



Update on regulatory cost savings

February 2015

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Contents

Chapter 1 – APRA’s regulatory cost savings project.....	4
Chapter 2 – Areas where APRA has reduced regulatory costs during 2013 and 2014	7
Chapter 3 – Planned regulatory cost saving initiatives	11
Chapter 4 – Clarification of specific issues from consultation	17
Chapter 5 – Submissions and feedback	20
Appendix A – Template for costings.....	21
Appendix B – Schedule of cost savings.....	24
Appendix C – Suggestions referred to other agencies	25
Appendix D – Cost saving suggestions not to be progressed.....	27

Executive Summary

APRA's mission is to establish and enforce prudential standards and practices designed to ensure that, under all reasonable circumstances, financial promises made by the institutions APRA supervises are met within a stable, efficient and competitive financial system. APRA seeks to perform and exercise its functions through effective and efficient supervision, without imposing undue compliance burden on industry.

During 2014, APRA commenced a project to identify opportunities for regulatory cost savings for industry. In undertaking the project APRA:

- has sought to identify specific, quantifiable options for regulatory cost savings in relation to APRA's framework; and
- has taken forward only those options that can be implemented without compromising the soundness of the prudential framework.

This project is consistent with the Government's agenda for reducing compliance costs for business and the community.

Given the significant policy reforms that have been implemented over recent years, now is an opportune time to conduct an across-the-board review of APRA's framework to identify areas that might impose undue or unintended industry burden. This is a useful exercise for both industry and APRA. Assessing the options, however, requires careful balance between the benefits of reduced industry burden in the form of compliance costs and the risks to prudential soundness.

This paper is the first of a series of periodic updates on APRA's regulatory cost savings project. It outlines the process undertaken to identify potential cost saving options to date. It reports on cost savings achieved over the past year, and invites feedback on a further set of cost saving options being considered by APRA. Additionally, it invites APRA-regulated institutions, industry bodies and other interested parties to submit further cost saving ideas for consideration by APRA.

This paper therefore seeks two specific types of feedback from industry or other interested parties:

- Comment on the set of options presented in Chapter 3 of this paper, including any quantification of the level of cost savings achievable.
- Proposals for any further cost saving options.

There will be ongoing opportunities to provide feedback but please provide submissions on the above matters by 15 April 2015.

Submissions can be sent by email to regulatorycostsavings@apra.gov.au and addressed to:

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Chapter 1 – APRA’s regulatory cost savings project

The regulatory cost savings project

APRA-regulated institutions incur compliance costs as a result of APRA’s regulatory activities. These activities include setting prudential and reporting requirements, providing prudential guidance and ongoing interactions with regulated institutions.

The consultation process so far

As part of the project, APRA undertook a structured consultation process with each APRA-regulated industry (via the relevant industry associations). Together, the membership of these industry associations represented all APRA-regulated industries.

This consultation process was the first round of an ongoing process. APRA appreciates the open and constructive way that the associations and their members participated in the process. APRA will continue to engage with industry to identify areas in its regulatory activities that may be undertaken more efficiently. This may be in the form of periodic cost savings updates (such as this paper) or through more targeted discussions with industry associations. At the same time as the first round of external consultation, APRA also undertook an internal investigation to generate options for cost savings. Through the internal and external processes, over 100 cost saving options were identified.

APRA’s approach to assessing the options

APRA has assessed all cost saving suggestions received through the first round of consultation and identified through its internal process. In undertaking this assessment for each cost saving option, APRA had regard to the compliance cost savings available, the effort likely to be involved in making any changes (by both industry and APRA) and the potential prudential impact.

Through this process, APRA identified an initial set of cost saving options across both the prudential and reporting frameworks that potentially meet the objectives of the project.

The structure of this paper

Over the past year, APRA has undertaken a number of activities that have reduced compliance costs to industry. In many cases, these activities were not undertaken for the primary purpose of obtaining cost savings but nevertheless have had the effect of reducing compliance costs for APRA-regulated institutions. A summary of these activities has been included in Chapter 2.

As part of the first round consultation and internal process, a small number of options were identified which had material cost saving potential without significant prudential impact. The options APRA intends to carry forward initially are set out in Chapter 3.

Chapter 3 sets out a number of candidate areas for future work on cost savings. These areas require further consideration by APRA to assess, scope and implement.

Chapter 4 outlines a small number of ideas where industry identified opportunities for cost savings and which APRA considers can be most appropriately addressed through APRA clarifying its expectations. Separate communications on a number of these matters have been released at the same time as this paper (discussed further in Chapter 4).

Some options identified involve unacceptable prudential trade-offs and will not be taken forward. Some of these options are summarised in Appendix D.

Costs that are in scope and out of scope

APRA uses the methodology behind the Government's Regulatory Burden Measurement (RBM) Framework¹ to assess costs. 'Costs' for the purposes of the project include a broad range of compliance and administrative costs, such as the costs of reporting to APRA, reviewing documents, record keeping, or engaging external consultants.

Consistent with the RBM Framework, certain types of costs are not in scope for the project. These include:

- ordinary business costs - that is, costs that would have been sustained in the ordinary course of business. Only the incremental costs of regulation, over and above the costs that would be incurred if the regulation was removed, are in scope;
- opportunity costs, such as the cost of holding capital, reserves or liquid assets to meet regulatory requirements;
- sunk costs, such as system development costs involved in implementing past regulatory changes. Although these costs may have been significant, they cannot be recovered if the regulation were revoked and are therefore not included in this process; and
- direct financial costs, such as APRA levy amounts.

It is important to note that APRA's activities may result in both increases and decreases in compliance costs. New regulatory developments may introduce costs to regulated institutions, whereas some regulatory activities may alleviate industry costs. This paper focuses on initiatives that reduce ongoing compliance costs to industry.

¹ <https://www.dpmc.gov.au/office-best-practice-regulation/publication/regulatory-burden-measurement-framework-guidance-note>

Next steps

The next step in the project will be a formal public consultation process. This will aid transparency and allow input from APRA's broader set of stakeholders.

Feedback on this paper

This paper requests two types of feedback:

- Comment on the set of options presented in Chapter 3 of this paper, including any quantification of the level of cost savings achievable. This feedback will assist APRA in prioritising the candidate cost saving work streams, both against each other and against other work.
- Proposals for any further cost saving options, both in response to this paper and on an ongoing basis. Options that are specific and accompanied by quantified cost savings are more readily able to be considered by APRA. Any such options should not involve any compromise to the soundness of the prudential framework.

APRA's ongoing review

APRA has received some additional submissions following the first round of consultation discussed in this paper. These will be subject to the same process of review that APRA has undertaken for the first round of suggestions. APRA will report on these and any further cost saving suggestions in subsequent updates on regulatory cost savings.

APRA will review areas for potential cost savings on a regular basis. Identification of savings is likely to become more challenging as time goes on, as many ideas will have already been identified and assessed.

Chapter 2 – Areas where APRA has reduced regulatory costs during 2013 and 2014

During 2013 and 2014 APRA conducted a range of activities which, in combination, have resulted in over \$20 million per annum in cost savings across APRA-regulated industries.

Generally, these activities were not initiated for the specific purposes of obtaining cost savings for industry. However, efficiency has been considered in APRA's decision making, resulting in cost savings for institutions. Some of the more material initiatives are summarised below. Appendix B contains a schedule of the estimated cost savings achieved for each activity.

Cross-industry

Measures to reduce reporting burden

APRA collects a wide range of information from APRA-regulated institutions through reporting forms in the Direct to APRA (D2A) system. Validation rules built into D2A reporting forms identify data that may contain errors. Reporting institutions must correct errors or provide further explanation for data that fail validation rules before submitting data through the D2A system.

Over 2014, APRA implemented a series of reviews of existing D2A validation rules to ensure they remain appropriate. By December 2014, 57 validation rules were removed or adjusted across the ADI quarterly returns and 35 rules were removed or adjusted across the ADI monthly returns. As a result, APRA assesses that the number of instances where ADIs are required to provide explanations will reduce by approximately 30 per cent for each return.

APRA also conducted this exercise for insurance returns. For general insurers, 52 validation rules were removed or reduced across quarterly returns. APRA assesses that this will reduce the number of general insurer explanations by 58 per cent for future returns. APRA is continuing its review of validation rules for life insurance returns.

As a result of this exercise, when preparing D2A returns, ADIs and general insurers will be required to respond to material errors only. Reducing the number of non-material explanations required will provide significant time-savings for those reporting institutions.

Superannuation returns were not in scope for this initial exercise.

APRA will continue to conduct regular reviews of D2A validation rules across all regulated industries to ensure they remain appropriate, and do not require a high rate of explanation where the data are not in error.

Banking

Reducing reporting obligations for CUBS and RFCs

Reporting obligations for Credit Unions and Building Societies (CUBS) and Registered Financial Corporations (RFCs) have been reduced through a series of steps. The net effect of the changes was that APRA increased the reporting threshold from \$50 million of assets to \$200 million for the ARF 323 (balance sheet) and the ARF/RRF 390 (finance) series of monthly data collections. For RFCs, APRA also moved the RRF 320 (balance sheet) series of monthly data collections to a quarterly basis. APRA collects these data on behalf of the Australian Bureau of Statistics (ABS) and the Reserve Bank of Australia (RBA).

The decision to increase reporting thresholds relieved 31 CUBS and 39 RFCs from the obligation to submit approximately 1,400 data items each month, leading to cost savings for those institutions. Reducing the frequency of the RRF 320 series removed the need to report 247 data items eight months of the year, leading to cost savings for reporting RFCs.

The appropriateness of the reporting thresholds continues to be the subject of review by APRA in consultation with other users of the data, such as the RBA and the ABS.

Ceasing Reporting Form ARF 326.0 Offshore Banking Units and Reporting Form ARF 320.7 Deposits and Loans Classified by State and Territory

In April 2013, APRA ceased *Reporting Form ARF 326.0 Offshore Banking Units and Reporting Form ARF 320.7 Deposits and Loans Classified by State and Territory*, following an assessment of the costs and benefits of this collection performed in consultation with other agencies. This change reduced the reporting burden of 174 ADIs by eliminating the requirement for each to submit up to 84 data items each month.

Financial Claims Scheme technical FAQs

Technical FAQs were released in batches over 2014 to clarify APRA's expectations regarding the implementation of the Financial Claims Scheme (FCS) requirements contained in *Prudential Standard APS 910 Financial Claims Scheme (APS 910)*.

In particular, two FAQs (3.1 and 12.2) were released in March 2014 responding to industry feedback that, in some certain circumstances, it may be difficult for ADIs to maintain 'complete and accurate' single customer view (SCV) data and payment instruction information 'to the extent practicable' under APS 910 and the *Banking Act 1959*. The FAQs clarified APRA's expectations in relation to the completeness and accuracy of the SCV data and payment instruction information, leading to cost savings for relevant institutions.

Additionally, the release of FAQ 2.1 in March 2014 clarified that institutions are able to align the timing of the first audit and CEO attestation requirements under APS 910. The release of FAQ

2.3 in June 2014 clarified that institutions are able to align the timing of the APS 910 audit with routine audit work under *Prudential Standard APS 310 Audit and Related Matters*. Aligning the timing of these requirements enabled institutions to streamline their processes, thereby achieving substantial cost savings.

Ceasing liquidity data collections

On 11 April 2014, APRA discontinued monthly and twice-monthly reporting arrangements for liquidity, funding and contractual maturity data, as the same data items are now collected under *Reporting Standard ARS 210 Liquidity*. The monthly collection affected 23 reporting ADIs and the twice-monthly collection affected 30 reporting ADIs.

The application of the Liquidity Coverage Ratio for foreign bank branches

On 4 November 2014, APRA amended aspects of the Liquidity Coverage Ratio (LCR) regime for foreign bank branches (FBBs) classified as LCR ADIs. The amendments were made as an interim measure, pending reassessment of the application of liquidity requirements to FBBs proposed to be undertaken in 2015.

The changes allowed FBBs to meet APRA's liquidity requirements without applying for the RBA's Committed Liquidity Facility. This resulted in cost savings for FBBs.

Insurance

Excluding general insurance forms from audit scope

On 17 October 2013, APRA released a letter to general insurers that advised of the exclusion of certain reporting forms from the audit certificate under *Prudential Standard GPS 310 Audit and*

*Related Matters.*² The exemption of these forms from the audit scope saved auditor time and costs for general insurers.

Temporary extension of due dates for Financial Condition Reports

An industry-wide extension for general insurer Financial Condition Report (FCR) due dates (allowing them to be submitted within 4 months instead of 3 months) was due to cease on 30 June 2014. APRA received feedback that the shorter timeframe for submission may lead to increased cost. Further, feedback indicated that the shorter timeframes had the potential to impact the quality of the FCR and its consideration by the board.

In response, APRA indicated that it would conduct a holistic review of the appointed actuary requirements for general insurers and continued the extension for a further period up to and including 31 March 2015 to allow time for that review to be completed. APRA has recently further extended this date to 30 June 2016. This will allow time for APRA to consider further external feedback as part of its review.

Reporting Form GRF 440.0 Claims Development Table

On 11 November 2014, APRA wrote to general insurers with the proposal to remove the requirement to submit claim count data for reinsurance business in *Reporting Form GRF 440.0 Claims Development Table* (GRF 440.0). The letter advised that until the issue is resolved, reporting insurers may populate the claim count data columns with zeroes in GRF 440.0 for reinsurance business. The decision to review GRF 440.0 was made in response to industry feedback, together with APRA's review, which concluded the data reported was of limited use for many reinsurance

arrangements. In the letter, APRA advised it will revise several reporting standards to ensure their intended application to a subset of general insurers remains clear. On 23 December 2014, APRA released final versions of revised reporting standards giving effect to these changes.

Superannuation

Extension of due dates for quarterly superannuation collections

On 21 March 2014, APRA wrote to superannuation entities announcing the decision to extend the due date of quarterly superannuation data collections from 28 calendar days to 35 calendar days for a transitional period up until reporting periods ending on 30 June 2015.

This extension provides additional time for the industry to adapt to the new data collection requirements. It also allows some registrable superannuation entity (RSE) licensees to address transitional issues related to the implementation of new processes and systems, including working with third party data providers, to obtain the data required to be submitted within the necessary timeframes. APRA's approach has led to cost savings for relevant entities.

Superannuation reporting FAQs

Since the commencement of the new superannuation reporting framework in 2013, APRA has released 123 FAQs to address common issues that arose during implementation of the new reporting requirements. These FAQs, which were generated through close consultation with the superannuation industry and associated service providers, have been welcomed as providing additional guidance during the transition to the new obligations.

² The forms include *Reporting Form GRF 400.0 Statement of Risk by Country*, *Reporting Form GRF 420.0 Premium Revenue by State and Territory of Australia* and *Reporting Form GRF 430.0 Claims Expense by State and Territory of Australia*.

FAQ 23 released in August 2014, and updated in November 2014, outlines flexible reporting arrangements that can be taken by an RSE licensee that manages its defined benefit operations entirely at sub-fund level, in order to reduce reporting burden where appropriate.

FAQ 107 released in September 2014 outlines a flexible approach in relation to the calculation and reporting of detailed member segmentation information in a number of forms³ for defined benefit members. The flexible approach applies in the period prior to an RSE licensee adopting *Australian Accounting Standards Board Standard AASB 1056 Superannuation Entities* for the purpose of preparing its RSE-level financial statements. This flexibility served to alleviate a transitional reporting burden.

Deferral and re-consultation on select investment option reporting

As part of the final reporting standards for superannuation introduced in 2013, a requirement was introduced for RSE licensees to provide information to APRA in respect of certain non-MySuper investment options within their business operations, referred to as select investment options.

In response to industry feedback regarding a range of implementation challenges, on 21 March 2014 APRA released a letter to industry announcing the deferral of the select investment option reporting requirements and APRA's intention to re-consult on the requirements.

As a result of this re-consultation process, APRA released revised reporting requirements in January 2015. These requirements represent a significant reduction in the coverage and scale of reporting requirements for select investment options, and will provide material cost savings for the industry.

³ Reporting Form SRF 160.0 Defined Benefit Matters, Reporting Form SRF 610.0 Membership Profile and Reporting Form SRF 610.1 Changes in Membership Profile.

Chapter 3 –Planned regulatory cost saving initiatives

This Chapter outlines a number of areas where APRA intends to conduct further work to scope and develop cost saving options. This is necessary before APRA can consult on specific changes. Before any resulting changes to the prudential framework are implemented, APRA will undertake its usual public consultation process.

There are a number of specific suggestions from submissions that APRA does not consider merit further consideration. See Appendix D.

Feedback on the cost saving options in this Chapter will assist the determination of the relative priority with which the options should be pursued.

APRA also received a large number of technical suggestions for amendments to the prudential and reporting frameworks. Many of these items do not create substantial compliance costs, but equally, changes to these requirements are unlikely to compromise the prudential framework. APRA is positively disposed to implement many of these suggestions, but with lower priority given the limited cost savings involved. APRA will consider these items further and, where appropriate, implement them as the relevant part of the prudential framework is next reviewed or as an appropriate opportunity arises.

The prudential framework

Review of board requirements

On 7 October 2014, APRA released a letter to all directors of ADIs, general insurers and life companies advising of its intention to review the clarity of its requirements for boards contained in prudential standards and supporting guidance materials. A similar review will also be conducted for the superannuation industry in due course.

As part of this review, APRA will seek to ensure that its requirements of boards are communicated in a way that appropriately recognises the respective roles of the board and management. Where the clarity of APRA's expectations in this regard can be improved, APRA will make

amendments to existing prudential standards and supporting guidance materials. The amendments will be made as opportunities permit.

Industry feedback received has been supportive of this review.

Although the most material benefits arising from this review will not be quantifiable in terms of dollar costs, and cost savings are not the key objective of the review, clarifying APRA's expectations in the context of sound governance should improve efficiency. Savings may also accrue through more efficient and effective management support to the board.

Review of audit requirements

Submissions from industry bodies raised a number of suggestions regarding audit requirements. This was identified as an area where significant cost savings may be achieved by:

- reducing the coverage of prudential matters by auditor assurance and focussing on key areas; and
- reducing the frequency of audit for routine reporting.

Industry submissions also suggested that greater reliance on internal audit rather than external audit would generate significant savings.

In response, APRA is undertaking a review to explore the areas in which APRA's audit requirements can be changed to reduce compliance costs. APRA intends to move cautiously as it conducts this review. Independent assurance is fundamental to a sound prudential framework. APRA will need to be satisfied that, in reducing any audit requirements, the soundness of the prudential framework is not unduly compromised.

Over 2015, APRA will undertake further work to determine the scope for change. In due course, a specific set of proposals for consultation will be released. APRA will use that consultation process

to further understand the cost savings available and the risks associated with them.

Review of ADI disclosure requirements

Submissions indicated the disclosure requirements for ADIs are an area with potentially substantial cost savings. The following specific areas were identified:

- exploring ways to align ADI disclosure requirements for remuneration with disclosure requirements under the *Corporations Act 2001* (Corporations Act) without compromising compliance with either regime; and
- exploring whether the frequency of ADI disclosures can be reduced for smaller ADIs.

Further work will be conducted to determine the nature and scope of the options available.

The provision of meaningful information about common key risk metrics to market participants through Pillar 3 disclosures is an integral part of the capital framework developed by the Basel Committee on Banking Supervision. APRA will carefully consider the implications of any proposed changes to the content or frequency of the disclosures in the context of the Basel Pillar 3 framework.

Review of Appointed Actuary work for general insurers and life companies

On 29 May 2014, APRA announced its intention to undertake a holistic review of the requirements of the Appointed Actuary in relation to the FCR, Insurance Liability Valuation Report (ILVR) for general insurers and other related reports such as the Internal Capital Adequacy Assessment Process (ICAAP) Report. APRA intends to progress this review during 2015 with a view to identifying any duplication in the required Appointed Actuary work. Given the similarities between the general insurance and life insurance requirements in this area, the review will also address the requirements in respect of Appointed Actuaries of life companies. APRA welcomes feedback from industry on matters that APRA should take into account in its review.

Industry submissions have already suggested the removal of the requirement under *Prudential Standard GPS 320 Actuarial and Related Matters* to have the ILVR peer-reviewed by a reviewing actuary. APRA intends to progress work on this initiative over the first half of 2015.

Review of aspects of the operational risk financial requirement (ORFR) for RSE licensees

Industry submissions suggested APRA clarify its expectations for the scope of the yearly review of the ORFR target and tolerance limits under *Prudential Standard SPS 114 Operational Risk Financial Requirement* (SPS 114). In particular, submissions suggested that APRA clarify that the recalculation of the ORFR is out of scope for the yearly review if there have been no material changes to an RSE's operational risks over that period, and clarify the level of audit review required. Submissions indicated that these clarifications would generate substantial cost savings. APRA will consider the need for further guidance in this area during the first half of 2015.

Submissions also suggested that the application of a materiality threshold when charging operational risk losses against the financial resources held to meet the ORFR under SPS 114 would generate significant savings. APRA will consider the potential application of a materiality threshold over 2015.

Review of offshoring consultation requirements

APRA received feedback that certain activities could be exempted from the offshoring consultation requirements in *Prudential Standard CPS 231 Outsourcing* and *Prudential Standard SPS 231 Outsourcing*. In particular, it was suggested that in the case of investment management agreements with offshore investment managers where the assets are subject to Australian custody or where an offshore custody arrangement has already been assessed by APRA, there is effectively no new offshoring risk. APRA will explore potential areas for exemption and may provide additional guidance in due course.

Having regard to the risks associated with offshoring agreements involving material business activities, at this stage APRA has not been convinced that further broad changes to the offshoring consultation requirements are warranted but will consider any further feedback received from industry.

The reporting framework

APRA received a substantial amount of feedback relating to the reporting framework, including suggestions regarding:

- the detail and volume of reporting;
- the frequency of reporting;
- the processes for queries and validations;
- industry-specific recommendations regarding the detail of reporting forms and data items; and
- the D2A system.

The nature of APRA's statistics function is in many ways unlike the other functions of APRA. Most parts of APRA are focused primarily on prudential supervision. APRA's statistics function both supports prudential supervision and plays a critical role as the central repository of statistical information on the Australian financial system. Data collected from regulated institutions also assists the Australian Bureau of Statistics (ABS), the Reserve Bank of Australia (RBA), Australian Securities and Investments Commission (ASIC) and other agencies fulfil their roles.

Some data collections serve both APRA functions and external user functions. Other collections are mainly for non-prudential uses by external users (termed non-prudential data collections). For example, approximately one third of the data in ADI and RFC reporting forms are collected by APRA primarily for use by the RBA and ABS.

Sharing of data between agencies reduces the burden of duplicative reporting. APRA also collects some data to fulfil international reporting obligations to organisations such as the Bank for International Settlements.

It follows that, while APRA has flexibility to adjust aspects of the reporting requirements that relate to data solely used by APRA for prudential purposes, the process to change data that is used by other agencies will need to consider the requirements of those other agencies. The timeframes and frequency of submission for that data likewise must consider the needs of the other users of the data.

The monthly ADI collections, for example, fall into this category. APRA is working closely with the ABS and RBA to identify potential areas within these collections that can be rationalised. To date, a number of ADI collections have been removed or reduced as a result of this review, as noted in Chapter 2. APRA will also consider extending the review of non-prudential data to other APRA-regulated industries, in consultation with the ABS and RBA.

Review of reporting frequency, timeframes and detail

Submissions from industry bodies suggested that changes to the reporting framework could be made by:

- reducing the detail of reporting forms where appropriate;
- identifying areas where the frequency of reporting can be reduced; and
- identifying potential areas where reporting timeframes can be extended.

An internal review process is currently underway in relation to data collected from ADIs, for APRA purposes only, to identify opportunities where the reporting burden can potentially be reduced. APRA intends to extend this review to other APRA-regulated industries in due course.

In conducting this review, APRA will examine the feasibility of reducing the frequency of prudential data collections for ADIs and other APRA-regulated industries. APRA has received some useful suggestions regarding specific forms to consider through submissions to our earlier regulatory cost savings consultation. In undertaking this review, APRA will have regard to the use of the data and

the need to avoid compromise to the soundness of the prudential framework. Timely access to relevant data is an important prudential need; this will limit the scope to reduce frequency for a number of forms.

Regarding the timeframes for submission of reporting forms, APRA has explored the question of whether extending the timeframes would be appropriate. There were considerable differences between submissions on the question of whether substantial cost savings would result. As noted above, prudential soundness is served by timely access to relevant data and APRA has taken this into account in its consideration of this suggestion.

It is useful here to make a distinction between the introduction of a new collection and the ongoing operation of a reporting collection once implemented. Where a new collection is being introduced, the costs of meeting standard timeframes may be greater than the costs once the new collection is fully implemented.

APRA considers that, as the issues identified in submissions appear to be largely transitional issues associated with implementing a new collection, it would be appropriate to address them on a transitional basis. APRA has taken this approach, for example, during the implementation of the new reporting framework for the superannuation industry.⁴

APRA does not consider that the evidence favours extension of established reporting deadlines on an ongoing basis. However, APRA will continue to take into account the need for appropriate transition arrangements for the introduction of new reporting requirements.

Generally, institutions may make a request to extend their reporting timeframes where there are reasonably unforeseeable circumstances that mean they cannot lodge a return by a due date. Requests are assessed by APRA individually each

period, in consultation with the affected data users and taking into consideration the circumstances that lead to each request.

APRA may also grant reporting exemptions in exceptional circumstances where the demonstrated cost of reporting is detrimental to beneficiaries' interests and data users can obtain the required information by other means.

Institutions wishing to make a request for an extension or exemption must do so in writing to APRA Statistics.⁵

Review of practices and procedures that generate validations and queries on prudential returns

Industry submissions suggested that improving APRA's data queries process so that it is more focused on substantive issues would reduce significantly the time and costs incurred by institutions responding to queries.

On reviewing the submissions on this topic, it is apparent that some aspects of APRA's validation and query approach are not well understood by industry. Accordingly, APRA is considering ways to increase the transparency of these processes. In the meantime, the following comments may be of help.

These processes are in place to ensure high standards for the quality and integrity of the data collected by APRA. As explained in Chapter 2, validation rules are built into APRA's reporting forms and identify data that may contain errors. Reducing the number of errors in submissions saves both reporting institutions and APRA time in addressing queries post-submission.

Notwithstanding the validation rules, some data are typically identified each reporting period.

⁴ <http://apra.gov.au/Super/Documents/Changes-to-Superannuation-Reporting-Requirements-March-2014.pdf>

⁵ Contact information is available on APRA's website. For example, see: <http://www.apra.gov.au/adi/ReportingFramework/Pages/ADI-Reporting.aspx>

APRA has processes in place to review all errors each period to determine whether additional validation rules would prevent such errors in future. If additional validation rules are considered to be warranted, they are added to the D2A system, but only after APRA is satisfied that the inclusion of the new rule is appropriate.

External to the D2A system, the data submitted to APRA are analysed by APRA, the RBA, ABS and/or other agencies, depending on which agencies use the data. Queries may arise where the data submitted significantly departs from statistical expectations. APRA combines these queries, removing duplication, and seeks explanation from reporting institutions. The answers to these queries are then shared across the agencies to reduce the combined burden of all agencies asking reporting institutions the same questions. These queries are external to the D2A system. To anticipate and reduce the need for queries, some large reporting institutions voluntarily provide separate movement analysis or other supporting documents, which are shared across the agencies.

In recent years, APRA has improved the validation rules within the D2A system, and as a result significantly reduced the number of post-submission queries. Feedback received by APRA during consultation notes that it is less costly to address validation issues identified pre-submission by the validation rules than to respond to queries received later in the process.

In order to ensure the ongoing appropriateness of the validation rules, APRA completed an extensive process over 2014 to review the existing validation rules and amend those that were assessed as requiring change. The results of this review are noted in Chapter 2, and APRA anticipates that reporting institutions will experience a reduction in time spent on preparing future D2A returns.

APRA will continue to conduct systematic and ongoing reviews, to ensure that reporting institutions are asked to provide explanations only where necessary, and to ensure the complete set of validation rules identify errors without requiring a high rate of explanation where the data are not in error.

Improve the consistency of APRA reporting requirements with accounting standards and reporting for other agencies

Industry submissions indicated a small number of areas where APRA reporting is not fully consistent with other regulatory reporting requirements such as the Australian Accounting Standards.

Submissions from industry bodies noted a small number of specific examples of areas where reporting required for APRA purposes duplicated reporting to other agencies.

Submissions also commented that, in general, greater alignment and reduced duplication would be desirable.

Alignment

As a general principle, APRA only deviates from alignment with accounting standards where there is a specific prudential purpose for doing so. In order to change that approach in a specific case, APRA would need to be satisfied that the prudential purpose can be achieved in another way, or that circumstances have changed since the introduction of the requirement so that a prudential adjustment is no longer necessary.

In the case of the specific examples raised in submissions to date of areas where APRA reporting is not fully consistent with other regulatory reporting requirements, APRA has carefully reviewed the evidence but has concluded that change is not appropriate.

Duplication

Regarding the potential for duplication with other agencies, APRA is mindful of the value of minimising duplication and has processes in place for coordination with other agencies. For example, APRA is a participating agency in the whole-of-Government Standard Business Reporting (SBR) initiative. The SBR program has created an Australian financial definitional and reporting taxonomy where concepts or data elements

common to APRA and other government agencies have been harmonised to streamline and reduce reporting burden for industry. APRA has worked to integrate its reporting requirements with the SBR taxonomy. Reporting institutions are encouraged to utilise SBR and produce SBR-compliant documents that satisfy multi-agency reporting requirements, which should provide significant long term cost savings.

In relation to the specific examples of duplication raised in submissions to date, APRA has carefully considered the feedback. In APRA's view, there are strong reasons to retain the current reporting regimes.

As an example, for ADIs the reporting of financial statement information (the ARF 320 and ARF 330 series) was commonly cited as an area where APRA's reporting requirements duplicate information disclosed in ADIs' financial statements under the Corporations Act. Submissions suggested greater alignment through standardising definitions and reducing duplication of the information required. The cost savings estimated were, however, not material. The current collection of financial statement information serves an important function by enabling APRA and other agencies (including the RBA and ABS) to perform the requisite level of analysis, in greater detail and in a more systematic way than by relying solely on publicly available financial statements under Corporations Act obligations. Collection of accounting data is therefore seen as fundamental to the operation of a number of agencies. If APRA were to remove these collections, Government agencies would be required to manually access a wide range of public and non-public company data. Such alternatives are not considered feasible or efficient and APRA therefore does not consider it appropriate to change its current approach in this area.

As another example, a submission noted that an RSE licensee must report contributions data to both the Australian Taxation Office (ATO) and to APRA. The reporting to the ATO is individual level data while the APRA reporting reflects

contributions data at the RSE level. APRA's view, based on discussions with industry participants, is that the processes involved in aggregating individual level data to the entity level and then reporting that information to APRA is unlikely to result in substantial additional costs.

APRA has therefore not been convinced, based on the evidence received to date, that it is necessary to amend its reporting regime for the specific purpose of greater alignment with the reporting regimes of other regulators. APRA will continue to carefully consider any further specific examples of misalignment and duplication provided by industry where significant cost impacts can be substantiated, and where there is no compromise to the objectives of APRA's reporting regime or the creation of additional inefficiencies.

The D2A system

Submissions noted concerns with the D2A system. In particular, that it is not as easy to use as more modern technology and needs to be updated. APRA noted in its response to the interim report of the Financial System Inquiry⁶ that it considers the future life of D2A to be limited. Any replacement data collection system is likely to cost in the tens of millions of dollars. While the benefits are likely to be substantial, APRA does not currently have funding for such a major project. APRA will investigate potential replacement systems for D2A when this becomes feasible.

⁶ http://fsi.gov.au/files/2014/08/APRA_2.pdf

Chapter 4 – Clarification of specific issues from consultation

Initial industry submissions raised a number of issues that, in industry's view, give rise to unnecessary costs. On review, APRA considers that four of these issues can be addressed by APRA clarifying its expectations. In some cases, institutions may be incurring costs through taking unnecessary steps when meeting prudential requirements. The areas of feedback, and APRA's responses, are outlined below.

Separate letters to industry on:

- the requirements for ICAAP documentation and comprehensive review of the ICAAP and risk management framework; and
- the process for annual fit and proper assessments

have been released to provide a clear point of reference. In due course, APRA will incorporate these clarifications in guidance material where appropriate.

ICAAP documentation

Some submissions suggested APRA's documentation requirements for the ICAAP are overly onerous. It was indicated that, under the prudential standards⁷, institutions are expected to produce an ICAAP summary statement as well as to document their full ICAAP. Smaller institutions in particular indicated their ICAAP summary statements are often very similar to their 'full' ICAAP, and savings from not having to produce a separate summary statement could be substantial.

⁷ The prudential standards referred to include *Prudential Standard APS 110 Capital Adequacy* (APS 110), *Prudential Standard GPS 110 Capital Adequacy* (GPS 110), and *Prudential Standard LPS 110 Capital Adequacy* (LPS 110). For guidance on these requirements, see also *Prudential Practice Guide CPG 110 Internal Capital Assessment Process and Supervisory Review*.

This feedback may reflect a misunderstanding of APRA's requirements for ICAAP documentation. Provided the requirements under the prudential standards are met, the ICAAP can be documented in a number of policies and procedural documents used by an institution (refer to paragraph 17 of *Prudential Practice Guide CPG 110 Internal Capital Adequacy Assessment Process and Supervisory Review* (CPG 110)). Existing documents that are prepared for the institution's own purposes can be used to meet the requirements to document the ICAAP (refer to paragraph 44 of CPG 110). Additionally, there is no requirement that the documentation of the ICAAP be consolidated in a single policy or a 'wider' or 'full' ICAAP document.

Further, an institution may already have in place a single ICAAP document that is substantively the same as an ICAAP summary statement and that covers the content necessary for an ICAAP summary statement. In that case, the document is likely to be sufficient to serve as the ICAAP summary statement without the need to produce a separate document. This is most likely to be the case for smaller institutions with relatively straightforward ICAAPs.

Institutions are encouraged to speak to their responsible supervisor in relation to their approach to meeting the ICAAP requirements.

Comprehensive reviews of the ICAAP and risk management framework

APRA's prudential standards require an institution to arrange for an independent review of its ICAAP as well as, separately, a comprehensive review of the risk management framework at least every

three years.⁸ Submissions suggested that cost savings can be achieved by conducting combined ICAAP and risk management framework reviews.

The existing prudential standards do not prohibit institutions from conducting a combined review. Provided the minimum requirements in the prudential standards are met, an institution may adopt a review process that best suits its circumstances.

Submissions also observed that, based on the current wording of the prudential standards, the requirement to have the ICAAP and risk management framework reviewed by an 'operationally independent' person at least every three years effectively requires smaller institutions to conduct these reviews externally, as they lack the resources to conduct internal reviews. APRA considers the independent review to be fundamental to a regulated institution's capital and risk management and, therefore, does not consider it appropriate for the review to be undertaken by a non-independent person. There is no requirement that the review be conducted externally, but if no internal person with the appropriate skills and independence is available, it will be necessary to conduct the review externally.

Annual fit and proper assessments

Under *Prudential Standard CPS 520 Fit and Proper* (CPS 520) and *Prudential Standard SPS 520 Fit and Proper* (SPS 520), an institution's Fit and Proper Policy must detail the processes to be undertaken when assessing the fitness and propriety of a responsible person. A fit and proper assessment must be completed before each appointment to a responsible person position⁹ and, in addition, be completed annually for each responsible person.

Submissions argued that institutions' existing staff performance review systems made it largely

redundant to conduct the ongoing, annual fit and proper assessments, as required under CPS 520 and SPS 520. Submissions also suggested that hiring external parties to perform these assessments made the process unnecessarily costly.

APRA does not prescribe the timing of the annual assessments of fitness and propriety, nor does APRA require these assessments to be conducted on a stand-alone basis. The standards do not prohibit institutions from conducting assessments of fitness and propriety as part of their existing annual performance review processes. APRA guidance material over the past decade has explicitly noted that the annual fit and proper review may be conducted as part of the annual staff performance review.¹⁰

Furthermore, there is also no requirement for these assessments to be undertaken by an external party. APRA would normally expect that the senior management and board of a regulated institution would be able to oversee the annual fit and proper assessment process without needing to rely upon external advisors.

Industry-wide stress testing

An industry submission suggested changes to the recent ADI stress test instructions. It was submitted that ADIs were required to base their forecasts on a common balance date and in some cases this was not aligned with their own financial years, generating significant additional work and costs. Submissions recommended removing the common balance date requirement.

APRA's current practice for industry stress tests is to stipulate a common balance date as the basis of projections for all participating ADIs. This facilitates consistency and comparability of ADIs' starting and projected balance sheet, profit and loss and capital positions.

⁸ See APS 110, GPS 110 and LPS 110. See also *Prudential Standard CPS 220 Risk Management*.

⁹ Unless the exceptions apply under paragraph 37 of CPS 520 or paragraph 29 of SPS 520.

¹⁰ See paragraph 22 of *Prudential Practice Guide APG 520 Fit and Proper*, paragraph 23 of *Prudential Practice Guide GPG 520 Fit and Proper*, paragraph 23 of *Prudential Practice Guide LPG 520 Fit and Proper* and paragraph 29 of *Prudential Practice Guide SPG 520 Fit and Proper*, as relevant.

As indicated in the stress test instructions, APRA is open to agreeing different balance dates for some institutions participating in industry stress tests, where it would be complex and costly to use the common balance date. APRA has adopted this approach in previous industry stress tests and agreed alternative balance dates with several ADIs in the most recent industry stress test.

Chapter 5 – Submissions and feedback

APRA welcomes feedback on the set of options presented in Chapter 3 of this paper, including any quantification of the level of cost savings achievable. This feedback will assist APRA in prioritising the candidate cost saving work streams.

Proposals for any further cost saving options are also welcome, both in response to this paper and on an ongoing basis. Options that are specific and accompanied by quantified cost savings are more readily able to be considered by APRA. Any such options should not involve any compromises to the soundness of the prudential framework.

Submissions are encouraged to include analysis of the level of cost savings achievable for each option. Costing analysis that follows the template provided in Appendix A is preferred. An Excel version of the template can be provided on request from the email address below. Other evidence of potential cost savings is also of value where available.

There will be ongoing opportunities to provide feedback but please provide submissions on this paper by 15 April 2015.

Submissions can be sent by email to regulatorycostsavings@apra.gov.au and addressed to:

Mr Pat Brennan
General Manager, Policy Development
Policy, Statistics and International Division
Australian Prudential Regulation Authority
GPO Box 9836
Sydney NSW 2001

Important disclosure notice - publication of submissions

All information in submissions will be made available to the public on the APRA website unless a respondent expressly requests that all or part of the submission is to remain in confidence. Automatically generated confidentiality statements in emails do not suffice for this

purpose. Respondents who would like part of their submission to remain in confidence should provide this information marked as confidential in a separate attachment.

Submissions may be the subject of a request for access made under the *Freedom of Information Act 1982* (FOIA). APRA will determine such requests, if any, in accordance with the provisions of the FOIA. Information in the submission about any APRA-regulated institution that is not in the public domain and that is identified as confidential will be protected by section 56 of the *Australian Prudential Regulation Authority Act 1998* and will therefore be exempt from production under the FOIA.

Appendix A – Template for costings

This template provides guidance on the method and form to calculate cost savings.

1.	Name of option		
1.1.			
2.	No. of institutions affected		
2.1.			
3.	Activities	Upfront cost impact	Ongoing costs per year
3.1.	Reporting	Internal labour cost (PxQ)	Internal labour cost (PxQ)
3.2.	Staff training	Internal labour cost (PxQ)	Internal labour cost (PxQ)
3.3.	Approval	Internal labour cost (PxQ)	Internal labour cost (PxQ)
3.4.	Purchasing	Purchase cost (PxQ)	Purchase cost (PxQ)
3.5.	Record keeping	Internal labour cost (PxQ)	Internal labour cost (PxQ)
3.6.	Enforcement	Internal labour cost (PxQ)	Internal labour cost (PxQ)
3.7.	Publication & documentation	Internal labour cost (PxQ)	Internal labour cost (PxQ)
3.8.	Procedural	Internal labour cost (PxQ)	Internal labour cost (PxQ)
3.9.	Other	Internal labour cost (PxQ)	Internal labour cost (PxQ)
3.10.	Total		
4.	Total cost savings after 1 year roll-out		
5.	Total industry cost savings after 1 year roll-out		

Form instructions

No.	Title	Instructions
1.	Name of option	Enter the name of the recommended option
2.	No. of institutions affected	Where the effect of an identified option varies significantly depending on the size of the businesses, complete the template separately for small, medium and large cohorts as relevant. Otherwise, enter the total number of businesses affected only.
3.	Activities	Enter the activities that businesses carry out under the identified option.
3.	Upfront discontinuance cost impact	Enter the upfront cost impact associated with the regulation. Enter cost increases as positive and cost decreases as negative.
3.	Ongoing cost impact per year	Enter the ongoing cost per year associated with the regulation. Where there are variable ongoing costs, enter the average ongoing cost per year. Enter cost increases as positive and cost decreases as negative.
3.1.	Reporting	Costs of reporting to APRA. For example, data reporting or attestations required.
3.2.	Staff training	Costs of educating staff on APRA's requirements.
3.3.	Approval	Costs associated with applying for and maintaining APRA's approval to conduct an activity. For example, costs associated with applying to APRA to approve alternative arrangements to satisfy prudential requirements.
3.4.	Purchasing	Costs associated with purchasing a service (advice) or a product (ongoing system development) to comply with a regulation. For example, the costs of seeking an external expert's report on specific matters at APRA's request.
3.5.	Record keeping	Costs associated with record keeping. For example, costs associated with maintaining a record of committee papers, minutes and decisions.
3.6.	Enforcement	Costs arising from cooperation with enforcement activities. For example, costs associated with cooperating with inspections and investigations.
3.7.	Publication & documentation	Costs when having to produce documents to APRA or third parties on request. For example, the costs of providing additional material to APRA on request in relation to new outsourcing or offshoring agreements.
3.8.	Procedural	Costs associated with procedural matters. For example, costs associated with regular and non-routine reviews of matters by auditors and actuaries.
3.9.	Other	Any other costs (description required).
4.	Total cost savings after 1 year roll-out	Sum of items 3.10.
5.	Total industry cost savings after 1 year roll-out	Item 4 * item 2.1.

Guide to calculating costs

Internal labour costs	
Upfront cost impact	Total activity cost = (number of staff per business performing the activity) x (number of times activity is performed per staff) x (avg. no. of hours each staff requires to perform the activity per time) x (\$ labour cost per hour)
Ongoing costs per year	Total activity cost = (number of staff per business performing the activity) x (number of times activity is performed per staff) x (avg. no. of hours each staff requires to perform the activity per time) x (\$ labour cost per hour)

Purchase costs	
Upfront cost impact	Total activity cost = (number of times product/service purchased) x (\$ purchase cost)
Ongoing costs per year	Total activity cost = (number of times product/service purchased per year) x (\$ purchase cost)

Appendix B – Schedule of cost savings

This table provides a list of APRA's cost savings activities discussed in this paper that have been implemented from a point in time, October 2013. It does not address the impact of any new regulation that may have increased compliance costs over this period.

Activity	Cost savings (per annum)
Measures to reduce reporting burden	Not quantified
Reducing reporting obligations for CUBS and RFCs	\$50,000
Ceasing ARF 326.0 and ARF 320.7	Not quantified
Financial Claims Scheme technical FAQs	\$12,000,000
Ceasing liquidity data collections	\$500,000
The application of the LCR for foreign bank branches	\$400,000
Excluding general insurance forms from audit scope	\$2,000,000
Temporary extension of due dates for Financial Condition Reports	Not quantified
Reporting Form GRF 440.0 Claims Development Table	\$55,000
Extension of due dates for quarterly superannuation collections	\$460,000
Superannuation reporting FAQs	\$300,000
Deferral and re-consultation on select investment option reporting	\$3,500,000
Clarifying particular issues from consultation - comprehensive reviews of the ICAAP and risk management framework	\$750,000
Clarifying particular issues from consultation - annual fit and proper assessments	\$500,000
Clarifying particular issues from consultation - industry-wide stress testing	\$450,000
TOTAL SAVINGS	\$20,965,000

Appendix C – Suggestions referred to other agencies

Through the consultation process, APRA received submissions on cost saving suggestions in relation to areas controlled by other agencies. These suggestions have been referred to the relevant Government body. In doing so, APRA has merely acted as a conduit, with no view provided on whether it would be appropriate to implement them or not.

The list below provides a summary of the non-APRA suggestions received.

Cost saving feedback	Agency
<p>Enabling ecommerce</p> <p>Restrictions under the <i>Superannuation Industry (Supervision) Act 1993 (SIS Act)</i> sometimes limit the ability of RSE licensees to deal with members electronically. Allow RSE licensees to operate online by default (not by opt-in) so members have to opt-out of electronic channels to receive paper.</p>	ASIC
<p>Digital verification of SMSFs for rollovers and contributions</p> <p>SMSFs which do not notify employers of electronic service address (ESA) require the employers/funds to maintain legacy paper channels which are costly.</p>	ATO
<p>‘Own Occupation’ insurance</p> <p>‘Own Occupation’, ‘Two limbs/eyes’ and ‘Activities of Daily Living’ insurance should continue to be available in choice products under regulation 4.07D(2) of the <i>Superannuation Industry (Supervision) Regulations 1994 (SIS Regulations)</i>.</p>	Treasury
<p>Recognition of directions to predecessor trustees</p> <p>Section 29WA of the SIS Act requires the trustee to allocate contributions to a MySuper product, unless they have received a direction in writing to the contrary. Directions given to predecessor trustees should be recognised, to avoid the current trustee from needing to re-obtain notification from the member.</p>	Treasury
<p>Complaints handling</p> <p>The inability to move a deceased member’s balance into a conservative investment option under section 29TC(1)(g) of the SIS Act generates substantial and unnecessary complaints.</p>	Treasury
<p>Obtaining member consent prior to the transfer of a MySuper interest</p> <p>The requirement to receive consent no more than 30 days prior to a MySuper interest being transferred under section 29TC(1)(h) of the SIS Act is unnecessarily costly.</p>	Treasury
<p>Trustee duty to merge multiple accounts</p> <p>The duty to merge multiple accounts being determined on a collective basis rather than an individual member basis under section 108A of the SIS Act would generate significant cost savings.</p>	Treasury
<p>Three-day rule for rollovers</p> <p>The three day rollover rule under regulation 6.34A of the SIS Regulations needs to recognise any legal prohibitions, risk management considerations, the position of funds with forward unit pricing on a less frequent than daily basis, and late contributions.</p>	Treasury

Cost saving feedback	Agency
<p>Successor fund transfers</p> <p>The current legislative framework frequently does not reflect successor fund transfers or 'successor trustees', which can create inefficiencies for trustees and employers.</p>	Treasury
<p>Contribution - work tests</p> <p>Members over age 65 must satisfy work tests under the SIS Regulations in order to be able to contribute, which are costly and inefficient to administer.</p>	Treasury
<p>Legacy products</p> <p>Re-commence a government/industry working group to conclude outstanding work on addressing legacy products through the development of a comprehensive product rationalisation mechanism.</p>	Treasury
<p>Obligation to give consistent information</p> <p>Revise the requirement to give consistent information and the strict liability offence under section 29QC of the SIS Act.</p>	APRA is working with ASIC on this issue
<p>Certain information required to be made publicly available</p> <p>Amend requirement under section 29QB of the SIS Act and the SIS Regulations to disclose on the first day of the financial year for benefits paid in the previous financial year.</p>	ASIC
<p>Portfolio holdings disclosure approach</p> <p>If RSE licensees are required to report through underlying trusts beyond what is currently reported to APRA, this will take significantly more time.</p>	ASIC
<p>Choice online statements</p> <p>Additional product dashboard requirements will take significantly more time.</p>	ASIC
<p>Distribution of member communications</p> <p>Suggest distribution of member communications on a website or online member portals, not via mail.</p>	ASIC

Appendix D – Cost saving suggestions not to be progressed

Consistent with the project's objectives, APRA seeks to ensure that the opportunities for cost savings it intends to pursue can be realised without compromising the soundness of the prudential framework. The list below provides a summary of the cost saving suggestions received to date for which no further action is contemplated. This assessment has been made having regard to the prudential risks associated with each suggestion and the extent of cost savings potentially available.

Cross-industry issues

Reviews of the ICAAP and risk management framework

In addition to the specific points of feedback raised in relation to the comprehensive reviews required for the ICAAP and risk management framework (see in Chapter 4), an additional point of feedback was to reduce the frequency of these reviews for 'lower risk' institutions.

No further action is contemplated in relation to this particular submission, having regard to the potential prudential risks as well as the low level of cost savings indicated in reducing these requirements.

Outsourcing and offshoring requirements to notify/consult APRA

Reduce or remove the requirement to notify or consult with APRA when entering into an outsourcing or offshoring arrangement under *Prudential Standard CPS 231 Outsourcing* (CPS 231) or *Prudential Standard SPS 231 Outsourcing* (SPS 231).

No further action is contemplated in relation to this submission, having regard to the potential prudential risks as well as the level of cost savings indicated.

APRA will, however, explore the potential areas for exemption in relation to the offshoring consultation requirements CPS 231 and SPS 231 noted in Chapter 3. APRA may provide additional guidance in due course in this area.

Audit requirements at the branch level

Remove audit requirements at branch level, given the existing obligation to prepare a global audit at the group level.

In APRA's view, a global audit would not necessarily cover in sufficient detail any branch-specific issues that may arise. Additionally, the extent of any duplication in auditor work would likely already be taken into account during the conduct of the audits. No further action is contemplated in relation to this submission, having regard to the potential prudential risks as well as the level of cost savings indicated.

Reporting estimations and rounding allowances

The use of estimations or rounding allowances was suggested for a number of areas within APRA's reporting framework.

No immediate action is contemplated, particularly given the low estimates of cost savings accompanying these submissions. Nevertheless, APRA may consider the use of estimations or rounding allowances where opportunities arise.

Banking issues

Reporting parent entity information

Remove the requirement to report unconsolidated parent entity financial statements in group annual financial reports.

There is a strong prudential need to understand the financial position and risks of a parent entity from both a stand-alone and consolidated basis and therefore APRA does not view it as appropriate to remove these reporting obligations.

Insurance issues

Letter of credit supporting reinsurance arrangements

It was submitted that it is unnecessary to seek a letter of credit in support of reinsurance arrangements under *Prudential Standard GPS 117 Capital Adequacy: Asset Concentration Risk Charge* (GPS 117).

APRA's current view is that the treatment of reinsurance recoverables under GPS 117 is appropriate and does not require amendment. However, this may be reconsidered as part of future reviews of the prudential framework.

Amend policyholder notice requirements following statutory fund restructures

It was suggested that the requirement that a life company give written notice to policyholders following a statutory fund restructure under *Prudential Standard LPS 600 Statutory Funds* (LPS 600) be removed.

APRA considers that the existing notice requirements are an important protection for policyholders and therefore does not view it as appropriate to remove these requirements. APRA has the power under LPS 600 to adjust or exclude specific requirements in the standard where APRA is satisfied that to do so would be appropriate.

Superannuation issues

Operational Risk Financial Requirement modelling

Submissions suggested that APRA remove the guideline ORFR target amount of at least 0.25 per cent of funds under management (FUM) from *Prudential Practice Guide SPG 114 Operational Risk Financial Requirement* on the basis that most funds undertake their own modelling.

APRA noted in the July 2013 Response to Submissions: Prudential guidance for superannuation response paper¹¹ that APRA recognises that the ORFR is a new concept for the superannuation industry and the frequency and scale of operational risk events is uncertain due to a lack of superannuation-specific data and shared experience across the industry. APRA remains of the view that the lack of data will make it difficult for RSE licensees to develop sophisticated modelling approaches that accurately reflect the risks that are particular to the superannuation industry. During the initial implementation phase of SPS 114, therefore, APRA encourages simple, but prudent approaches to setting an ORFR target amount.

11 <http://apra.gov.au/Super/Documents/Response-paper-Prudential-guidance-for-%20Superannuation-July-%202013.pdf>

Over time, APRA expects some RSE licensees will develop and refine risk-sensitive approaches to setting an ORFR target amount based on experience in implementing SPS 114 and *Prudential Standard SPS 220 Risk Management*. APRA also expects that some RSE licensees may continue to rely on a guideline ORFR target amount. APRA therefore is not proposing to change its guidance regarding the amount of 0.25 per cent of FUM at this time.

Amend prohibition on employers paying administration fees during successor fund transfers

It was asserted that APRA's interpretation of the 'equivalent rights' requirement under section 29VA of the SIS Act causes unnecessary processing burden in relation to the payment of administration fees by employers to some existing employees during a successor fund transfer.

No immediate action is contemplated in this instance, given that no estimate of cost savings was provided.



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