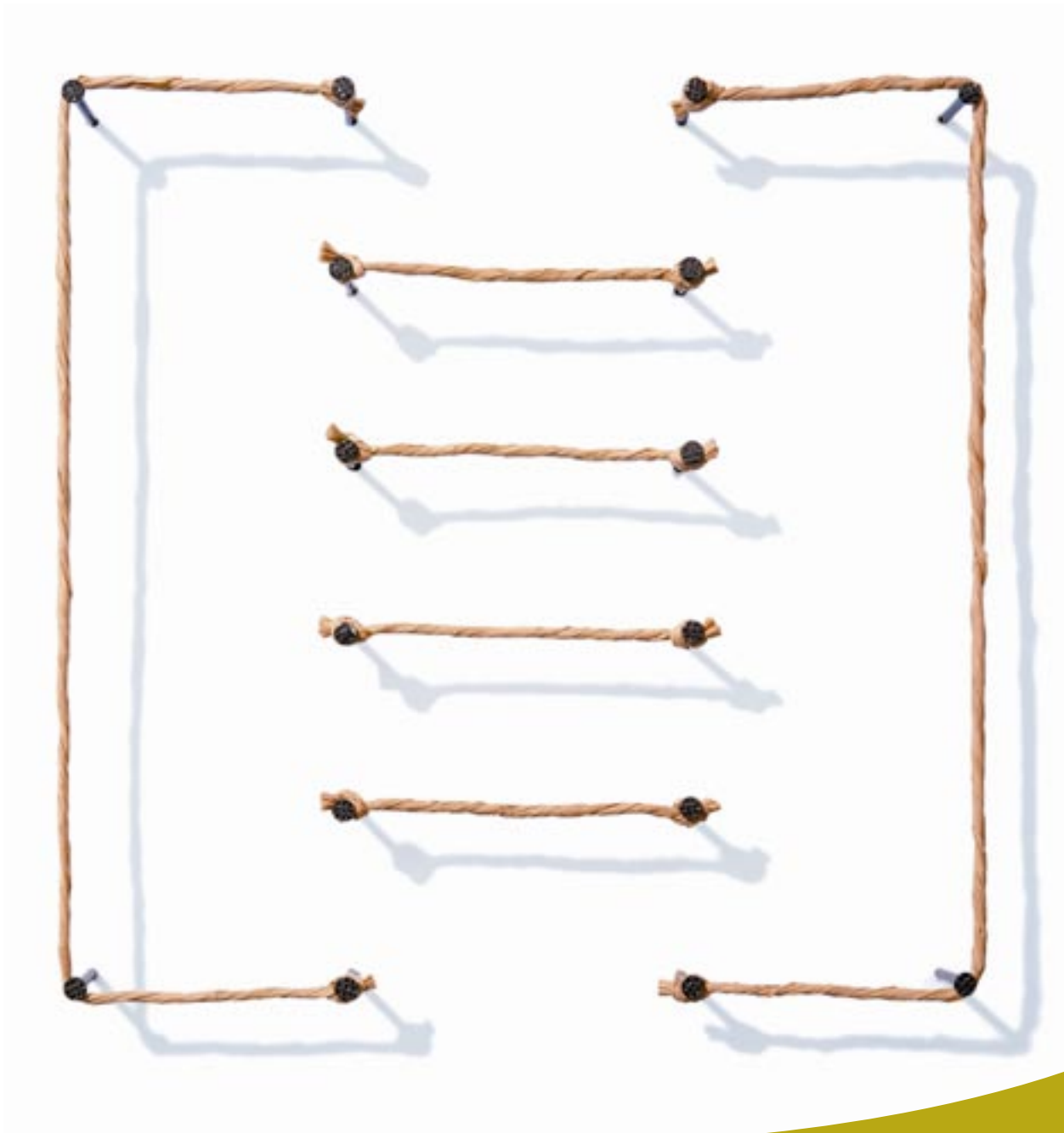




Annual Regulatory Plan

APRA 2006–2007

31 July 2006



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Past regulatory changes

Title	Standards for providers of purchased payment facilities (PPFs)
Description of issue	<i>APS 610 Prudential Requirements for Providers of Purchased Payment Facilities</i> recognises the unique characteristics of PPF providers within a consistent framework for the supervision of authorised deposit-taking institutions (ADIs). The standard applies a simplified framework for capital adequacy, liquidity and operational risk to PPF providers that have stored value at risk. PPF providers must also meet ADI prudential standards on governance, fitness and propriety, outsourcing, business continuity management and auditing requirements.
Date of effect	21 November 2005
Contact details	Mr Gavin Maunder Advisor, Policy Development Ph: 02 9210 3461 Fax: 02 9210 3420 Email: gavin.maunder@apra.gov.au
Title	<i>Superannuation Industry (Supervision) Regulations 1994 (SIS Regulations) – acting trustees and Australian Accounting Standards Board (AASB) changes</i>
Description of issue	These SIS Regulations create a new license class for acting trustees appointed by APRA to distinguish the special role that acting trustees perform in relation to the superannuation entity to which they are appointed. The SIS Regulations primarily reflect the temporary basis of the appointment and provide APRA with greater flexibility to tailor licence conditions for acting trustees. The Regulations also make technical corrections and update references to AASB 1014, which is to be superseded.
Date of effect	21 December 2005
Contact details	Ms Merrie Hennessy Advisor, Policy Development Ph: 02 6213 5308 Fax: 02 6213 5251 Email: merrie.hennessy@apra.gov.au

Title	Regulatory reporting for life companies (excluding friendly societies)
Description of issue	<p>The new reporting framework aligns regulatory reporting with general purpose financial reporting under Australian accounting standards, where appropriate. The reporting requirements ensure that APRA continues to receive consistent and standardised information to monitor prudential strength following the introduction in Australia of International Financial Reporting Standards (IFRS). The framework also reflects revised actuarial standards on the valuation of policy liabilities and the solvency, capital adequacy and management capital requirements released by the Life Insurance Actuarial Standards Board (LIASB).</p> <p>The framework incorporates changes to Prudential Rules 26 and 35, to reflect the move to IFRS, and consolidates Prudential Rule 31 into Prudential Rule 26. It also introduces two new Prudential Rules, 49 and 50, which are needed to classify contracts appropriately under the new standards and to allow the initial amounts to be set in the financial statements.</p>
Date of effect	<p>The framework came into effect on 31 December 2005 to coordinate with general purpose reporting requirements and the implementation of the revised actuarial standards, which also became effective on that date.</p> <p>To assist industry with transition, APRA granted a six-week extension to the deadline for delivery of the first returns under the new requirements.</p>
Contact details	<p>Mr Owen Wormald Project Manager, Statistics Ph: 02 9210 3270 Fax: 02 9210 3420 Email: owen.wormald@apra.gov.au</p>

Title	Reforms to supervision of lenders mortgage insurers (LMIs)
Description of issue	<p>The revised prudential standards and new reporting requirements are designed to strengthen and standardise the LMI capital and reporting framework. The definition of 'acceptable mortgage insurance' for ADIs claiming capital concessions on certain mortgage-insured loans has also been amended.</p> <p>The new framework encompasses <i>AGN 112.1 Risk Weighted On-Balance Sheet Credit Exposures</i>; <i>GGN 110.6 Concentration Risk Charge for Lenders Mortgage Insurers</i>; <i>GRS 170.1 Maximum Event Retention and Risk Charge for LMIs</i> and <i>GRF 170.1 Maximum Event Retention and Risk Charge for LMIs</i>.</p>
Date of effect	1 January 2006
Contact details	<p>Mr Gavin Maunder Advisor, Policy Development Ph: 02 9210 3461 Fax: 02 9210 3420 Email: gavin.maunder@apra.gov.au</p>

Title	Modification Declaration No. 1 of 2006
Description of issue	This Declaration modified regulation 6.42 of the SIS Regulations. The Declaration provides transitional arrangements for contribution-splitting in respect of certain rollovers and transfers made before 1 July 2006. These transitional arrangements will assist members of superannuation funds whose benefits have been transferred to another fund, as a consequence of a decision by the trustee to wind-up or merge the fund, during the transitional period for APRA licensing. The transitional period ceases on 30 June 2006.
Date of effect	1 May 2006
Contact details	Ms Merrie Hennessy Advisor, Policy Development Ph: 02 6213 5308 Fax: 02 6213 5251 Email: merrie.hennessy@apra.gov.au

Title	Modification Declaration No. 3 of 2006
Description of issue	This Declaration modifies Regulation 6.21 of the SIS Regulations. The Declaration provides greater certainty for trustees in relation to their compulsory cashing requirements under the <i>Superannuation Industry (Supervision) Act 1993</i> (SIS Act).
Date of effect	10 May 2006
Contact details	Ms Merrie Hennessy Advisor, Policy Development Ph: 02 6213 5308 Fax: 02 6213 5251 Email: merrie.hennessy@apra.gov.au

Title	Modification Declaration No. 26
Description of issue	This Declaration modifies Regulation 5.08 of the SIS Regulations to grant relief for certain employer retention arrangements entered into prior to 12 May 2004 so that qualifying arrangements are not subject to the more restrictive vesting provisions introduced on 12 May 2004.
Date of effect	12 May 2004
Contact details	Ms Merrie Hennessy Advisor, Policy Development Ph: 02 6213 5308 Fax: 02 6213 5251 Email: merrie.hennessy@apra.gov.au

Title	Regulatory reporting for friendly societies
Description of issue	<p>The amendments to Prudential Rules 47 and 48 follow the introduction of IFRS and consequential changes to the Actuarial Standards under the <i>Life Insurance Act 1995 by the LIASB</i>. The changes to friendly society regulatory returns also reflect the expiry of Australian Securities and Investments Commission class order 99/1225 on 31 December 2005.</p> <p>Where appropriate, the new reporting requirements align regulatory reporting with general purpose financial reporting under Australian accounting standards, to streamline the reporting process. The reporting requirements ensure that APRA will continue to receive consistent and standardised information to monitor prudential strength following the introduction of IFRS.</p>
Date of effect	The amended reporting requirements apply in respect of regulatory financial statements and statistics produced for reporting periods ending on or after 31 May 2006. To assist with compliance, friendly societies were given an additional six weeks to submit their initial reports.
Contact details	<p>Mr Rick Edwards Specialist, Industry Technical Services Ph: 02 9210 3104 Email: rick.edwards@apra.gov.au</p>

Title	Modification Declaration No. 2 of 2006
Description of issue	This Declaration modifies the outsourcing operating standard in Regulation 4.16 of the SIS Regulations. The modification allows APRA to be more flexible in relation to agreements between RSE licensees and custodian service providers where it may not be practicable for the RSE licensee to require that the agreements between custodians and sub-custodians comply with all aspects of the operating standard.
Date of effect	30 June 2006 until 30 June 2007
Contact details	<p>Ms Merrie Hennessy Advisor, Policy Development Ph: 02 6213 5308 Fax: 02 6213 5251 Email: merrie.hennessy@apra.gov.au</p>

Title	Religious charitable development funds (RCDFs) exemption
Description of issue	The new exemption order standardises the conditions under which RCDFs can be exempted from the authorisation requirement under the <i>Banking Act 1959</i> . This will simplify the process and apply a consistent set of exemption conditions to all funds to clearly demarcate the religious and charitable activities of RCDFs from the retail banking services of ADIs.
Date of effect	30 June 2006
Contact details	Mr Gavin Maunder Advisor, Policy Development Ph: 02 9210 3461 Fax: 02 9210 3420 Email: gavin.maunder@apra.gov.au

Title	Prudential approach to IFRS – ADIs
Description of issue	<p>The revised standards de-couple the definition of capital instruments eligible for Tier 1 capital from Australian accounting standards and bring APRA's approach to innovative capital instruments into line with international banking supervision practice. The revised standards also de-couple the assessment of securitised assets for capital adequacy purposes from the accounting treatment. The prudential and reporting framework has been aligned with IFRS-based financial reports, except where this would not be consistent with the intent and integrity of the framework.</p> <p>The revised standards include:</p> <p><i>Capital adequacy: APS 110, AGN 110.1, AGN 110.2, AGN 110.3, AGN 110.4, AGN 110.5 and AGN 110.6</i></p> <p><i>Capital adequacy: measurement of capital: APS 111, AGN 111.1, AGN 111.2, AGN 111.3 and AGN 111.4</i></p> <p><i>Capital adequacy: credit risk: APS 112, AGN 112.1, AGN 112.2, AGN 112.3 and AGN 112.4</i></p> <p><i>Funds management and securitisation: APS 120, AGN 120.1, AGN 120.2, AGN 120.3, AGN 120.4 and AGN 120.5</i></p> <p><i>Credit quality: APS 220, AGN 220.1, AGN 220.2 and AGN 220.3</i></p> <p><i>Large exposures: APS 221</i></p>
Date of effect	1 July 2006
Contact details	Mr Robert Sharma Senior Accounting Advisor Ph: 02 9210 3408 Fax: 02 9210 3322 Email: robert.sharma@apra.gov.au

Title	Prudential standard for compliance committee for branches – life insurers
Description of issue	Prudential standard <i>LPS 510 Governance</i> includes requirements relating to Compliance Committees for branches of life insurers. The purpose of the Committee is to provide greater assurance that branches will comply with the prudential requirements placed upon entities registered to conduct life insurance business in Australia. The Committee is required under amendments to the <i>Life Insurance Act 1995</i> , resulting from the Free Trade Agreement between Australia and the United States.
Date of effect	1 October 2006
Contact details	Mr Gavin Maunder Advisor, Policy Development Ph: 02 9210 3461 Fax: 02 9210 3420 Email: gavin.maunder@apra.gov.au

Title	Prudential standards for Governance – ADIs, general insurers and life insurers
Description of issue	<p>The new prudential standards harmonise APRA's governance standards across ADIs, general insurers and life insurers and bring them into line with what has become accepted in Australia as good practice in corporate governance.</p> <p>The prudential standards are intended to ensure that APRA-regulated institutions are managed prudently, that board members have access to appropriate independent expertise and that the composition of boards reflects the need for both appropriate independent oversight and industry experience.</p> <p>The new standards are <i>APS 510 Governance</i> (for ADIs), <i>LPS 510 Governance</i> (for life companies) and <i>GPS 510 Governance</i> (for general insurers).</p>
Date of effect	1 October 2006
Contact details	Mr Gavin Maunder Advisor, Policy Development Ph: 02 9210 3461 Fax: 02 9210 3420 Email: gavin.maunder@apra.gov.au

Title	Prudential standards for Fit and Proper – ADIs, general insurers and life insurers
Description of issue	<p>The new prudential standards are aimed at enhancing the calibre of those charged with running APRA-regulated institutions. The standards establish a minimum benchmark for acceptable practice in the appointment of Board directors, senior management, certain auditors and actuaries.</p> <p>The prudential standards seek to ensure that persons who are responsible for the management and oversight of these institutions have the appropriate skills, experience and knowledge to do so, and act with honesty and integrity.</p> <p>The new standards are <i>APS 520 Fit and Proper</i> (for ADIs), <i>LPS 520 Fit and Proper</i> (for life companies) and <i>GPS 520 Fit and Proper</i> (for general insurers).</p>
Date of effect	1 October 2006
Contact details	<p>Mr Chris Mohr Senior Manager, Policy Development Ph: 02 9210 3447 Fax: 02 9210 3420 Email: chris.mohr@apra.gov.au</p>

Title	General insurance reforms Stage Two
Description of issue	<p>Prudential standards <i>GPS 220 Risk Management</i>, <i>GPS 230 Reinsurance Management</i> and <i>GPS 310 Audit and Actuarial Reporting and Valuation</i> address key recommendations of the HIH Royal Commission and form a crucial element of APRA's supervision of risk and financial management by general insurance companies.</p> <p>The new prudential standards are principles-based, which will reduce the compliance burden on authorised general insurance companies while providing APRA with a strong and flexible prudential framework. The prudential standards ensure long-term capital and risk planning, clarify professional advisers' obligations and reporting requirements, provide for contract certainty of reinsurance arrangements and introduce stricter rules for limited risk transfer arrangements. Another new requirement is for Approved Actuaries to produce an annual Financial Condition Report.</p>
Date of effect	1 October 2006
Contact details	<p>Mr Chris Mohr Senior Manager, Policy Development Ph: 02 9210 3447 Fax: 02 9210 3420 Email: chris.mohr@apra.gov.au</p>

Planned regulatory activities

Title	Outsourcing – Authorised deposit-taking institutions (ADIs), general insurers and life insurers
Description of issue	The proposed reforms, taking a principles-based approach, will detail minimum requirements for managing risks from outsourcing but allow institutions to develop their outsourcing policy in a way that meets their business needs while complying with the prudential standards. The draft prudential standards are largely based on the requirements in place for ADIs since May 2002. However, APRA will introduce greater flexibility in the approach to intra-group outsourcing and deal explicitly with outsourcing to an offshore party.
Consultation opportunities	Discussion paper – <i>Prudential Supervision of General Insurance: Stage 2 Reforms</i> released in November 2003. Discussion paper – <i>Risk and Financial Management</i> and draft GPS 221 released in May 2005. Discussion paper – <i>Outsourcing</i> , draft standards PS 231 and cross-industry prudential practice guide (PPG) released in March 2006.
Expected timetable	APRA expects to determine the standards in the second half of 2006.
Contact details	Mr Peter Windsor Advisor, Policy Development Ph: 02 9210 3642 Fax: 02 9210 3420 Email: peter.windsor@apra.gov.au
Date last modified	July 2006

Title	Amendments to reporting standards – general insurers
Description of issue	General insurers' reporting forms need to be amended to enable statistical data to be captured in line with the general insurance Stage Two reforms. In addition, amendments due to Australia's adoption of International Financial Reporting Standards (IFRS) are required. Both sets of amendments will be incorporated in this project so that the insurance industry has to deal with only one set of changes.
Consultation opportunities	A consultation package was released on 19 May 2006.
Expected timetable	Final reporting standards are expected to be determined in August 2006.
Contact details	Mr Peter Windsor Advisor, Policy Development Ph: 02 9210 3642 Fax: 02 9210 3420 Email: peter.windsor@apra.gov.au
Date last modified	July 2006

Title	General insurance reforms Stage Two – Tier 1 capital and IFRS-related changes
Description of issue	<p>The proposed standards, <i>GPS 110 Capital Adequacy</i> and <i>GPS 120 Assets in Australia</i>, provide clearer guidance to the insurance industry on these matters.</p> <p>The adoption of IFRS in Australia has changed the existing accounting standards in relation to the recognition and measurement of assets, liabilities, equity, revenue and expenses. APRA is aligning its prudential and reporting framework with IFRS based financial reports, except where this would not be consistent with the intent and integrity of the framework.</p>
Consultation opportunities	Consultation on the proposed changes occurred from October 2005 until November 2005.
Expected timetable	APRA expects that the proposed changes will be released in mid to late 2006.
Contact details	<p>Mr Chris Mohr Senior Manager, Policy Development Ph: 02 9210 3447 Fax: 02 9210 3420 Email: chris.mohr@apra.gov.au</p>
Date last modified	July 2006

Title	Life insurance prudential reform
Description of issue	APRA is moving towards harmonisation of its prudential framework across all APRA-regulated industries, where appropriate. A number of potential areas have been identified for consideration in relation to life insurance which flow from requirements already in place for the general insurance and ADI sectors.
Consultation opportunities	Consultation will take place on proposed standards as they are released.
Expected timetable	APRA expects to have drafted material for consultation during 2006/07.
Contact details	<p>Mr Chris Mohr Senior Manager, Policy Development Ph: 02 9210 3447 Fax: 02 9210 3420 Email: chris.mohr@apra.gov.au</p>
Date last modified	July 2006

Title	Adoption of the Basel II Capital Framework – ADIs
Description of issue	In June 2004, the Basel Committee on Banking Supervision released its detailed Framework for reforming the 1988 Basel Capital Accord. The objectives of the Basel II Capital Framework (Basel II Framework) are to develop capital adequacy requirements that are more accurately aligned with the individual risk profile of ADIs, lessen regulatory arbitrage opportunities and offer greater flexibility for banking supervisors to recognise/encourage the use of more sophisticated risk management techniques. APRA will allow adoption of the advanced approaches to credit and operational risk; however it expects that the majority of ADIs will adopt the Basel II Framework in its standardised form.
Consultation opportunities	<p>Discussion paper – <i>Implementation of the Basel II Capital Framework 1. Standardised approach to credit risk</i> and draft prudential standard APS 112 <i>Capital Adequacy: Standardised Approach to Credit Risk</i> released in April 2005</p> <p>Discussion Paper – <i>Implementation of the Basel II Capital Framework 2. Standardised approach to operational risk</i> and draft prudential standard APS 114 <i>Capital Adequacy: Standardised Approach to Operational Risk</i> released in July 2005</p> <p>Discussion paper – <i>Implementation of the Basel II Capital Framework 3. Internal ratings-based approach to credit risk</i> and draft prudential standard APS 113 <i>Capital Adequacy: Internal Ratings-based Approach to Credit Risk</i> released in July 2005</p> <p>Discussion paper – <i>Implementation of the Basel II Capital Framework 4. Advanced measurement approaches to operational risk</i> and draft prudential standard APS 115 <i>Capital Adequacy: Advanced Measurement Approaches to Operational Risk</i> released in October 2005</p> <p>Discussion paper – <i>Implementation of the Basel II Capital Framework 5. Interest rate risk in the banking book</i> and draft prudential standard APS 117 <i>Capital Adequacy: Interest Rate Risk in the Banking Book</i> released in March 2006</p>
Expected timetable	APRA will apply the Basel II Framework to all ADIs, whether adopting the standardised or advanced approaches, from January 2008.
Contact details	Ms Katrina Squires Senior Specialist, Basel II Ph: 02 9210 3320 Email: katrina.squires@apra.gov.au
Date last modified	July 2006

Title	Prudential standards for conglomerate supervision – general insurers
Description of issue	The proposed consolidated framework aims to close a gap in the prudential supervision of authorised general insurers that operate within a corporate group. This will better protect the interests of policyholders. The proposed framework will require general insurers and their corporate group to meet various requirements on a consolidated basis. The framework will also address contagion risk posed to the insurer(s) in the group from group activities and inter-relationships. This reform is consistent with the recommendations of the HIH Royal Commission.
Consultation opportunities	A discussion paper on APRA's proposed approach to conglomerate supervision was released on 16 May 2005. Additional consultation will occur in the second half of 2006.
Expected timetable	Implementation of reporting standards and forms is expected in 2008.
Contact details	Mr Peter Windsor Advisor, Policy Development Ph: 02 9210 3642 Fax: 02 9210 3420 Email: peter.windsor@apra.gov.au
Date last modified	July 2006

Title	Superannuation legislation amendment bill (2006) (SLAB)
Description of issue	The <i>Superannuation Industry (Supervision) Act 1993</i> (SIS Act) is being amended to consolidate and simplify requirements relating to reporting to the Regulator (APRA or the ATO), to make a number of technical amendments to remove anomalies and improve the operation of the Act. Some amendments will be made to the provisions relating to financial assistance to funds to implement the outcomes of the review of Part 23 of the Act.
Consultation opportunities	Treasury will take the lead role in consulting with industry on these proposals.
Expected timetable	Treasury will set the timetable for consultation on these proposals.
Contact details	Ms Merrie Hennessy Advisor, Policy Development Ph: 02 6213 5308 Fax: 02 6213 5251 Email: merrie.hennessy@apra.gov.au
Date last modified	July 2006

Title	<i>Superannuation Industry (Supervision) Regulations 1994 (SIS Regulations)</i>
Description of issue	The SIS Regulations will be amended to reflect changes made to the SIS Act as part of SLAB 2006.
Consultation opportunities	Treasury will take the lead role in consulting with industry on these proposals.
Expected timetable	Treasury will set the timetable for consultation on these proposals.
Contact details	Ms Merrie Hennessy Advisor, Policy Development Ph: 02 6213 5308 Fax: 02 6213 5251 Email: merrie.hennessy@apra.gov.au
Date last modified	July 2006

Title	Legacy products – cross industry
Description of issue	APRA recognises that legacy products represent a growing issue for regulated industries and has begun considering options internally. Legacy products are a complex issue that will require a broad government approach. Accordingly, APRA will work with Treasury, ASIC and the ATO to develop an appropriate response. APRA will not support proposals that do not adequately protect beneficiary interests.
Consultation opportunities	Treasury will take the lead on consultation opportunities.
Expected timetable	Treasury will take the lead on setting the expected timetable.
Contact details	Mr Keith Chapman General Manager, Policy Development Ph: 02 9210 3126 Fax: 02 9210 3420 Email: keith.chapman@apra.gov.au
Date last modified	July 2006

Title	AAS 25 Superannuation accounting standard changes
Description of issue	AAS25 changes will flow through to APRA's forms and instructions which will need to be revised.
Consultation opportunities	The Australian Accounting Standards Board (AASB) is expected to finalise a draft accounting standard for consultation with industry by the end of the year. APRA's amendments to the prudential reporting framework will follow once this occurs.
Expected timetable	Revised AAS 25 – End December APRA amendments to Forms and Instructions – 1st Quarter 2007
Contact details	Mr Rob Sharma Senior Accounting Advisor Tel: 02 9210 3408 Fax: 02 9210 3322 Email: rob.sharma@apra.gov.au or swee.chan@apra.gov.au
Date last modified	July 2006



Telephone
1300 13 10 60

Email
contactapra@apra.gov.au

Website
www.apra.gov.au

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