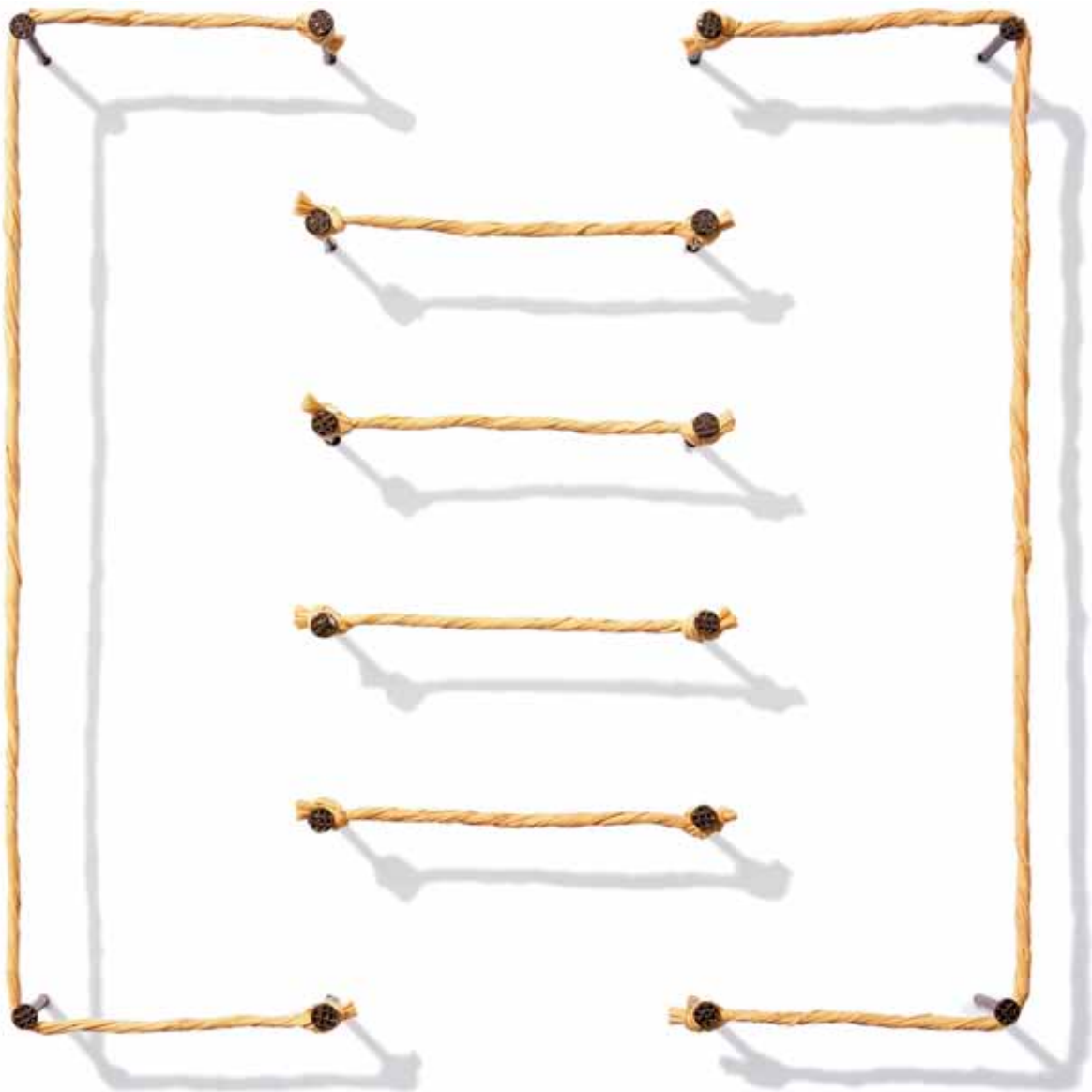




Annual Regulatory Plan

APRA 2011–2012

July 2011




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Introduction

The Annual Regulatory Plan (ARP) details APRA's planned activities for regulatory changes in the 2011-2012 financial year. The ARP also provides a summary of regulatory proposals that were finalised in the 2010-2011 financial year.

APRA's consultation strategy

Effective consultation is a central element of APRA's policy development process.

The key objective of APRA's consultation strategy is to ensure that relevant stakeholders are provided with sufficient opportunity to engage with APRA about proposed changes to its regulatory framework. Effective consultation also allows relevant stakeholders to develop a sound understanding of the issues which APRA is seeking to address via the regulatory change.

In order to achieve these objectives, APRA's consultation strategy ensures consultation occurs at a sufficiently early stage in the policy development process, and with sufficient frequency thereafter, to allow issues raised during the process to be incorporated within the final policy direction adopted by APRA.

APRA actively consults with stakeholders through mechanisms such as industry presentations, workshops, quantitative impact studies and targeted consultation with select stakeholders if appropriate. APRA also actively engages with relevant industry bodies through participating in and co-hosting information sessions for the members of such bodies.

The nature and extent of APRA's consultation for a particular policy proposal is dependent on the expected impact of the proposals. APRA may undertake a single round of consultation for less complex proposals that are expected to have minimal impact on industry. However, multiple rounds of consultations will often be undertaken for more complex proposals or those that may have more significant impacts. Depending on the complexity and impact on the industry, each round of consultation for a proposal may range from six to twelve weeks.

APRA's consultation packages are available to all stakeholders and interested parties on www.apra.gov.au/policy/. APRA also issues media releases on its website and notifies industry subscribers of the release of a consultation package via email.

For details of consultation plans for individual policy proposals please refer to the planned regulatory activities July 2011 – June 2012.

Past regulatory changes October 2010 – June 2011

Title	Life insurance prudential standards
Description of issue	<p>As a consequence of the <i>Financial Sector Legislation Amendment (Simplifying Regulation and Review) Act 2007</i>, all Prudential Rules made under the <i>Life Insurance Act 1995</i> were required to be phased out by 1 July 2011 and remade as prudential standards.</p> <p>Accordingly, APRA converted the remaining Prudential Rules to prudential standards, namely <i>Prudential Standard LPS 600 Statutory Funds</i> and <i>Prudential Standard LPS 700 Friendly Society Benefit Funds</i>. The guidance material previously contained within the Prudential Rules is now included in a new <i>Prudential Practice Guide LPG 700 Friendly Society Benefit Funds</i>.</p>
Consultation	The conversion did not materially change the requirements on industry and, therefore, consultation was not undertaken.
Date of effect	The final prudential standards and the associated prudential practice guide were released in December 2010 and came into effect on 1 July 2011.
Contact details	Mr Peter Kohlhagen Advisor, Policy Development Phone: 02 9210 3363 Fax: 02 9210 3021 Email: peter.kohlhagen@apra.gov.au
Date last modified	July 2011

Title	Basel II enhancements – July 2009 package
Description of issue	<p>APRA has revised its capital requirements for authorised deposit-taking institutions (ADIs) in relation to <i>Prudential Standard APS 111 Capital Adequacy: Measurement of Capital</i> (APS 111), <i>Prudential Standard APS 116 Capital Adequacy: Market Risk</i> (APS 116), <i>Prudential Standard APS 120 Securitisation</i> (APS 120), <i>Prudential Standard APS 310 Audit and Related Matters</i> (APS 310), and <i>Prudential Standard APS 330 Capital Adequacy: Public Disclosure of Prudential Information</i> (APS 330) in light of the enhancements to the Basel II Framework released by the Basel Committee on Banking Supervision (BCBS) in July 2009 (referred to as the Basel II enhancements – July 2009 package).</p> <p>As part of these changes, APRA has also made other amendments to prudential standards on capital adequacy to clarify existing provisions and to support the implementation of the Basel II enhancements.</p>
Consultation	<p>APRA consulted with industry on proposed changes to APS 111, APS 116, APS 120, APS 310 and APS 330 in December 2009, and on the related reporting requirements in May 2010.</p> <p>APRA and a number of ADIs participated in a BCBS global Quantitative Impact Study (QIS) exercise in early 2010, which included an assessment of the likely impact of the Basel II enhancements.</p> <p>In June 2010, the BCBS announced further minor amendments to the Basel II enhancements and a delay in the implementation timetable to 1 January 2012, rather than the original target date of 1 January 2011. In October 2010, APRA wrote to all ADIs about the additional amendments to the Basel II enhancements and the delayed timetable.</p> <p>In May 2011, APRA released its final prudential standards and prudential practice guides that give effect to the Basel II enhancements. It also released revised APRA reporting standards and reporting forms for both ADIs and consolidated banking groups under the <i>Financial Sector (Collection of Data) Act 2001</i>.</p>
Date of effect	The prudential standards, as well as the reporting standards and reporting forms, come into effect from 1 January 2012, in line with the internationally agreed timetable.
Contact details	<p>Dr. Joy Wann Advisor, Policy Development Phone: 02 9210 3638 Fax: 02 9210 3420 Email: joy.wann@apra.gov.au</p>
Date last modified	July 2011

Planned regulatory activities July 2011 – June 2012

Title	BCBS proposals to strengthen the resilience of banking systems (Basel III) – capital reforms
Description of issue	<p>In December 2009, the BCBS released for consultation a package of reforms to promote more resilient banking systems.</p> <p>In addition to liquidity proposals (see below), the reforms cover the following areas:</p> <ul style="list-style-type: none"> • raising the quality, consistency and transparency of the capital base; • strengthening the capital requirements for counter-party credit risk exposures arising from derivatives, repos and securities financing activities; • the introduction of a leverage ratio as a supplementary measure to the Basel II risk-based framework; and • the introduction of a series of measures to promote the buildup of capital buffers in good times that can be drawn upon in periods of stress. <p>The BCBS released the final set of global capital standards in December 2010 (revised June 2011), with a staged implementation beginning from 1 January 2013.</p>
Consultation plan	<p>APRA and a number of ADIs have participated in three BCBS QJS exercises, conducted in early 2010, September 2010 and June 2011, to assess the likely impact of the BCBS proposals.</p> <p>In September 2010, APRA co-hosted an industry conference with the Financial Services Institute of Australasia (Finsia) to discuss the impacts of the Basel reforms on Australia's banking system and to give some preliminary views as to how these changes will be implemented in Australia.</p> <p>APRA will consult publicly on proposed revisions to prudential standards, guidance and reporting requirements to give effect to these changes in global capital standards. It has already held a number of meetings in various forums with potentially affected ADIs.</p>
Expected timetable	<p>APRA proposes to release a consultation package in 2011, with a response period of at least eight weeks, and aims to issue final prudential standards, prudential practice guides and reporting requirements in 2012. APRA expects multiple rounds of consultation and standards development over the next eighteen months.</p>
Contact details	<p>Mr Michael Horton Senior Manager, Policy Development Phone: 02 9210 3258 Fax: 02 9210 3166 Email: michael.horton@apra.gov.au</p>
Date last modified	July 2011

Title	BCBS proposals to strengthen the resilience of banking systems (Basel III) – liquidity reforms
Description of issue	<p>The BCBS's package of reforms to promote more resilient banking systems (see above) also introduced, for the first time, two internationally consistent regulatory standards for liquidity risk supervision. The first is aimed at promoting short-term resilience to liquidity stresses and the second at promoting longer-term resilience through use of more stable funding sources.</p> <p>APRA has been reviewing the prudential framework for ADI liquidity risk management, set out in <i>Prudential Standard APS 210 Liquidity (APS 210)</i>. APRA's objective is to strengthen the resilience of ADIs to liquidity risk and improve APRA's ability to assess and monitor ADIs' liquidity risk profiles.</p>
Consultation plan	<p>In September 2010, APRA co-hosted an industry conference with the Financial Services Institute of Australasia (Finsia) to discuss the impacts of the Basel reforms on Australia's banking system and to give some preliminary views as to how these changes will be implemented in Australia.</p> <p>On 17 December 2010, APRA and the Reserve Bank of Australia (RBA) issued a joint media release (<i>Australian implementation of global liquidity standards</i>) announcing that to address the insufficient supply of high-quality liquid assets in Australia, ADIs will be able to establish a committed secured liquidity facility with the RBA, on payment of a market-based fee. This treatment is allowed under the BCBS liquidity framework for jurisdictions with insufficient liquid assets.</p> <p>On 28 February 2011, APRA issued a media release (<i>APRA clarifies implementation of global liquidity standards in Australia</i>) clarifying the treatment of high-quality liquid assets it will apply under the BCBS liquidity framework.</p> <p>APRA has engaged with various industry bodies (Australian Bankers' Association, Australian Financial Markets Association and Abacus) and a substantial number of ADIs to discuss the liquidity framework in light of the December 2010 BCBS release.</p> <p>APRA and a number of ADIs participated in the BCBS global QIS exercise conducted in June 2011 to assess the liquidity impacts of the December 2010 reforms.</p>
Expected timetable	<p>APRA proposes to issue a consultation paper and a draft APS 210 and prudential practice guide, reporting forms and instructions for (at least eight weeks) public consultation in the second half of 2011.</p> <p>Subject to industry feedback, final reporting standards, forms and instructions as well as the final APS 210 and prudential practice guide are expected to be released in mid 2012. The first of the global liquidity standards comes into effect from 1 January 2015.</p>
Contact details	<p>Mr Michael Horton Senior Manager, Policy Development Phone: 02 9210 3258 Fax: 02 9210 3421 Email: michael.horton@apra.gov.au</p>
Date last modified	July 2011

Title	Review of capital standards in life and general insurance
Description of issue	<p>APRA proposes to update its capital standards for both life insurers and general insurers.</p> <p>For general insurers, APRA aims to complete the refinements that it commenced in 2008.</p> <p>For life insurers, APRA is reassessing the structure of the existing capital standards in the light of underlying changes to the industry over the last 15 years. The review will complete work commenced by the Life Insurance Actuarial Standards Board (LIASB) before it was dissolved in December 2007. At that time the responsibility for making capital standards passed from the LIASB to APRA.</p> <p>In general, the review aims to:</p> <ul style="list-style-type: none"> • review the risk-sensitivity and appropriateness of the capital standards; • improve the alignment of the standards between APRA-regulated industries; and • consider the standards in light of international developments. <p>In commencing this review, APRA's starting position was not that current capital requirements for the general and life insurance industries were, overall, either too low or too high. As the proposed changes would increase the risk-sensitivity of the standards, however, capital requirements for individual insurers may increase or decrease.</p>
Consultation plan	<p>APRA released an initial discussion paper in May 2010, for public consultation for a period of three months, followed by two technical papers in July 2010 and a third technical paper in September 2010.</p> <p>APRA issued a draft QIS for comment in August 2010. The final version was issued in September for insurers to complete by end October 2010.</p> <p>In March 2011, APRA issued a response to the main issues raised in submissions and arising from assessment of the QIS responses. The response paper also outlined the changes APRA is intending to make to its proposals. APRA invited comments on these refinements and is conducting a second QIS. Submissions on the new proposals and input to the second QIS are due by 31 July 2011. APRA intends to release a second response paper and draft prudential standards in October 2011.</p> <p>There will be a further three-month consultation period on the draft prudential standards and consultation on the draft reporting standards.</p> <p>APRA conducted industry-wide public conferences on its proposals in June 2010, September 2010 and June 2011 (hosted jointly by the Insurance Council of Australia, the Financial Services Council and the Institute of Actuaries of Australia).</p> <p>Since the beginning of this project APRA has regularly given presentations and provided speakers at seminars to various stakeholders and interested parties. APRA has also met with many insurers individually, as part of the normal supervisory process, to discuss the implications of this project. This process will continue until the project's completion.</p>

Expected timetable	Draft prudential standards are expected to be issued in October 2011, with final standards expected to be issued in March 2012. APRA proposes that the standards will become effective from 1 January 2013.
Contact details	Mr Allan Watts Manager, Policy Development Phone: 02 9210 3551 Fax: 02 9210 3166 Email: allan.watts@apra.gov.au
Date last modified	July 2011

Title	Level 3 conglomerate framework
Description of issue	APRA is proposing a prudential framework for the supervision of conglomerate groups ('Level 3' framework). These are groups (with APRA-regulated entities) that have material operations in more than one prudentially regulated industry and/or have one or more material unregulated entities. The objective of this substantial initiative is to better protect the interests of depositors and insurance policyholders by limiting the risks to APRA-regulated entities (from contagion, reputation and operational risks in particular) that may arise from that entity's membership of a conglomerate group, and by ensuring that both APRA and the group itself have a broader understanding of the financial and operational soundness of the group. The global financial crisis has shown that the failure of one entity (regulated or not) within a conglomerate group may damage or even cause the failure of related entities.
Consultation plan	<p>In March 2010, APRA released a discussion paper for a public consultation period of three months. 18 submissions were received on the discussion paper including responses from the groups likely to be subject to the Level 3 framework (candidate Level 3 groups), industry associations and professional bodies.</p> <p>APRA held seminars on the discussion paper with all candidate Level 3 groups in March 2010. There were also separate bilateral meetings held with these groups and their relevant industry associations.</p> <p>In November 2010, APRA issued a QIS for the candidate Level 3 groups for a consultation period of three months following the release of a draft QIS for comment in August 2010. A workshop on the QIS was held in December 2010.</p> <p>APRA wrote to industry in May 2011, advising of a revised project implementation schedule and stating the need to appropriately sequence this policy initiative with related initiatives in the ADI and insurance industries.</p> <p>APRA intends to undertake further consultation on its proposals. Response papers together with draft standards and reporting standards will be issued for public consultation in the course of developing the final framework.</p>
Expected timetable	APRA expects to release a response paper and draft prudential and reporting standards for consultation (over a three-month period) in the first part of 2012. After further consultation, final versions will be released in the first quarter of 2013 and will take effect shortly thereafter.
Contact details	Ms Evelyn Hauw Senior Manager, Policy Development Phone: 02 9210 3447 Fax: 02 9210 3021 Email: evelyn.hauw@apra.gov.au
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Title	Implementation of the Stronger Super reforms
Description of issue	The Government issued its Stronger Super response to the recommendations of the Super System Review in December 2010 and, in February 2011, began stakeholder consultation on design and implementation issues. The final outcome of this process will determine the regulatory changes that APRA may be charged with implementing.
Consultation plan	Consultation will occur during the course of development of any reforms in accordance with APRA's usual consultation procedures.
Expected timetable	APRA is liaising with Treasury and the Minister and will consider its time-frame for implementing relevant aspects of Stronger Super once the Government has made its final position on the reforms known.
Contact details	Dr Katrina Ellis Senior Manager, Policy Development Phone: 02 9210 3670 Fax 02 9210 3021 Email: katrina.ellis@apra.gov.au
Date last modified	July 2011

Title	Enhanced superannuation statistics collection
Description of issue	<p>Since 2004, the average superannuation fund has become considerably larger and more complex. APRA's experience with the data over this time indicates that to better understand funds and trustees it needs to deepen the statistics collection about each fund. At the same time, there are a few areas of the current collection that might be dispensed with, without undue detriment to APRA's prudential or statistical objectives.</p> <p>As part of the implementation of the Government's Stronger Super reforms, APRA proposes to implement a substantially enhanced superannuation data collection.</p>
Consultation plan	<p>In May 2009, APRA released a discussion paper outlining proposed enhancements to statistics collection and reporting. APRA received 17 submissions on the discussion paper.</p> <p>APRA announced a deferral of the project in November 2009. The deferral was in response to the announcement of the Super System Review, which also examined the issues surrounding the collection and publication of superannuation data.</p> <p>Further consultation will occur during the course of development of any Stronger Super reforms, in accordance with APRA's usual consultation procedures.</p>
Expected timetable	APRA is liaising with Treasury and the Minister and will consider its time-frame for implementing a substantially enhanced superannuation data collection once the Government has made its final position on the reforms known.

Contact details	Ms Juanita Hoare Senior Manager, Analysis and Publications Phone: 02 9210 3293 Fax: 02 9210 3021 Email: juanita.hoare@apra.gov.au
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Title	Review of superannuation guidance material
Description of issue	<p>APRA is continuing to update its superannuation guidance material and, where appropriate, harmonising the material with other APRA-regulated industries.</p> <p>APRA is adopting the format of prudential practice guides used in the other industries for superannuation guidance material, in place of existing Superannuation Circulars and guidance notes.</p> <p>Four prudential practice guides on capital, risk management, fitness and propriety, and adequacy of resources were finalised in 2010.</p> <p>Draft prudential practice guides on reserving and conflicts of interest, on which APRA consulted in 2009, will now be considered as part of APRA's implementation of the Stronger Super reforms.</p>
Consultation plan	<p>APRA expects to release for consultation draft prudential practice guides on standards for contributions and benefit payments. These will update the guidance issued prior to commencement of trustee licensing in 2004.</p> <p>A consultation period of three months is envisaged, with additional time provided where requested. This should allow for adequate consultation given that the documents will be revisions rather than new guidance.</p>
Expected timetable	APRA expects to release these draft prudential practice guides and a discussion paper in August 2011.
Contact details	Ms Melisande Waterford Senior Manager, Policy Development Phone: 02 9210 3115 Fax 02 9210 3409 Email: melisande.waterford@apra.gov.au
Date last modified	July 2011

Title	Financial Claims Scheme – proposed ADI information collection
Description of issue	<p>The Financial Claims Scheme (FCS) was announced by the Government and passed into legislation in 2008. It will be administered by APRA in the event that an ADI or general insurer fails.</p> <p>For ADIs, this will involve APRA making early payments to account-holders who hold deposits in eligible products, using Government funds made available for this purpose in the first instance. APRA would then take the place of the depositors in the liquidation of the failed ADI.</p>
Consultation plan	<p>APRA invited individual ADIs and industry bodies to talks on the proposed implementation during 2009 in order to incorporate industry input in formulating initial views on this matter.</p> <p>APRA released a discussion paper in January 2010, setting out the proposed approach to operational aspects of the FCS for ADIs, including the need for ADIs to be able to identify each account-holder to allow payment to be made. This consultation period lasted for six weeks. APRA held meetings with a number of ADIs and industry bodies on a one-on-one basis during this first round of consultation.</p> <p>In August 2010, APRA released a response to key issues raised in submissions, as well as a draft reporting standard and associated guidance for ADIs to assist in the development of the necessary processes to aggregate information for each account-holder in order to facilitate early payment.</p> <p>APRA also engaged with industry at a one-day industry-wide workshop on the proposals. Representation from a broad cross-section of the industry were present. The workshop was useful in addressing issues from both an industry and APRA perspective.</p> <p>At this stage, APRA intends to undertake a further round of consultation in the second half of 2011, with a view to finalising the proposed reporting standard.</p>
Expected timetable	<p>Transition arrangements for ADIs will be set out in the final reporting standard. A standard transition period will be provided to all ADIs, with the scope for a longer transition period for individual ADIs where there is a demonstrated need.</p>
Contact details	<p>Mr Geof Mortlock Senior Project Manager, Policy Development Phone: 02 9210 3575 Fax: 02 9210 3021 Email: geof.mortlock@apra.gov.au</p>
Date last modified	July 2011

Title	General insurance Level 2 refinements
Description of issue	APRA is proposing a number of refinements to the prudential and reporting framework for general insurance groups (Level 2 groups). It also proposes to align aspects of the reporting framework between Level 2 groups and individual APRA-authorized general insurers (Level 1 insurers).
Consultation plan	In May 2011, APRA released a consultation package, open for a period of two months, relating to refinements to the prudential framework and reporting frameworks for general insurance groups. The package included a discussion paper, three draft prudential standards and draft reporting forms and instructions.
Expected timetable	Final prudential standards and reporting standards are expected to be released by December 2011. The first reporting under the revised framework is expected to be for the six-month period ending 31 December 2011.
Contact details	Ms Kate Bible Manager, Policy Development Phone: 02 9210 3502 Fax: 02 9210 3021 Email: kate.bible@apra.gov.au
Date last modified	July 2011

Title	Consolidation of prudential standards
Description of issue	APRA is reviewing existing prudential standards relating to outsourcing, business continuity management, governance and fitness and propriety with a view to harmonising prudential requirements for ADIs, general insurers and life companies. It is expected that existing industry-specific prudential standards in these areas will be replaced by single cross-industry prudential standards. The content of the new cross-industry prudential standards will be largely the same as the existing standards.
Consultation plan	APRA released a discussion paper and draft cross-industry prudential standards for consultation over a three-month period from December 2010 to March 2011. Consultation on the associated draft prudential practice guides is expected to follow in late 2011.
Expected timetable	Final prudential standards are expected to be released in August 2011, with commencement from 1 July 2012.
Contact details	Mr Peter Kohlhagen Advisor, Policy Development Phone: 02 9210 3363 Fax: 02 9210 3021 Email: peter.kohlhagen@apra.gov.au
Date last modified	July 2011

Title	Funds management – ADIs
Description of issue	APRA is reviewing its prudential requirements in relation to the funds management activities of ADIs and groups of which they are members. APRA's requirements for funds management activities of ADIs were previously set out in <i>Prudential Standard APS 120 Funds Management and Securitisation</i> .
Consultation plan	APRA will consult on its proposed funds management requirements for ADIs in accordance with its usual consultation procedures.
Expected timetable	This item has been deferred pending the release of Basel III standards, guidance and reporting requirements.
Contact details	Dr. Joy Wann Advisor, Policy Development Phone: 02 9210 3638 Fax: 02 9210 3021 Email: joy.wann@apra.gov.au
Date last modified	July 2011

Title	Risk management – ADIs
Description of issue	APRA intends to develop an over-arching risk management standard for ADIs, having regard to guidance issued by the BCBS on risk management and capital planning processes as part of the Basel II enhancements – July 2009 package. APRA will also have regard to its existing prudential standards on risk management in insurance.
Consultation plan	APRA will consult on its proposed risk management requirements for ADIs in accordance with its usual consultation procedures.
Expected timetable	This item has been deferred pending the release of Basel III standards, guidance and reporting requirements.
Contact details	Ms Jane Sharkey Advisor, Policy Development Phone: 02 9210 3393 Fax: 02 9210 3166 Email: jane.sharkey@apra.gov.au
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Telephone
1300 558 849

Email
info@apra.gov.au

Website
www.apra.gov.au

Mail
GPO Box 9836
in all capital cities
(except Hobart and Darwin)