic issues facing APRA. It also holds Management Group meetings with APRA’s senior management team at least weekly for high-level sharing of information and decisions on more routine supervisory and organisational matters.
RISK MANAGEMENT IN APRA

Risk Management and Audit Committee

APRA’s Risk Management and Audit Committee provides independent assurance and assistance to APRA’s Executive Group on risk-management policies and procedures, internal control and compliance frameworks, and APRA’s external accountability responsibilities.

The Committee comprises an external chair, one external member and one member of APRA’s Executive Group. An APRA Executive General Manager, the General Manager - Risk Management and Internal Audit, the Chief Financial Officer, the APRA Secretary and representatives of the Australian National Audit Office are also regular attendees at Committee meetings. APRA’s Chairman and other APRA executives may attend by invitation.

During 2013/14, the Committee met five times and at those meetings all audit reports were reviewed. The Committee approved the Risk Management and Internal Audit annual plans and monitored progress against these plans. It also monitored the operation of APRA’s Enterprise Risk Management Framework. At the August 2014 meeting, the Committee made an attestation to the APRA Chairman that reliance could be placed on APRA’s systems and controls applied in preparing the annual accounts.

The members of the Committee in 2013/14 were:

Mr W Peter Day
LLB (Hons), MBA, FCPA, FCA, CTA, FAICD
Chair

Mr Day was appointed for an initial five-year term in 2008 and assumed the role of Chair of the Committee from 1 September 2010. He was reappointed for a further term of two years from 1 September 2013. Mr Day is a non-executive director of Alumina Limited, Ansell Limited, Boart Longyear Limited and SAI Global Limited. He also serves on the Accounting Professional and Ethical Standards Board. Mr Day was, for seven years until 2007, Chief Financial Officer of Amcor Limited. He is a former Chairman of the Australian Accounting Standards Board, has participated in the setting of international accounting standards and was Deputy Chairman of ASIC from 1997 to 1999.

Ms Fiona Bennett
BA (Hons), FCA, FAICD, FAIM
External member

Ms Bennett was appointed for a three-year term on 1 January 2011 and reappointed for a further term of two years from 1 December 2013. She is Chairman of the Victorian Legal Services Board and a non-executive director of Hills Holdings Limited, Boom Logistics Limited and Beach Energy Limited. During her executive career, Fiona held senior executive positions at BHP Billiton Limited and Coles Group Limited, and has been Chief Financial Officer at several organisations in the health sector.
Mr Ian Laughlin
APRA Deputy Chairman and Member

Attendance at Risk Management and Audit Committee meetings from 1 July 2013 to 30 June 2014

<table>
<thead>
<tr>
<th>Attendee</th>
<th>Meetings</th>
<th>Attended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peter Day</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Fiona Bennett</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Ian Laughlin</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>

RISK MANAGEMENT AND INTERNAL AUDIT

The Risk Management and Internal Audit unit plays an important role in APRA’s governance, assurance and compliance framework by taking a detailed and structured approach to the monitoring and assessment of risks and the review of APRA’s systems and processes.

APRA has in place a risk management framework that includes a clear statement of its risk appetite. It covers material risks to APRA’s mandate and objectives, each captured in a defined category.

A member of APRA’s Management Group is allocated responsibility for the ongoing review, management and reporting of each such risk. Risks are reassessed on a regular basis and the unit provides APRA’s Executive Group and the Risk Management and Audit Committee with consolidated risk reports on a quarterly basis. In 2013/14 greater focus was given to risks and how they affect APRA via the formalisation of risk considerations in papers submitted to APRA’s main governance committees. In addition, liaison commenced with peer supervisors overseas to understand their approach to Enterprise Risk Management and to identify opportunities to enhance APRA’s risk framework. This work will continue over 2014/15.
A broad-ranging and robust program of internal audits is developed by the unit each year following consultation with APRA management and an assessment of APRA’s strategies and key risks. The risk-based program covers specific aspects of APRA’s supervisory and operational processes and its financial systems. Audit reviews identify and rate risks, and make recommendations aimed at improving APRA’s internal control environment and processes. A quality assurance and improvement program is also in operation within the unit.

APRA has an ongoing focus on fraud risk management and a fraud control framework in line with Government requirements is in place. All audits undertaken by the unit assess whether potential fraud exposures are appropriately addressed by APRA’s processes and controls. There were no incidents of internal fraud reported for the year 2013/14. Compulsory annual online fraud awareness training is delivered to all staff and APRA management makes formal six-monthly attestations that any identified fraud has been reported.

APRA has a range of external accountabilities and, to ensure compliance, applies a comprehensive APRA-wide compliance framework based upon the relevant Australian Standard AS 3806–2006 Compliance Programs. This framework includes a broad range of compliance attestations by senior management. Monitoring and ongoing development of this framework is the responsibility of the APRA Secretary.
Dr Laker served as a Member and Chairman of APRA from 1 July 2003 to 30 June 2014. During this period Dr Laker was APRA’s representative on the Reserve Bank of Australia’s (RBA) Payments System Board, the Council of Financial Regulators, the Basel Committee on Banking Supervision and its governing body, and the Trans-Tasman Council on Banking Supervision. He was also a director of the Centre for International Finance and Regulation. Dr Laker worked in the Commonwealth Treasury and International Monetary Fund before joining the RBA in 1982. He held senior positions in the economic, bank supervision and international areas before becoming the RBA’s London-based Chief Representative in Europe from 1991 to 1993. Dr Laker was appointed Assistant Governor (Corporate Services) in 1994 and, in 1998, Assistant Governor (Financial System) and Deputy Chair of the RBA’s Payments System Board. Dr Laker was made an Officer of the Order of Australia in 2008 for services to the regulation of the Australian financial system and to the development and implementation of economic policies nationally and internationally.

Mr Laughlin was appointed as a Member of APRA on 1 July 2010 for a three-year term and was reappointed as a Member and appointed Deputy Chairman for a two-year term commencing 1 July 2013.

Mr Laughlin has extensive experience in the financial services industry. He has been a non-executive director of AMP Life Limited, serving as Chairman of its Board Audit Committee, Managing Director of the United Kingdom life insurance subsidiaries of AMP (Pearl, London Life and NPI), director of HHG plc and non-executive director of Diligenta Ltd in the United Kingdom. Before then, he held senior management positions in AMP, Suncorp and National Mutual in Australia, New Zealand and Hong Kong.

Mr Laughlin is APRA’s representative on the Executive Committee of the International Association of Insurance Supervisors and on the Financial Reporting Council. Mr Laughlin is also a Fellow of the Institute of Actuaries of Australia and has served on its Council.
Mrs Rowell was appointed as a Member of APRA on 1 July 2013 for a five-year term.

Mrs Rowell joined APRA in 2002 as General Manager – Industry Technical Services and has held other senior roles including General Manager – Diversified Institutions Division, General Manager – Policy Development and Executive General Manager – Supervisory Support Division. Mrs Rowell was the chair of APRA’s general insurance industry group from 2006 to 2011. Mrs Rowell has represented APRA at various subcommittees of the International Association of Insurance Supervisors and on the Joint Forum Financial Conglomerates Committee. She currently represents APRA on the Financial Stability Board’s Supervisory Intensity and Effectiveness Group. Prior to joining APRA, Mrs Rowell was a partner at the international consulting firm Towers Perrin. She is also a Fellow and past President of the Institute of Actuaries of Australia.

Mr Byres was appointed as a Member and Chairman of APRA from 1 July 2014 for a five-year term. He is also APRA’s representative on the Reserve Bank of Australia’s (RBA) Payment System Board, the Council of Financial Regulators, and the Trans-Tasman Council on Banking Supervision.

Mr Byres’ early career was in the RBA, which he joined in 1984. After more than 14 years with the Reserve Bank, including time on secondment to the Bank of England in London, he transferred to APRA on its establishment in 1998, holding a number of senior executive positions in APRA’s policy and supervisory divisions. In 2004, Mr Byres was appointed Executive General Manager, Diversified Institutions Division with responsibility for the supervision of Australia’s largest and most complex financial groups. He held this role until the end of 2011, when he was appointed to the role of Secretary General of the Basel Committee on Banking Supervision, based at the Bank for International Settlements in Basel, Switzerland. During his time in Basel, Mr Byres was also a member of the Financial Stability Board (FSB), and served as the Basel Committee’s representative on various FSB standing committees.