



APRA

14



ANNUAL REPORT

AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY


The Australian Prudential Regulation Authority (APRA) is the prudential regulator of the Australian financial services industry.

It oversees Australia's banks, credit unions, building societies, life and general insurance companies and reinsurance companies, friendly societies and most of the superannuation industry. APRA is funded largely by the industries that it supervises. It was established on 1 July 1998.

APRA currently supervises institutions holding \$4.9 trillion in assets for Australian depositors, policyholders and superannuation fund members.

Copyright

© Australian Prudential Regulation Authority (APRA)

This work is licensed under the Creative Commons Attribution 3.0 Australia Licence (CCBY 3.0). 

This licence allows you to copy, distribute and adapt this work, provided you attribute the work and do not suggest that APRA endorses you or your work. To view a full copy of the terms of this licence, visit www.creativecommons.org/licenses/by/3.0/au/.



ANNUAL REPORT 2014

AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY

Australian Prudential Regulation Authority

400 George Street (Level 26) T 02 9210 3100
Sydney NSW 2000 F 02 9210 3102
GPO Box 9836 W www.apra.gov.au
Sydney NSW 2001



Wayne Byres
CHAIRMAN

13 October 2014

The Hon Joe Hockey, MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer,

In accordance with Section 59 of the *Australian Prudential Regulation Authority Act 1998*, I am pleased to submit the Australian Prudential Regulation Authority Annual Report and Financial Statements for the year ended 30 June 2014.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Byres'.



APRA VISION, MISSION AND VALUES

Our vision is to be a world-class prudential regulator, with excellence of supervision as our foundation.

Our core mission is to establish and enforce prudential standards and practices designed to ensure that, under all reasonable circumstances, financial promises made by institutions we supervise are met within a stable, efficient and competitive financial system.

We also act as a national statistical agency for the Australian financial sector.

Our values underpin the critical role we play in protecting the financial well-being of the Australian community. High standards are required in everything we do. In our work and in our interactions with others, we value and seek to demonstrate:

Integrity

Collaboration

Professionalism

Foresight

Accountability

Our supervisory approach is forward-looking, primarily risk-based, consultative, consistent and in line with international best practice. The approach also recognises that management and boards of supervised institutions are primarily responsible for financial soundness.

CHAPTER 1	FROM THE CHAIRMAN	6
CHAPTER 2	APRA'S SUPERVISORY ACTIVITIES AND PRIORITIES	16
CHAPTER 3	THE PRUDENTIAL FRAMEWORK	42
CHAPTER 4	COOPERATION AND LIAISON	60
CHAPTER 5	APRA'S RESOURCES AND PERFORMANCE	76
CHAPTER 6	GOVERNANCE	92
CHAPTER 7	FINANCIAL STATEMENTS	100
CHAPTER 8	STATUTORY REPORT	164
	ORGANISATIONAL CHART	186
	GLOSSARY	188
	INDEX	190
	DIRECTORY	192

CONTENTS



FROM THE CHAIRMAN



THE FINANCIAL ENVIRONMENT



APRA'S SUPERVISORY FOCUS



THE POLICY AGENDA



WORKING WITH THE AUSTRALIAN GOVERNMENT



FINANCIAL SYSTEM INQUIRY



OUR PEOPLE



THE FINANCIAL ENVIRONMENT

Globally, 2013/14 was marked by generally buoyant financial market conditions. The low interest rate environment stemming from accommodative monetary policies in major jurisdictions continued to aid the recovery in the global economy, as well as the strengthening of domestic banking systems. Sovereign bond yields reached historically low levels, credit spreads substantially narrowed, and equity prices in a number of countries touched record highs.

A surprising aspect of 2013/14 was that financial markets were remarkably stable for much of the year. After a bout of volatility in mid-2013 in anticipation of a change in monetary policy in the United States, historically low levels of volatility persisted for most of the year despite a range of financial and geopolitical events that might normally have expected to have had a more unsettling effect on financial markets. The absence of volatility reflected, to a large degree, confidence amongst investors that interest rates will remain low for extended periods.

While this financial environment is, as intended, likely to be conducive to economic growth, it also provides incentives for financial intermediaries and investors to take risk and search for yield. Vigilance is therefore warranted, particularly as there are signs of increasing volatility in recent months. While much has been done to strengthen the resilience of the financial system and reduce leverage therein, current conditions have been likened to those evident in the lead-up to the financial crisis, leading in turn to concerns about the potential for a sudden shift in investor sentiment and a sharp retraction in markets.

Against this backdrop, the Australian economy remains slightly subdued, with moderate growth, stable inflation and unemployment elevated in comparison to recent years. The decline in mining investment has continued, and while there have been signs of growth in non-mining sectors, the transition to more balanced growth still has some way to go.

Nevertheless, the Australian financial system remains, on the whole, quite healthy. The authorised deposit-taking institution (ADI) sector is profitable, with the largest ADIs continuing to produce high returns on equity. While credit growth at ADIs has been relatively slow, reflecting general economic conditions, non-performing loans have remained subdued. Funding conditions, particularly for the largest banks accessing international markets, have eased considerably, supporting improvements to liquidity and funding profiles.

In the insurance sector, performance was mixed. The general insurance sector recorded strong profits in 2013/14, reflecting recent pricing increases for retail business, a relatively benign period for natural perils, and reduced reinsurance costs. On the other hand, the life insurance industry suffered from poor claims and lapse experience in a number of business lines, and this cut profitability to relatively low levels.

The long term trend of superannuation industry consolidation continued in 2013/14, albeit at a slower pace than several years ago. Over the year, superannuation funds experienced sound growth supported by good investment performance due to continuing strength in global and domestic equity markets. Overall, the industry continues to mature as its adjusts to an environment of continuing increases in the level of total benefit payments, as a larger proportion of members move into retirement.

APRA'S SUPERVISORY FOCUS

As benign as Australia's economic environment appears, a forward-looking supervisor such as APRA must continue to scan the horizon for emerging risks.

APRA's broad objective in the current circumstances is to ensure that regulated institutions are resilient and prepared to respond to challenges that may arise in the future. It is impossible to predict with precision what the nature of those challenges will be, but that does not mean institutions cannot improve their readiness for periods of future adversity. In part, this means ensuring the financial resilience built up in recent years is maintained. It also requires the ongoing enhancement of technology systems and risk management capabilities.

Critical to this task will be strong governance frameworks within regulated institutions. APRA's supervisory philosophy is founded on the premise that primary responsibility for the soundness of a regulated institution rests with its board and management. APRA does not expect boards to engage in day-to-day management responsibilities but it does expect them to provide strong governance and robust oversight of the operations of each institution. In this context, there is a range of issues to which APRA has urged boards and management of institutions to give heightened attention.

Lending standards, particularly for residential mortgage lending, have been a high priority in APRA's supervision of ADIs. In an environment of historically low interest rates, high household debt, high and rising house prices, and strong competitive pressures, supervisory intensity of residential lending standards has been ratcheted up. This has included instituting additional data collections, developing a prudential practice guide on residential lending standards, and seeking assurances from the boards of the largest lenders that they are providing strong oversight of lending standards. In the current circumstances, however, lending practices that may appear prudent at the individual institution level may still, in aggregate, fuel systemic risks. As a result, the Council of Financial Regulators has been discussing the risks that arise from emerging imbalances in the housing market, particularly in relation to investment housing. APRA, with input from other Council members, is considering what further steps might be appropriate to temper potential threats to the health of individual ADIs, or financial stability more generally, from these developments.

In the general insurance industry, catastrophe risk management has been a particular focus for APRA. Although 2013/14 was a relatively benign year in terms of catastrophe claims, it is important that the lessons of earlier years when claims were much higher have been incorporated into catastrophe risk management practices. APRA has also been focussing on the impact on general insurers of the prevailing low interest rate environment, which has depressed investment returns and has the potential to put pressure on premium and reserving levels.

The repercussions from the poor experience in the group risk market have been the major area of supervisory attention in the life insurance industry. The impact on insurer profitability from aggressive pricing in group risk tenders has been compounded by higher total and permanent disablement and disability income claims. The adverse experience in turn led to a substantial reduction in reinsurance capacity. The result of this cycle was sharp increases in premiums, which helped to restore insurer profitability but have adversely affected superannuation fund members.

In 2013/14, APRA's supervisory priority in the superannuation industry was the implementation of the new prudential framework that came into force in July 2014. These reforms aim to strengthen the governance, improve the efficiency and transparency, and enhance the regulatory settings of the superannuation system in Australia. APRA's objective was to ensure that enhanced policies and processes required under the new prudential standards were truly embedded in trustees' practices. Specific areas of focus are governance (including conflicts of interest), risk management/risk appetite/risk culture, investments (especially liquidity management and stress testing), insurance and data integrity.

THE POLICY AGENDA

Compared to recent years, 2013/14 was somewhat quieter on the policy front; the major components of APRA's 'home-grown' policy agenda had largely been completed in 2012/13. Considerable effort was therefore directed during the year toward ensuring these earlier policy reforms were being effectively implemented. This included the Stronger Super reforms and a substantial revision of the capital adequacy regime for life and general insurers. The latter reforms have now been successfully bedded down, and there has been reasonable progress made in the implementation of the reforms in superannuation.

However international policy developments, driven by the G20, continued to require changes to domestic policy settings, particularly for the ADI sector. In 2013/14, the primary focus was on the remaining elements of the Basel III package, most notably a new liquidity regime, as well as the development of additional capital requirements for ADIs deemed systemically important in a domestic context. While the global reform agenda being pursued by the G20 is gradually being finalised, a range of initiatives that will impact on the domestic regulatory framework still remain to be completed.

Australia has been well served by adhering to, and being seen to adhere to, international minimum prudential standards. In implementing these standards, APRA must also consider how they are best applied to Australia's domestic context. A degree of tailoring is often necessary, requiring close dialogue between APRA and affected institutions to ensure balanced outcomes.

An important element of the global reform mandate is subjecting national regulatory arrangements to greater external scrutiny of their adherence to minimum global standards. In this context, in 2013/14 APRA's implementation of the Basel III capital framework was subject to peer review as part of the Basel Committee on Banking Supervision's Regulatory Consistency Assessment Programme. The assessment team found APRA's capital requirements closely aligned with the Basel capital framework, and Australia was assigned a 'Compliant' rating.

In addition to the international agenda, APRA also proposed revisions to the prudential framework for securitisation, and made improvements to capital raising options for mutual ADIs. These initiatives were designed, at least in part, to aid a restoration of sound securitisation markets, and to improve the capacity of mutual ADIs to compete on a more equitable basis with shareholder-owned institutions.

A further significant domestic initiative is the development of a prudential framework for conglomerate groups and, related to this, harmonising and enhancing APRA's requirements for risk management. Much progress was made in 2013/14 and the work is now nearing completion.

WORKING WITH THE AUSTRALIAN GOVERNMENT

In April 2014, the Australian Government renewed its *Statement of Expectations* (SoE) for APRA.

The SoE outlines the Government's expectations of APRA's role and responsibilities, its relationship with the Government, issues of transparency and accountability, and operational matters. Amongst other things, the SoE sets out the Government's expectations that APRA:

- continue to act independently and objectively in performing its functions and exercising its powers;
- establish standards and practices that support Australia's financial sector in globally integrated markets by implementing international standards – including the G20 reforms endorsed by the Government – in a way that is appropriate for Australia's domestic circumstances;
- monitor regulatory frameworks and practices in other countries, and engage actively with international regulatory counterparts;
- maintain open and sound working relationships between APRA and the institutions it supervises, such that industry participants can communicate considered and candid views to APRA in order to enhance the regulatory framework while minimising compliance costs; and
- look for opportunities to reduce compliance costs for business and the community, consistent with the Government's broader deregulatory agenda.

APRA's *Statement of Intent* (Sol), issued in early July 2014, set out its intention to ensure the Government's broad policy framework, including its deregulation agenda, is accommodated in the course of APRA performing its role and meeting its responsibilities.

APRA's Sol noted that it will continue to take a risk-based approach to supervision that centres on identifying and assessing those areas of greatest risk to an APRA-regulated institution or the financial system, and then directing supervisory resources and attention to these risks. This risk-based approach to supervision is designed to promote both efficiency and effectiveness within the prudential regime, with greater intensity given to areas of highest risk, and less attention given to areas where the risk to institutions, or the community more generally, is low.

In following such an approach, the Sol noted that APRA does not pursue a zero-failure objective. Instead, the prudential framework seeks to maintain a low incidence of failure among APRA-regulated institutions without impeding continued improvement in efficiency or hindering competition. APRA endorsed the sentiment expressed by the Government in its SoE, that *'... it is not possible or efficient to eliminate all risks and that trade-offs in risk reductions are necessary'*. APRA cannot eliminate the risk that an institution might fail; indeed, attempting to do so would impose an unnecessary burden on the financial system. Instead, APRA's objective is to identify the potential failure of a regulated institution sufficiently early to allow for prompt corrective action or an orderly exit.

Consistent with Government's broader goals, APRA consulted in 2013/14 with industry representatives to identify specific and quantifiable options for cost savings within APRA's regulatory and supervisory frameworks that can be made without compromising sound prudential outcomes. Through that process, APRA has identified a number of near term and longer term options to reduce regulatory costs. Many of the near term options are expected to be implemented in the year ahead, and work will continue on developing the other options. Formal industry consultation will occur in the usual manner for each set of proposals.

FINANCIAL SYSTEM INQUIRY

During 2013/14, the Government established a Financial System Inquiry (FSI) to examine how the financial system could be positioned to best meet Australia's evolving needs and support Australia's economic growth. The Inquiry was tasked with making recommendations by the end of 2014 that will foster an efficient, competitive and flexible financial system, consistent with financial stability, prudence, public confidence and capacity to meet the needs of users.

APRA has made two submissions to the Inquiry. The first round submission in March 2014 highlighted the strength of the existing regulatory architecture, the rationale for the domestic prudential framework, and the philosophy that underpins APRA's supervisory approach.

In response to the range of submissions received, the FSI issued an Interim Report in July 2014 which noted, amongst other things, that:

- there was little evidence to support a case for significant changes to Australia's regulatory framework, and furthermore the global financial crisis had tested domestic regulatory arrangements and Australia's twin peaks model had proven robust and effective;
- a factor contributing to Australia's resilience during the global financial crisis was APRA's strong prudential framework, together with its proactive approach to supervision;
- that regulatory reforms in the post-crisis period had been applied in a manner and timeframe to best suit Australian market circumstances; and
- that APRA's prudential requirements, often more conservative than minimum international standards, do not appear to have placed Australian institutions at a significant competitive disadvantage.

The Interim Report also posed a number of questions, and sought more information, on a range of issues and policy options relevant to APRA. APRA made a second submission in August 2014, which provided additional information on matters such as the importance of, and benefits from, a sound prudential policy framework; the costs and benefits of various measures to deal with 'too big to fail'; limits to the international comparability of ADI capital ratios; the need for holistic consideration of retirement income policy settings, including those in relation to post-retirement options and product offerings; and the importance of regulator independence and accountability.

APRA will continue to engage with the FSI as it completes its recommendations, and stands ready to assist the Government as it formulates its response to the FSI's final report.



APRA Members in 2013/14 – (left to right) Mr Ian Laughlin, Dr John Laker and Mrs Helen Rowell.

OUR PEOPLE

APRA's vision is to be a world-class prudential regulator, whose operations are founded in excellence of supervision. Achieving such excellence is only possible with the right people. Since its formation in 1998, APRA has been fortunate in being able to attract and retain high-calibre staff who, often in trying circumstances, repeatedly demonstrate skills, judgement and tenacity of the highest order.

APRA staff well understand the importance of their work to the Australian community and invariably respond to new challenges with a spirit of professionalism and commitment, which is a source of great pride to APRA Members. We thank them once again for their efforts.

On 30 June this year, Dr John Laker ended his 11-year term as Chairman of APRA. Dr Laker was appointed Chairman in the aftermath of the HIH Insurance failure, with the task of leading the restoration of APRA's capabilities and reputation. In doing so, he laid the groundwork for APRA's

subsequent successes, not least of which was helping to navigate the Australian financial system through the global financial crisis. In more recent years, Dr Laker steered APRA through a busy period of major policy reform across the banking, insurance and superannuation industries. In meeting these challenges, he invariably displayed clarity of vision, intellectual rigour, a steady determination, and a calmness under pressure. Most of all, he brought a warmth of personality to the role of Chairman that was appreciated by all who worked with him.

APRA Members, on behalf of all APRA staff, extend their gratitude to Dr Laker for his dedication and great service.

Wayne Byres
APRA Chairman

This page is left blank intentionally

APRA'S SUPERVISORY ACTIVITIES AND PRIORITIES



APRA'S SUPERVISORY APPROACH AND PROCESS



KEY SUPERVISORY THEMES



AUTHORISED DEPOSIT-TAKING INSTITUTIONS



GENERAL INSURANCE



LIFE INSURANCE AND FRIENDLY SOCIETIES



SUPERANNUATION



ENFORCEMENT ACTIVITIES

2



APRA'S SUPERVISORY APPROACH AND PROCESS

APRA has long emphasised strong and proactive supervision as a core means of fulfilling its mandate. This approach, which maintains supervisory intensity even in good times, was an important contributor to the resilience of the Australian financial system in the face of the global financial crisis. A focus on supervision also provides greater ability to tailor requirements to suit individual circumstances: in other words, supervision has greater capacity to be both risk-based and outcomes-focussed. This, in turn, is likely to maximise both the efficiency and effectiveness of the prudential framework.

At the heart of APRA's supervisory approach are its Probability and Impact Rating System (PAIRS), the Supervisory Oversight and Response System (SOARS) and Supervisory Action Plans (SAPs). PAIRS risk ratings provide a structured means to consistently assess the risk profile of APRA-regulated institutions. These institutional ratings, along with a measure of impact should the institution fail, are combined in the SOARS framework to determine the appropriate supervisory intensity: higher risk and/or impact will, all else being equal, lead to greater supervisory intensity. Supervision plans are then developed to specify the activities that APRA supervisors need to undertake, taking into account both institutional issues as well as risks identified from an industry-wide perspective. This alignment of risk and supervisory intensity is the foundation of APRA's risk-based approach.

To better support the activities of its frontline supervisors, APRA continued to enhance the effectiveness and efficiency of its supervision

processes and systems during 2013/14. To this end, improvements were made to supervision processes to ensure APRA's regulatory activities remain directed at key issues associated with individual APRA-regulated institutions, and to information technology (IT) systems and tools such that supervisors have more ready access to up-to-date and reliable information about institutions' risk profiles.

During 2013/14, APRA completed the rollout of a new IT platform that better supports its core supervisory functions and will bring long-term benefits to supervisory performance. The rollout of this upgrade was the first leg of a larger program to enhance supervision infrastructure that promises a range of benefits, including:

- the ability to obtain a portfolio view of key risks and issues identified with APRA-regulated institutions across all industries, and supervisory actions planned to address these;
- the ability to conduct extensive analysis of PAIRS risk ratings to better inform the identification of institutional and systemic risks;
- greater visibility on resources allocated to supervisory activities across APRA to ensure frontline supervisors and risk specialists are conducting work targeted at addressing identified risks; and
- productivity and efficiency gains.

Planning for the next systems release as part of the program is in progress. This will include the delivery of fast and reliable ways for APRA staff to work together within a secure information management environment that is integrated with the core supervision platform. Full benefits of the new IT platform are expected to flow once all aspects of the larger program have been implemented.

KEY SUPERVISORY THEMES

While APRA's approach is tailored to the individual risk profile of each regulated institution, three important industry-wide themes were also pursued during 2013/14.

Governance and the role of boards

APRA's supervisory philosophy recognises it is the board and senior management of each regulated institution that are primarily responsible for its financial and operational soundness.

APRA's focus on governance means that it places significant emphasis on the role of the boards of APRA-regulated institutions. This has involved increased emphasis within supervisory activities on governance structures and processes, including board stewardship, remuneration, culture, risk appetite and risk management frameworks. During the year, APRA continued its program of regular meetings with boards, and has begun to supplement these in a number of cases with additional meetings with the chairs of boards and board committees. In addition, the new prudential standards for superannuation, and particularly the new standard on governance, have meant APRA has been engaging in more intensive discussions with both trustee boards and senior management across the superannuation industry on these issues.

Over recent years, APRA has received feedback that some aspects of the prudential framework are perceived to require board involvement in matters that are more appropriately reserved for management. That has not been APRA's intent. There are sound reasons why APRA imposes additional obligations on boards of APRA-regulated institutions as part of its prudential framework for protecting the interests of depositors, policyholders and fund members. In doing so, APRA's goal is to promote strong governance practices and robust oversight of the operations of each institution; but APRA does not expect boards to take on day-to-day management responsibilities. As a result, APRA commenced a stocktake of its requirements of boards during 2013/14, with a view to improving how these requirements are conveyed. APRA also developed an Aid for Directors of ADIs and insurers, designed to provide an overview, in general terms, of the purpose of prudential regulation, the legal framework through which it is implemented, and the additional obligations applying to directors of APRA-regulated institutions. The purpose of this Aid, which was published in October 2014, is educational; it does not take the place of any APRA prudential standard or guidance, or establish any formal requirements beyond those already set in the prudential standards.

Capital management

Beyond the necessary task of meeting minimum capital adequacy requirements, APRA places a great deal of attention on the way in which regulated institutions manage their own financial strength. In 2013/14, APRA continued to devote a considerable amount of time and effort to assessing the Internal Capital Adequacy Assessment Processes (ICAAPs) of ADIs, general insurers and life insurers (including friendly societies).

Although the requirements for ICAAPs have been in place for some years for ADIs, they were only introduced in the insurance sectors in 2013. An important component of the new prudential requirements is the obligation for institutions in these industries to prepare an ICAAP Summary Statement as well as an annual ICAAP Report. During 2013/14, APRA undertook a comprehensive review of ICAAP Reports. This review focussed on issues such as internal governance, modelling and data reliability, scenario development and the use of stress testing. The review included peer comparisons with a view to identifying better practice and potential areas for improvement. In December 2013, APRA wrote to all insurers summarising the results of the benchmarking process and identifying examples of better practice.

Crisis preparedness

Both regulated institutions and APRA supervisors need to be prepared to deal with a range of adverse events that may threaten the financial soundness, and even viability, of an institution's business. A range of supervisory activities were pursued during 2013/14 that were designed to enhance the understanding of, and preparedness for, adverse events.

- *Stress testing.* Since 2012, APRA has increased resources for stress testing as part of an internal strategy aimed at improving both APRA's and the industry's own stress-testing capabilities. APRA's focus on stress testing was further sharpened during 2013/14 with two main streams of work. In the first, APRA conducted an ADI stress test involving the largest ADIs based on common adverse scenarios. These scenarios are centred on risks that could emerge in a housing market downturn, and seek to test the resilience of ADIs to both a sharp economic recession and a higher interest rate environment (given the nature of the scenarios, the stress test was also applied to providers of Lenders' Mortgage Insurance (LMIs)). Alongside APRA's own stress tests, APRA has also examined the internal stress-testing programs of individual institutions as part of the ICAAP reviews (see above).

- *Recovery and resolution planning.* In recent years, APRA initiated work with a number of the largest ADIs on recovery planning: that is, plans that institutions would put into action to stabilise their operations during a period of severe financial stress. The plans, useful for institutions and for supervisory purposes, are also a starting point for further work to develop credible resolution planning, i.e. planning by the authorities in the event that an institution does not have the capacity to rectify its own problems. Along with members of the Council of Financial Regulators, APRA has continued its work on general resolution planning, with a focus on measures that would enable cost-effective resolution of a regulated institution in the event recovery is not feasible. This work has primarily involved exploring resolution options for a distressed ADI, and funding issues related to the Financial Claims Scheme (FCS), including options for prefunding, and refinement of ADI crisis resolution coordination.
- *Financial Claims Scheme (FCS).* In mid-2013, APRA released an amended *Prudential Standard APS 910 Financial Claims Scheme*. APS 910 requires that ADIs are operationally ready to meet payment, reporting and communication requirements should the FCS be activated. All ADIs were required to be compliant with the amended APS 910 by 1 July 2014, unless otherwise granted a specific extension by APRA. A number of such extensions were granted, reflecting the individual circumstances of some institutions. All ADIs without extended transition under APS 910 have successfully tested the format of payment instruction files with APRA's paying agent, the Reserve Bank of Australia (RBA), to ensure that FCS payments could be made if required.

During 2013/14, APRA also conducted an internal crisis simulation exercise involving a fictional life insurer. The simulation was observed by senior APRA staff, and a post-simulation report identified a number of enhancements that have been subsequently reflected in updates to APRA's crisis management plans.

AUTHORISED DEPOSIT-TAKING INSTITUTIONS

There was little change in the ADI population or its composition in 2013/14. One credit union and one building society converted their status to that of a mutually-owned bank, continuing a consistent recent trend. Since 2011, nine credit unions and two building societies, accounting for around 30 per cent of total credit union and building society assets, have rebranded as mutual banks.

The overall financial position of the ADI sector strengthened over 2013/14, supported by relatively stable economic conditions and improved funding markets. Industry profitability remained strong, with steady net interest margins, continuing declines in bad debts and cost savings from productivity initiatives. Capital ratios increased, with the weighted average Common Equity Tier 1 (CET1) ratio rising from 8.7 to 9.1 per cent. Funding and liquidity positions were significantly more resilient than prior to the financial crisis, and ADIs enjoyed ready access to term funding markets over the year.

Steady economic growth, moderate unemployment and historically low interest rates underpinned further improvements in ADIs' asset quality over 2013/14. Low interest rates not only reduced the debt burden for existing borrowers but also increased demand, particularly amongst the household sector, for new debt commitments. Credit growth strengthened moderately as a consequence.

Credit quality

During 2013/14, APRA's highest supervisory priority for the ADI sector has been lending for housing.

Residential mortgage lending has traditionally been a low risk and profitable business for ADIs. However, residential mortgage lending now accounts for about 60 per cent of the banking system's domestic loan portfolio, which is high by both historical and international standards. Just by virtue of its size, housing lending would justify additional supervisory scrutiny. In the current environment of historically low interest rates, high household debt, high and rising house prices and strong competitive pressures, APRA has been intensifying its monitoring of housing lending standards even further. Recent mortgage reviews of ADIs have, for example, paid particular attention to policies in relation to lending at high loan-to-value ratios and/or low serviceability ratios, including the robustness of controls ADIs have in place to ensure borrowers can still meet mortgage repayments should interest rates rise in the future.

In June 2011, APRA wrote to the chairs of a number of ADIs to remind boards of the need to be alert to any deterioration in credit standards in residential mortgage lending. At that time, APRA sought assurances that boards were actively monitoring their residential mortgage lending portfolios and were comfortable with their credit standards. Each of the boards concerned provided those assurances.

Since then, interest rates have fallen to record lows and pricing pressures have been building up in some housing markets. The potential risks about which APRA expressed concerns in 2011 have only risen further, particularly in the context of very active competition between lenders. Credit standards in residential mortgage lending have again come under pressure and, in some cases, have returned to pre-crisis settings.

In these circumstances, lending practices that may appear prudent at the individual institution level may, in aggregate, fuel systemic risks. Lending focussed on particular higher-risk segments may encourage speculative borrower behaviour that could have adverse consequences should interest rates rise strongly or economic conditions deteriorate. Even if individual institutions are well capitalised for the risks they are assuming, the cumulative effect of such lending may undermine the stability of the overall banking system. These concerns have led some countries that have had low interest rates and stable economic conditions to introduce 'macroprudential' measures recently to restrain residential mortgage lending.

During the course of 2013/14, APRA has gradually 'turned up the dial' to ensure ADIs are wary of the potential for further reductions in lending standards. This has included:

- additional data collections which have allowed APRA to more readily identify, and provide feedback to, those ADIs pursuing more aggressive lending policies;

- the issuance of *Prudential Practice Guide 223 Residential Mortgage Lending*, which outlines prudent practice in addressing housing credit risk within an ADI's risk management framework, in applying sound loan origination criteria and appropriate security valuation methods, in the management of hardship loans and in establishing a robust stress-testing framework; and
- seeking renewed assurances from the boards of the largest housing lenders that they and senior management are actively monitoring their institution's residential mortgage risk profile, including the impact of any changes to credit standards.

These steps have lessened some of the more aggressive lending that APRA had been observing. Nevertheless, competitive forces remain strong, and credit standards remain under pressure. In addition, the Council of Financial Regulators has been discussing the systemic risks that arise from emerging imbalances in the housing finance market, particularly in relation to housing investment. APRA, with advice from Council members, is considering what further steps might be appropriate to temper potential threats to the health of individual ADIs, or financial stability more generally, from these developments.

Credit growth in Australian business lending was much more subdued, and there was a further pronounced decline in the share of impaired exposures over the past year as ADIs worked through legacy problem loans. However, as the profile of existing exposures improves, APRA's credit risk reviews over the past year have indicated some of the same competitive pressures on lending standards are emerging in the wholesale (large value) business loan segment, reflected in lower loan margins, lengthened maturities and, in some cases, an easing of loan covenants. There are also early signs of some ADIs increasing their appetite for commercial property exposures, a segment that has on occasion led to large losses for some lenders. As with housing standards, this is an area that will also be subject to heightened scrutiny by APRA in the year ahead.

Capital

In its supervision of capital management, APRA's focus is on ensuring that ADIs do more than simply meet minimum regulatory requirements. ADIs must demonstrate to APRA that they have built and can maintain buffers that reflect their specific risk profile and give them the capacity to absorb significant losses during any periods of stress. The setting of these capital buffers is a crucial part of an ADI's internal capital management and planning, as defined in the ICAAP.

ADIs have substantially strengthened their capital positions since the global financial crisis. The aggregate CET1 capital ratio stood at 9.1 per cent at end-June 2014, around 40 basis points higher than a year earlier. This is not only well in excess of the 4.5 per cent minimum requirement that presently applies, but has the ADI sector well in excess of the new capital conservation buffer – which will see the effective minimum CET1 ratio increase to seven per cent – when it comes into effect from 1 January 2016.

In December 2013, APRA announced a framework for dealing with domestic systemically important banks (D-SIBs). From 2016, the four major banks will be required to meet a higher capital conservation buffer, with an additional CET1 capital requirement equivalent to one per cent of risk-weighted assets. The capital plans of the four major banks indicate they are well placed to deal with any adjustments to their capital positions in response to this additional requirement.

The current economic outlook should allow for adequate retention of earnings even with the existing high dividend payout rates. To shore up common equity, some of the major banks have again started to retain capital from dividend reinvestment plans (DRPs), following a period when they were either partially or fully offsetting the boost to common equity from DRPs by buying back shares in the market.

Liquidity

ADIs' resilience to funding-market shocks has significantly improved in recent years, with further strengthening evident in 2013/14.

Wholesale funding conditions have significantly eased, with spreads between Commonwealth Government Securities and the major banks' unsecured bonds at their lowest level since the onset of the financial crisis. This reduced risk aversion among global investors meant larger ADIs have had ready access to international wholesale markets for unsecured debt. As a result, the issuance of covered bonds in 2013/14 was minimal, with ADIs preferring to conserve their covered bond capacity well below legislative limits as a contingency against future disruptions to wholesale funding.

The more favourable conditions in wholesale markets have impacted pricing for domestic deposits, with competition easing in the latter part of the financial year. Activity in the residential mortgage-backed securities (RMBS) market also picked up, with spreads at their lowest level since late 2007. This market has in the past provided a significant source of funding for ADIs, and several have recently taken advantage of the more favourable conditions by increasing their issuance.

As a result of these developments, ADIs have continued to add to their holdings of high quality liquid assets and increase their share of funding from more stable sources.

This strengthening has occurred against the backdrop of, and been partly driven by, the implementation of the new Liquidity Coverage Ratio (LCR) requirements, which come into force in Australia in 2015. Besides finalising the regulatory framework for the LCR in late 2013,

its implementation has been a major area of supervisory focus for APRA for the past year. The LCR is designed to improve ADIs' resilience to liquidity shocks by requiring them to hold a stock of high quality liquid assets to cover the expected net cash outflows during a 30-day period of stress. Given the absence of sufficient high quality liquid assets in Australia due to the Australian Government's low levels of outstanding debt relative to the liquidity needs of the banking system, APRA and the RBA have implemented an arrangement to allow ADIs to access a standby liquidity facility at the RBA. This facility – the Committed Liquidity Facility (CLF) – allows ADIs access to secured funding from the RBA in the event of liquidity stress, in return for the payment of a commitment fee. ADIs may use the CLF to meet part of their requirement to hold high quality liquid assets, but to ensure it is used to the minimum extent needed, ADIs applying for such a facility must first demonstrate they have taken 'all reasonable steps' to meet the LCR requirement through their own balance sheet management.

To prepare for the introduction of the LCR, APRA conducted a trial exercise in 2013 in which supervisors evaluated *pro forma* requests from ADIs to access the CLF. It included scrutiny of three-year funding plans, reviewing the robustness of ADI liquidity transfer pricing, and evaluating remuneration incentives for executives responsible for funding and liquidity management. The process highlighted a number of areas with scope for improvement, and APRA supervisors continue to work with institutions on these issues ahead of the formal implementation of the LCR in 2015, including the determination of initial CLF amounts in late 2014.

GENERAL INSURANCE

There was a small decrease in the number of authorised general insurers and reinsurers during the year as some insurance groups rationalised licences inherited in previous acquisitions. The number of authorised insurers fell from 121 to 115 over the year. Insurance Australia Group's acquisition of Wesfarmers' insurance business also took effect on 30 June 2014, strengthening the market share held by large insurance groups in the personal and commercial lines markets. Despite the increasing concentration in both markets, healthy competition is evident among the large domestic insurance groups, APRA-authorised subsidiaries of foreign insurers and other local insurers.

The general insurance industry is strongly capitalised, with an industry capital coverage ratio of 1.9 times the regulatory minimum (before supervisory adjustments) at 30 June 2014. Capital levels have been bolstered by healthy industry profitability, in particular among personal line insurers that have benefited from premium increases and relatively benign weather conditions. In contrast, the financial performance of commercial insurers was subdued during the year as competitive pressures constrained premium growth. The low interest rate environment also had a negative impact on insurers' investment income.

Gross claims costs to insurers from natural catastrophe events during the year were at relatively low levels, with Cyclone Ita and bushfires in NSW and Perth having the most impact. However, a significant amount of claims on insurers (and reinsurers) from the series of natural

catastrophes in 2011, including the Christchurch earthquakes, are still outstanding. Where the recoverable reinsurance amounts associated with these claims are owing from non-APRA authorised reinsurers, higher capital charges apply because of the length of time they have now been outstanding, which in turn increases the affected insurers' capital requirements. APRA supervisors continue to monitor the impact of developments in this area.

Affordability of natural perils insurance remains a source of reputational risk for the industry, particularly for properties at high risk of damage from cyclone activity and riverine flooding. Where the cover for such perils is a compulsory part of insurers' policy offering, home and contents insurance may become unaffordable for some policyholders. In instances where riverine flood cover is available on an opt-out basis to owners of properties at high flood risk, policyholders may well exercise the opt-out provision because of the high cost of this cover, reducing their ability to withstand a flood event. Insurance affordability has received most attention in north Queensland, with the Australian Government considering options to address the issue.

APRA substantially revised the capital requirements for general insurers in 2012/13. The final component of these new requirements – the introduction of the insurance concentration risk charge (ICRC) for a series of significant natural peril events – came into effect on 1 January 2014. APRA supervisors engaged closely with insurers as they prepared for this change, which resulted in a higher ICRC for some insurers.

Catastrophe risk management

Recent natural catastrophes in Australia and New Zealand highlighted the need for general insurers to have robust reinsurance programs in place. A rigorous approach properly recognises the importance of strong governance and risk management processes in determining catastrophe reinsurance needs, and in the use of catastrophe models. APRA expects insurers' senior management to understand and challenge catastrophe model inputs, assumptions, process and outputs, and boards must provide strong oversight of catastrophe risk management frameworks.

A thematic review by APRA of governance and risk management processes as it relates to catastrophe modelling by general insurers highlighted a number of concerns in this area. These included the excessive reliance by some insurers on catastrophe model output in reinsurance purchasing decisions and the setting of capital targets, and the absence of formal processes to challenge this output. As part of APRA's drive to encourage better industry practice in this area, a letter was sent to industry in late 2013 setting out the conclusions from the thematic review and highlighting issues APRA expected insurers to address. Supervisors have been engaging with insurers during 2014 on their responses to the issues raised.

Low interest rate environment

The low interest rate environment poses challenges to the general insurance industry, and the risks arising from these conditions for a sample of insurers were examined by APRA during 2013/14, with a focus on governance practices, pricing, investment strategies and operational risk.

All insurers in the sample had appropriate management and controls in place. In their feedback, insurers acknowledged the continuing competition in some long-tail classes was constraining their ability to achieve adequate price increases to offset the negative impact of lower investment yields. Insurers also indicated they were not looking to significantly change their conservative investment strategies to seek higher yielding investments, including those strategies relating to their investments backing policy liabilities.

APRA supervisors will be continuing to review the effectiveness of insurers' risk management frameworks to ensure that insurers appropriately recognise and respond to changes in their risk profiles as investment market conditions alter.

Reserving risk

General insurers and reinsurers face the perennial risk of inadequate reserving for insurance liabilities – particularly those liabilities with a long tail – which leaves them exposed to significant losses if the claims outlook deteriorates in later years. This is a heightened risk in the present environment given a range of challenges to insurers' profitability, which can create pressure to release reserves to support short-term results. These challenges include pressure on underwriting results arising from competitive pressures in a number of lines as well as the low interest rate environment dampening investment income. As a result, APRA is closely monitoring industry practice in this area.

Other supervisory matters

The low interest rate environment is one of the drivers of increased demand from global capital market investors for insurance-linked investments, due to the higher yields on offer from these products. These products, which are substitutes for traditional reinsurance, are largely concentrated in the US property catastrophe and retrocession market and have led to direct pressure on the pricing and profit margins of traditional reinsurers operating in that market. The growth in these products offshore has also contributed to an excess of traditional property reinsurance on offer in peak areas such as Australia, resulting in downward pressure on pricing.

A review by APRA during the year found that there is little appetite at present among Australian insurers for these alternative reinsurance products. Insurers surveyed had a preference for traditional reinsurance because it is readily available on favourable terms and conditions. Some insurers also cited the value of maintaining longstanding relationships with their traditional reinsurers, and the cost effectiveness and certainty of traditional arrangements. APRA will continue to monitor developments in this area and, where needed, review alternative reinsurance arrangements entered into by Australian insurers to ensure they adequately address APRA's reinsurance and collateral requirements.

Underwriting and pricing processes remain key areas of focus for APRA given that any deficiencies in these processes can lead to declining profitability and, eventually, declines in insurers' capital coverage ratios. Pricing risk in the commercial lines segment has been the subject of an APRA review throughout 2014, as an oversupply of capacity has fed heightened price competition, with insurers at risk of mispricing risks to the detriment of future profitability and capital levels. APRA has sought to identify changes to market share among commercial line insurers that can be attributed to aggressive pricing strategies, and examine the adequacy of premiums for business classes in this segment. This review will assist APRA supervisors in their ongoing engagement with insurers around pricing strategies and processes.

LIFE INSURANCE AND FRIENDLY SOCIETIES

As at 30 June 2014, there were 28 registered life insurers and 12 registered friendly societies. The number of registered friendly societies fell from 13 to 12 during the 12 months to 30 June 2014 as a result of the merger of Lifeplan Australia Friendly Society Limited with Australian Unity Investment Bonds Limited, which had acquired Lifeplan some years prior.

Strength in equity markets contributed to the 10 per cent growth in industry assets, and encouraged growth in superannuation-based premium inflows. Over 90 per cent of life insurer assets support superannuation business. Growth in the friendly society industry has been more limited, with benefit fund assets increasing by just under five per cent over the year. The sector remains reliant on savings products, which has become a highly competitive market.

Risk insurance premium revenue growth was strong during 2013/14, at 12 per cent and 19 per cent for individual and group business respectively. For individual business, this growth was largely driven by automatic age- and inflation-related increases, while for group business higher premiums reflected insurers' responses to recent poor disability claims performance.

The recent poor experience in group risk has resulted in a considerable easing of competitive pricing pressures for this line of business, and some quite large rate increases have been implemented as a result. Competition remains strong in the individual risk market, though some price increases have been evident in this area as well. Despite this, life insurance industry profitability was down 12 per cent for the year, mainly due to poor claims experience for both group and individual lines and higher lapse rates for individual business. Low interest rates, leading to subdued investment income, also presented a challenge to life insurers.

Lapse rates for individual risk business have continued to rise and are now significantly higher than several years ago. This change in lapse experience is attributed to a number of factors including a declining need for risk insurance by ageing 'baby boomers', stronger competition in the market, pressure on some households' budgets leading to some pruning of discretionary expenditure, and the longer-term impact of premium rates that automatically increase each year with age.

It is also possible that consumers recognising the life insurance cover they hold no longer meets their changing needs, and that product 'churn' by financial advisers in light of the attraction of very high up-front commission rates for new business, has contributed to lapse rates. Working in conjunction with the Australian Securities and Investments Commission (ASIC) as it undertook a program to review industry practices, APRA has highlighted to insurers the significant reputational risk attached to inadequate oversight of sales practices.

The industry's capital position remained robust in 2013/14. As at 30 June 2014, the aggregate capital held for life insurers was 1.9 times the regulatory minimum (before supervisory adjustments), while for friendly societies the multiple was 2.6. While this ratio varies considerably across individual life insurers and friendly societies, in overall terms the industry is well capitalised and capable of withstanding significant headwinds.

As with general insurers, a well-structured and rigorous stress testing program is an essential component of a life insurer's capital management strategy, and the adequacy of stress testing is one area of improvement identified by life insurers in their ICAAPs. Following its ADI stress test in 2014, APRA is planning a standardised stress test to be applied to a representative sample of life insurers in 2014/15.

Group risk insurance

The group risk insurance claims experience was the main contributor to lower overall industry profitability in 2013/14.

The second half of 2013 saw a number of insurers and reinsurers report poor profit results – including significant losses in some cases – from group risk contracts, mostly for industry superannuation fund schemes. While this has been mainly attributed to rising total and permanent disablement (TPD) lump-sum benefit claims, the claims experience for disability income benefits was also poor.

In response to this poor experience, by the end of 2013 three major reinsurers had ceased quoting on new TPD business, and quotation on TPD renewal business was generally conditional on minimal changes to contract terms. Given that group risk business is typically a 'bundled' package of TPD and death cover, this effectively meant a significant reduction in reinsurer capacity available to group risk insurers. While there appears to be some interest from additional foreign reinsurers in writing business in Australia, the recent reduction in capacity has posed challenges for group risk insurers seeking reinsurance, resulting in significant premium increases for many group policies.

Factors contributing to this situation include:

- record amounts of default cover being made available without underwriting;
- a weakening of underwriting controls for optional levels of cover, and automatic acceptance of incremental increases in cover without the need for medical tests;
- the growth in complexity of TPD benefit definitions, resulting in some types of claims being admitted that arguably may not have been intended to be covered by the policy wording;
- changing community attitudes to mental health, leading to a higher prevalence of claims for stress-related illness;
- more claims now being subject to the involvement of lawyers on behalf of claimants;

- superannuation fund member awareness of life insurance cover available through superannuation, leading to a higher propensity to claim; and
- failure to match the greater complexity of the claims environment with development of an adequate pool of experienced claims staff.

Despite a number of warnings from APRA, group risk insurers have been slow to accept that significant price reductions combined with softer underwriting practices and enhancements to benefits would ultimately affect profitability. Nor was the emergence of other underlying headwinds recognised in a sufficiently timely fashion or allowed for in pricing assumptions.

The immediate response of affected life insurers has been to lift premiums sharply to redress losses. Not only has this led to adverse outcomes for superannuation fund members, it does not address the structural problems that caused the situation. APRA supervisors are therefore coordinating closely across the life insurance and superannuation sectors to ensure that life insurers, reinsurers and superannuation fund trustees are working together to identify and resolve the underlying causes of the strains in the group risk insurance market. Throughout, APRA's message to life insurers and reinsurers has been that boards must ensure they understand adequately the risks they incur in group insurance business, and that risk management processes are adequate for the uncertainties in this line of business.

Many life insurers and reinsurers have subsequently undertaken extensive reviews of their group-risk pricing methodology, product design and claims management. Foreign-owned reinsurers in particular have drawn on their global experience and expertise to seek better insights into the Australian market so as to improve performance.

On 1 July 2013, APRA's new prudential standards for superannuation came into effect – including *Prudential Standard SPS 250 Insurance in Superannuation*. Two critical new responsibilities of trustees under SPS 250 are (a) for an insurance management framework that reflects the risks associated with making insured benefits available, and (b) the need to maintain records of sufficient detail that a prospective insurer can properly assess the insured benefits made available. APRA supervisors are reviewing the adequacy of trustees' implementation of the new prudential standards. As noted below, the availability of sufficiently detailed, accurate and timely insurance-related data appears to be lacking across the industry and APRA has informed life insurers and superannuation fund trustees of the need for improvement in this area. APRA has issued guidance for superannuation fund trustees to assist them in meeting the requirements of SPS 250 and is currently preparing relevant guidance for life insurers.

Other supervisory matters

Given the industry trends and issues outlined, it is not surprising that APRA's supervisory intensity has lifted significantly in the past 12 to 18 months. APRA supervisors have closely monitored developments and taken steps to highlight to boards and management the poor risk management practices that have contributed to the current situation. Life insurers have also been urged to analyse claims trends so as to identify and respond to the causes of adverse claims experience. APRA strongly supports the use of industry wide claims studies to this end. It is evident that the quality of data held by life insurers is mixed, and that a lack of sufficiently detailed, accurate and timely data impedes appropriate analysis in many cases.

Some forms of life insurance business remain exposed to investment market risks. Investment markets have been generally positive in the last financial year, the Australian equities market rose 12 per cent over 2013/14 and, while longer term interest rates rose slightly over the same period, the official cash rate remains historically low. Low interest rates across the yield curve have reduced investment income, presenting a long-term challenge to those parts of the industry that are also facing a worsening claims experience and sharpened competitive pressure. APRA continues to monitor industry's exposure to asset market risks.

Life insurers also report challenges attracting and retaining claims staff, which is putting pressure on remuneration of experienced staff in this field. Most life insurers have commenced projects to address the cost of managing claims and improve their handling. In particular, early intervention in major injury claims is acknowledged widely as a key factor in reducing claims costs and supporting claimants. However, managing such claims effectively requires a specialist expertise that has been in short supply for some time. This suggests the need to better develop and invest in the pool of capable and experienced claims staff, which presents another longer-term challenge for the industry.

Finally, APRA supervisors consulted closely with insurers through 2013/14 as life insurers and friendly societies continued to bed down new internal processes associated with meeting the new capital adequacy standards that took effect on 1 January 2013. The integration of life insurance with broader wealth offerings in many institutions meant that the adjustment to other regulatory changes, including the Future of Financial Advice (FOFA) and Stronger Super reforms, were also key areas of focus during the year.

SUPERANNUATION

The long-term trend of superannuation industry consolidation continued in 2013/14, albeit at a slower pace than was evident several years ago. Over the year the number of trustees with Registerable Superannuation Entity (RSE) licences declined by 25 to 168, and the number of funds under their trusteeship fell by 239 to 3,127.

The superannuation industry experienced a year of sound growth supported by good investment performance. Continuing strength in global and domestic equity markets resulted in the fifth consecutive year of positive investment returns, and the second consecutive year of double-digit returns. The total value of superannuation assets at end-June 2014 was \$1.9 trillion, equivalent to 117 per cent of Australia's GDP. While net contributions to the industry were stable from quarter-to-quarter, the level of total benefit payments continued to rise as the system matures and a larger proportion of members move into retirement.

A significant focus for the industry during the year was complying with new prudential standards that came into effect on 1 July 2014. Despite the considerable work by many funds to meet the new standards, it was evident during the year that some needed to make further changes to policies, procedures and processes to fully embed the new requirements. This applied across a number of areas covered by the prudential framework, including risk appetite and risk management, investments, insurance, and stress testing. Funds also have been building up financial resources necessary to meet the new operational risk financial requirement that came into effect on 1 July 2013.

In applying the new standards, APRA takes into consideration the size, complexity and business operations of individual institutions. APRA's approach throughout the year was that if funds were making a substantial effort to comply, it would work with trustees rather than take supervisory action in the near term. More than one year on from the effective date of the new standards, however, this period of forbearance has come to an end and APRA expects that all funds now fully comply with the new standards.

To assess the level of progress in implementing the key new prudential requirements, APRA has commenced a series of thematic reviews examining a cross-section of the industry. These provide the opportunity to engage with RSE licensees on current industry practice, share views, outline expectations, and identify any areas for improvement or requiring further industry guidance. The two reviews currently underway are examining insurance risk management and conflicts-of-interest management, both areas in which APRA believes there is room for considerable improvement in industry practices.

Engagement with industry has been a key aspect of implementation, particularly around collection and publication of statistical data. To this end, a number of roundtable discussions were held involving industry associations and selected superannuation funds with a particular focus on the confidentiality of data, terminology to describe the segmentation of the industry and issues related to revised quarterly reporting.

MySuper authorisation

The implementation of MySuper saw an increased level of supervisory involvement from APRA, particularly during the authorisation process. Complying with the requirements for MySuper was a significant undertaking for RSE licensees that sought to offer such products, needing to address the express legislative requirement that they promote the financial interests of MySuper members, meet the enhanced trustee obligations for MySuper products, and meet the relevant superannuation prudential standards introduced with effect from 1 July 2013.

The licensing process began in early 2013 and continued throughout the year, with MySuper products offered by some funds from 1 July 2013. From 1 January 2014, all default superannuation contributions had to be paid into MySuper products.

APRA authorised 115 MySuper products before the end of 2013, two more in January 2014 and another one in June 2014. The number of MySuper products authorised by APRA is fewer than originally envisaged. This reflected in large part a reduction in the number of applications for tailored MySuper products for large employers following amendments to the *Superannuation Industry (Supervision) Act 1993* (SIS Act) to allow greater flexibility in product offerings, especially in relation to insurance.

Throughout the authorisation process, APRA provided feedback to industry on draft applications and policies to help ensure favourable outcomes when final applications were received. APRA also conducted detailed reviews of the applications and engaged closely with RSE licensees during the authorisation process. As many of the issues discussed were shared across a number of RSE licensees, answers to the common questions emerging were published on APRA's website to assist applicants. While the assessment of applications was undertaken primarily by APRA supervisors, a centralised internal review process ensured consistency in the approach and outcomes.

The focus of APRA's assessment was whether the RSE licensee in question was likely to comply with the rules and obligations for offering a MySuper product and, in particular, the enhanced trustee obligations set out in the SIS Act. The assessment process included consideration of responses to the information requested in the application or sought in addition by APRA, and the materiality of any perceived deficiencies in policies, procedures and strategies provided by the applicant in relation to the MySuper requirements. APRA also took into account the applicant's history under its supervision.

Areas where APRA provided the most feedback during the application process included the enhanced trustee obligations contained in the new covenants in the SIS Act and the requirements in APRA's prudential standards for governance, conflicts of interest (in particular the Register of Relevant Duties and Interests), the reasonableness of the proposed conditions for exclusion from opt-out insurance coverage, and the appropriate amount and tolerance limits for the Operational Risk Financial Requirement (ORFR). In relation to MySuper investments, discussions were around the structure and operation of lifecycle investment strategies, including the operational complexities around such strategies and funds' approach to stress testing.

As a result of this iterative process of feedback, no final applications for authorisation of a MySuper product have been rejected by APRA to date.

APRA will be engaged in the ongoing assessment of various aspects of My Super, including the identification and transition of Accrued Default Amounts. Other areas APRA will be examining when reviewing implementation of MySuper products include the performance of products against their investment return targets, the extent to which fee levels and structures are consistent with the legislative requirements, and compliance with the insurance requirements for MySuper products.

Governance

Across all of APRA's regulated industries, there is a heightened emphasis on engagement with boards. This reflects APRA's view that the actions and tone from the top – from directors and senior management – are critical to ensuring a robust approach to governance and risk management across the organisation.

This is particularly the case in superannuation given the heightened duties for trustee directors under the SIS Act legislation. In the past year, APRA's supervisors have engaged with both boards and senior management of funds to obtain a more in-depth understanding of strategic risks and issues. Throughout these discussions APRA is expecting to see evidence that directors have a sound level of understanding of the prudential issues, and approach their role with an independent and challenging mind.

APRA expects board members in the superannuation industry generally to display strong skills and capabilities, and a level of professionalism commensurate with their role in what are increasingly large and complex financial services operations. Directors need to possess the requisite skills and expertise, both individually and collectively, to discharge their roles as fiduciaries effectively. They also should ensure that the information provided to them is at the right level and sufficient to support their decision making.

As part of its engagement APRA is also assessing the effectiveness of board renewal policies, processes for appraising board performance and whether there are robust and transparent appointment processes as required by *Prudential Standard SPS 510 Governance*.

Insurance in superannuation

As noted earlier in this Chapter, a range of issues have adversely affected the pricing and accessibility of group insurance for superannuation funds, including historical pricing practices, the approach taken to tenders in the group risk market and the management of insurance data.

Implementation of the prudential requirements under SPS 250 are progressing but is generally at an early stage. There is considerable room for improvement in the Insurance Management Frameworks and Insurance Strategies that have been implemented as a result of the new prudential requirements to address the risks associated with insurance arrangements and the business processes requirements for these offerings.

The sustainability and appropriateness of benefit design is attracting increasing attention from most trustees in light of the problems that have emerged in the group risk insurance market. With insurance costs rising steeply for some funds, APRA has also asked funds to consider whether the levels of insurance are appropriate for their membership or risk unreasonably eroding retirement benefits. Data quality poses an ongoing challenge and, as noted earlier in this Chapter, APRA has been stressing the need for RSE licensees to be proactive in developing data management protocols with administrators and insurers, putting in place processes to improve data quality and ensuring that there is a sufficient run of data to assess historical portfolio performance. APRA has also been encouraging funds to undertake more detailed assessments of their insurance portfolios.

Conflicts of interest

Detailed information about the range of conflicts-management practices was gathered as part of the MySuper authorisation process. APRA has been assessing how these practices, and others in place more broadly across funds, are being applied in a range of different circumstances.

APRA has observed that the conflicts registers vary in quality, and that there are widely differing approaches to what is considered a 'relevant' interest or duty. There are also evident in the superannuation sector a number of instances where directors have multiple roles and complex inter-relationships within the industry. Boards need to assess the extent to which these relationships involve, or may be perceived to involve, conflicts and determine how such relationships are managed and reported, with regard to members' best interests.

Risk management

Discussions on risk management have formed a significant part of APRA supervisory work over the past year. The introduction of *Prudential Standard SPS 220 Risk Management* from 1 July 2013 imposed a requirement on boards to have a robust risk management framework in place, and for these to work effectively. Under the standard, trustee boards are expected to set and articulate their risk appetite and risk tolerances, and ensure they are embedded in fund operations.

In many instances APRA has asked funds to further develop and clarify Risk Appetite Statements, and it sees scope for improvements in this area. There is an expectation that boards have a clear view on the degree of risk that is acceptable within the business, that this view is clearly articulated, and that prompt action is taken when risk exceeds approved limits.

Data integrity

Data integrity continues to present as a significant issue for the superannuation industry. Poor data quality has the potential to threaten the delivery of SuperStream objectives and compromise APRA's data collection. Poor quality data in the insurance area have resulted in upward pressure on prices and made the consideration of appropriate benefit design more difficult. Poor data may also impact fund members through incorrect benefit payments, inappropriate investment offerings and a general lack of confidence in the integrity of the system.

APRA has continued to stress to RSE licensees the importance of data integrity and robust data management in meeting their obligations to members, as there remains significant room for improvement in data management practices across the industry. While improvements are expected to flow from the data quality requirements embedded in SuperStream, it may be some time before these are evident. APRA expects that once they are fully implemented, the new data collection and reporting requirements will improve the insight into the quality of industry-wide data and lead to further improvements in data integrity.

When RSE licensees are tendering for services, particularly administration and insurance, APRA expects they will ensure that data needs are an integral part of the tendering process. Among other things, this means considering whether pricing of services provides sufficient resources for the adequate management of data, and provision for that data to have the quality and timeliness required to meet APRA's prudential requirements.

Liquidity

Liquidity issues that emerged during the global financial crisis have slowly subsided as members' funds in frozen investment options have gradually been released, and the level of frozen funds has been reduced.

However, a number of factors continue to impact the liquidity need of funds including portability requirements, transfers of 'lost' money to the Australian Taxation Office (ATO), outflows to self-managed super funds (SMSFs) and an increasing number of members approaching the withdrawal phase. A number of funds have also been increasing investment in less liquid asset classes such as infrastructure. This has not given rise to any particular concerns as these assets are consistent with superannuation as a long-term investment. Funds are nevertheless encouraged to consider the liquidity impact of these investments especially if they form a significant part of the investment portfolio. The new obligation on funds to process rollovers within three days has also focussed the attention of RSEs on liquidity.

Superannuation Prudential Standard SPS 530 Investment Governance imposes a higher standard of governance in relation to liquidity risk management. APRA requires RSE licensees to have a liquidity management plan that outlines procedures for measuring and monitoring liquidity on an ongoing basis. RSE licensees must consider how liquidity would be managed in a range of stress scenarios and the actions that would be taken in response to adverse liquidity events. The requirement to undertake stress testing is new for many superannuation funds and the industry has some way to go to fully embed this requirement. Liquidity management practices across the industry have continued to improve, although many trustees continue to lag in the areas of liquidity monitoring, contingency planning and liquidity stress testing. With improved understanding and risk management of liquidity needs, RSE licensees will be in a position to better assess whether their present liquidity requirements are appropriate for their current and future needs.

Other supervisory matters

SPS 530 requires an RSE licensee to have in place an investment governance framework for the selection, management and monitoring of investments, including monitoring and management of investment risk, that is in the best interests of beneficiaries. All trustees are expected to have put in place a process for deciding what options are offered to members and an overarching philosophy on which products they feel are suitable for the fund to offer. For platform providers, this means that trustees must have in place suitable

arrangements such that the larger number of investment options offered under this model are adequately monitored to assess performance, whether they are meeting the trustees criteria and are 'true to label'.

APRA has also been working closely with the ATO to ensure the smooth and effective implementation of the various elements of SuperStream. During the year the focus moved from rollover transactions, for which the industry progressively commenced operating under new requirements, to contributions processing. The latter covers a wider range of stakeholders including employers, payroll providers, clearing houses and gateway operators. Although it is expected that many funds will be receiving contributions in a compliant form by the end of 2014, RSE licensees that notified the ATO by 30 September 2014 of a later date have until 1 July 2015 to be fully compliant.

In May 2014, APRA and the ATO jointly wrote to all RSE licensees to clarify timeframes and key responsibilities in relation to contributions data and processing, including the expectation that breach reporting is not necessary in the period to 30 June 2015. To assist industry during this implementation period, APRA also announced that the collection of data to be used by Treasury and the ATO to measure SuperStream outcomes will not commence until 1 July 2015.

ENFORCEMENT ACTIVITIES

APRA's supervisory approach is aimed at identifying and evaluating potential risks in regulated institutions at an early stage, and ensuring that these are appropriately mitigated before they could pose any threat to the viability of the institution. In other words, APRA seeks where possible to act pre-emptively to prevent problems, rather than deal with the consequences after they have occurred. APRA therefore initially seeks a collaborative approach to resolving prudential issues with boards and management of APRA-regulated institutions. This is often the least costly and most effective means of addressing supervisory issues that APRA identifies.

APRA is also empowered by legislation to take enforcement action when necessary. As a prudential regulator, APRA uses its formal enforcement powers less than traditional law enforcement agencies, preferring instead to focus on risk management practice and prevention measures. However, should an institution be unwilling or unable to take necessary corrective action, APRA will use its enforcement powers to protect the interests of depositors, policyholders and superannuation fund members. As a result, APRA does take enforcement action from time to time when unsound practices are being followed, when an institution finds itself in financial stress, or when the behavior of an institution or some of its officers is putting the institution's ongoing viability at risk.

During 2013/14, APRA undertook 181 enforcement and related actions, down from the 250 actions reported the previous year. The reduction is largely a result of a number of formal investigations being finalised during the year. This has allowed APRA to reallocate some of its enforcement resources to assist frontline supervision teams in the early identification of risks in institutions, with a view to reducing the need for formal intervention at a later stage.

APRA's investigation in relation to Trio Capital Limited was completed during 2013. Prior to its removal as a trustee in December 2009, Trio was trustee to four APRA-regulated superannuation funds and two pooled superannuation trusts. In mid-2013, APRA's investigation resulted in six former directors of Trio entering into enforceable undertakings with APRA, thereby removing them from the superannuation industry for varying periods. APRA commenced legal proceedings against another director of Trio in 2013/14, although the matter was discontinued when the director chose to also enter into an enforceable undertaking. The total number of former Trio directors who have entered into enforceable undertakings with APRA following the Trio investigation is 13.

APRA aims to ensure that regulated institutions and the responsible persons associated with these entities operate in a prudent and professional manner. When APRA detects inappropriate behaviour by directors of any regulated institution, it will take action to deal with these individuals. During the year APRA's enforcement area was closely involved with APRA supervisors on two matters involving directors of superannuation fund trustees. In one case, APRA's enquiries into expense claims at a trustee led to the dismissal or resignation of the Chief Executive Officer and two directors of the trustee. During this period APRA closely monitored the trustee's funds under management, which were subsequently transferred to a successor fund.

In the general insurance industry, APRA continued its administration of the FCS (the Policyholder Compensation Facility). This had been triggered in 2009/10 in relation to Australian Family Assurance Limited, a small general insurer to which a judicial manager (now liquidator) has been appointed. APRA and the liquidator finalised two claims in 2013/14. Only one claim remains open and APRA continues to work with the liquidator to explore options to allow this claim to be transferred to another insurer, which will allow the company to be wound up. The Committee of Creditors approved the payment of a partial dividend representing the bulk of the assets held by the liquidator in April 2014, which saw funds returned to the Federal Government in partial compensation for its funding of the FCS operation.

APRA has also continued to work closely with the judicial manager (now liquidator) to finalise the wind-up of another small general insurer, formerly known as Rural and General Insurance Limited. The liquidator expects to be able to wind up the insurer over the coming months pending the resolution of one insurance claim and one reinsurance recovery.

In the banking industry, APRA considered 109 matters during 2013/14 relating to the use of restricted words 'bank', 'banker', 'banking', 'credit union' or like names under section 66 of the *Banking Act 1959*. This is an increase on the 94 such matters considered the previous year.

APRA continues to develop its network of information sharing with other regulators and law enforcement agencies to ensure that its supervisors have access to, and can assess the impact of, any relevant information on their regulated institutions. APRA can now access the Australian Transaction Reports and Analysis Centre's (AUSTRAC) Transaction Reports Analysis and Query database, which will be used to bolster its prudential supervision and enforcement activities. APRA has also been involved in a project coordinated by the Australian Crime Commission, which includes the Australian Federal Police, ATO and ASIC, that is developing a picture of the risks posed by crime entities deemed to have the highest impact on Australian investment and superannuation markets. Finally, as noted further in Chapter 4, APRA entered into a Memorandum of Understanding (MoU) with the Australian Federal Police.

Enforcement and related actions

	ADIs		Superannuation		General Insurance		Life Insurance		Friendly Society		Other ¹		Total	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
AAT/Federal Court	0	0	0	1	0	0	0	0	0	0	0	0	0	1
Directions & Contravention Notices ²	9	15	68	1	0	1	0	0	0	0	5	5	82	22
Enforceable Undertaking	0	0	2	5	0	0	0	0	0	0	0	0	2	5
Follow-up delayed contributions	0	0	2	5	0	0	0	0	0	0	0	1	2	6
Investigation action	0	0	36	0	0	0	0	0	0	0	0	0	36	0
Other Actions ³	31	25	0	2	0	3	0	0	0	0	52	71	83	101
Refer to other agency/police	3	18	28	23	1	2	0	0	0	0	5	2	37	45
Show cause letter	0	0	4	0	0	0	0	0	0	0	0	0	4	0
Determination FCS	0	0	0	0	4	1	0	0	0	0	0	0	4	1
Total	43	58	140	37	5	7	0	0	0	0	62	79	250	181

1 Includes institutions not regulated by APRA suspected of conducting unauthorised activity

2 The total of 22 actions for 2013/14 includes 16 actions relating to the use of restricted words.

3 Includes monitoring of foreign bank representative offices. The total of 101 actions for 2013/14 includes 93 actions relating to the use of restricted words.

THE PRUDENTIAL FRAMEWORK



CROSS-SECTORAL ISSUES



AUTHORISED DEPOSIT-TAKING INSTITUTIONS



GENERAL AND LIFE INSURANCE



SUPERANNUATION

3



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

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

International bodies such as the International Monetary Fund (IMF), Financial Stability Board (FSB) and the Basel Committee on Banking Supervision are subjecting national regulatory arrangements to greater scrutiny of their adherence to internationally-agreed minimum standards. In this context, in 2013/14 Australia's Basel III capital framework was subject to peer review by other Basel Committee jurisdictions as part of the Committee's Regulatory Consistency Assessment Programme (RCAP). The RCAP assesses the content and substance of a jurisdiction's bank capital requirements, their consistency with the minimum standards set out in the Basel framework, and the significance of any deviations. Pleasingly, APRA's requirements were found to be closely aligned with the Basel capital framework: 12 out of 14 assessed components were found to be 'Compliant'. The two components that were graded 'Largely Compliant' were the 'Definition of Capital' and the

'Internal Ratings-Based Approach for Credit Risk', where there are some variations from the Basel framework. These were, however, not regarded as material overall, and the overall framework for ADI capital adequacy in Australia was assessed as 'Compliant'.

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

APRA's prudential policy agenda in other industries has in recent years been largely domestic in nature, spanning three main initiatives. The first, largely completed in 2012/13, was updating and harmonising the capital adequacy framework for general and life insurers, designed to produce both more risk-sensitive and more efficient regulatory requirements. The second, now also largely complete, flowed from the Stronger Super reforms and involved a substantial enhancement to the prudential regime for superannuation, including the granting of prudential standards-making powers to APRA. The third is the development of a prudential framework for conglomerate groups and, related to this, harmonising and enhancing APRA's requirements for risk management. These last initiatives are now nearing completion.

As part of the Government's policy to boost productivity and reduce regulation, APRA is currently undertaking a project to identify areas where regulatory cost savings for the industry and APRA may be achieved, without jeopardising the overall effectiveness of the prudential framework. Working with input from industry, APRA has identified a range of areas where refinements to the prudential framework may be able to be made without unduly compromising sound prudent outcomes. A prioritisation process is being undertaken to identify specific options to pursue, having regard to the extent of compliance cost savings available, effort likely to be involved in making any changes and the likely prudential impact. APRA expects to be able to announce an initial set of proposals in the near future.

CROSS-SECTORAL ISSUES

Risk management

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

During 2013/14, APRA finalised a cross-sectoral prudential standard on risk management, applying to ADIs and insurers. As well as consolidating existing individual industry standards, *Prudential Standard CPS 220 Risk Management*

included enhanced requirements in some areas. The most important of APRA's proposed risk management enhancements were:

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

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

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

Supervision of conglomerate groups

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

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

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

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

The framework has four broad components:

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

APRA has identified eight conglomerate groups to which it intends to apply the framework. These groups control approximately 80 per cent of the assets of all APRA-regulated institutions. The importance of strong group-wide governance, risk management and capital adequacy is therefore critical not just to these groups, but to the stability of the financial system more broadly.

When releasing its planned final framework in August 2014, APRA also indicated that the implementation date for the framework would be deferred, pending the outcomes of deliberations on these matters, and broader regulatory arrangements, being undertaken by the Financial System Inquiry (FSI). APRA also committed to ensuring the affected groups have a minimum of 12 months' transition time before any new standards come into force. However, as currently proposed, the conglomerate groups to which APRA intends to apply the Level 3 framework will not need additional capital to meet the new requirements.

AUTHORISED DEPOSIT-TAKING INSTITUTIONS

Basel III and associated reforms

Basel III is a comprehensive set of reforms, developed by the Basel Committee on Banking Supervision, to strengthen the resilience of the banking sector to future financial shocks.

The Basel III reforms focus on revisions to the capital and liquidity frameworks of banks. They have been supplemented by additional measures to be applied to banks that are deemed to be systemically important in a global or domestic context.

Capital

APRA commenced its formal consultation process on the Basel III capital reforms in September 2011, and the new requirements came into force at the beginning of 2013, consistent with the internationally-agreed timetable. A key aspect of these reforms was a strengthening of requirements to ensure that capital instruments were truly loss

absorbing. In particular, Basel III requires that non-common equity regulatory capital issued by ADIs must be able to be written off or converted to ordinary shares if specific limits relating to capital levels, or the issuer's general viability, are breached. This particular aspect of Basel III posed a challenge for mutual ADIs because conversion to common equity is not possible under a mutual corporate structure.

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

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

Capital comparison table

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

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

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

Domestic systemically important banks

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

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

The D-SIB framework is less prescriptive than the G-SIB regime. It comprises principles for establishing a methodology to identify D-SIBs and the higher capital requirement for banks so identified. The framework also emphasises that other policy tools, such as more intensive supervision, should play an important role in dealing with D-SIBs.

In December 2013, APRA published an information paper setting out its framework for dealing with D-SIBs. The information paper provides details on the methodology APRA has used to identify D-SIBs in Australia, which has regard to the Basel Committee's four key indicators of systemic importance: size, interconnectedness, substitutability and complexity. Based on its assessment of these indicators, APRA has determined that the four major banks are clearly D-SIBs, and that no other Australian bank is close to the D-SIB threshold.

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

Liquidity

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

APRA released an initial consultation package on the Basel III liquidity reforms in November 2011. During the second half of 2013, APRA consulted on a revised version of the proposals. In December 2013 the final policy framework was announced. The new LCR framework does not apply to all ADIs; rather, it applies only to larger ADIs where cash flow modelling is warranted. Smaller ADIs remain subject to the Minimum Liquidity Holdings approach that has been in place for many years. APRA also indicated that, by virtue of the provision of a Committed Liquidity Facility to ADIs by the RBA, Australian ADIs subject to the LCR could meet the new requirements in full by the internationally-agreed start date of 1 January 2015. As a result, no phase-in arrangements were needed.

In April 2014, the reporting requirements for the LCR were finalised, and ADIs began reporting under the new reporting standard from June 2014. APRA also took the opportunity of upgraded reporting to remove certain supervisory reporting arrangements, discontinuing with immediate effect a monthly template completed by 23 ADIs and a template completed by 30 ADIs twice a month. As part of that announcement, APRA also began a consultation process on a daily crisis reporting template which all ADIs would need to be able to produce immediately in the event of a liquidity crisis, or if APRA otherwise requests this information.

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

Disclosure

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

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

- liquidity-related disclosures for ADIs subject to the LCR regime;
- disclosure requirements in relation to the leverage ratio, which would initially only apply to ADIs accredited to use the internal ratings-based approach to capital adequacy; and

- disclosure requirements, that would apply only to the four major banks, in relation to the 12 indicators used in the G-SIB assessment methodology.

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

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

Securitisation

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

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

APRA's proposed approach to securitisation included the following features:

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

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

Residential mortgage lending

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

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

Banking Act exemption orders

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

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

In that same package, APRA also proposed to remove the exemption order for RCDFs, so that RCDFs wishing to continue to accept retail funding would need to become either an ADI or an RFC, or operate a managed investment scheme. After reviewing submissions and gathering further information about RCDF business models, APRA decided to revise this proposal and not

require that RCDFs wishing to offer products to retail investors operate under a different regulatory regime. Rather, APRA proposed to apply additional conditions to the exemption order for RCDFs consistent with those proposed for RFCs. This revised approach was set out in a response to submissions paper released in August 2013.

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

Crisis preparedness

While APRA places a strong emphasis on an active program of prudential supervision, it does not pursue a zero-failure objective. It therefore needs to be prepared for the possibility of an institution failing or other threats to the stability of the Australian financial system. This requires APRA to have procedures and documentation to support the assessments, processes and decisions required – often in a short time with limited information – in the event of a financial crisis. APRA also undertakes crisis simulation exercises to test APRA's capabilities in the areas of supervisory assessment and diagnostics, inter-agency coordination and information sharing.

Financial Claims Scheme (FCS)

The purpose of the Financial Claims Scheme (FCS) is to protect depositors of ADIs and policyholders of general insurers from loss following the failure of any of these institutions. APRA is responsible for administering the FCS.

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

Crisis management legislation

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

Loss absorbing capacity

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

GENERAL AND LIFE INSURANCE

Reinsurance counterparty data collection

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

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

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

Group insurance arrangements for life insurers

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

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

Data confidentiality

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

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

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

SUPERANNUATION

Implementing Stronger Super reforms

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

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

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

Prudential standards and guidance

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

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

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

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

Reporting standards

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

In June 2013, after extensive industry consultation, APRA issued a set of 32 final reporting standards for superannuation, developed as part of the Stronger Super reforms. This involved a significant updating of APRA's existing reporting requirements, which had not changed since their introduction in 2004. The new reporting standards were supplemented by the issue of three further reporting standards in September 2013 relating to the MySuper product dashboard, product disclosure statement fees and costs, and investment performance.

APRA is implementing the new statistical collection on a phased basis. New reporting requirements relating to MySuper products, prudential requirements and fund-level financial statements came into effect on 1 July 2013. Additional reporting requirements take effect from 1 July 2014 and 1 July 2015.

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

SuperStream

The SuperStream measures are intended to enhance the productivity and efficiency of the superannuation system. The reforms seek to make processing superannuation transactions easier, cheaper and faster; provide better information to RSE licensees, employers and fund members; and facilitate consolidation of redundant superannuation accounts.

SuperStream addresses the business processes associated with contributions, rollovers and the consolidation of superannuation accounts. Ultimately, the reforms are expected to lead to lower fees and improved processing timeframes for members.

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

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

APRA-regulated institutions

	Number			Assets (\$ billion) ¹		
	30 Jun 13	30 Jun 14	% change	30 Jun 13	30 Jun 14	% change
ADIs ²	172	169	-1.7%	3,177.2	3,396.0	6.9%
Banks	68	69	1.5%	3,103.0	3,324.0	7.1%
Building societies	9	9	0.0%	22.7	23.5	3.5%
Credit unions	88	84	-4.5%	44.1	41.3	-6.3%
Other ADIs, including SCCLs	7	7	0.0%	7.4	7.1	-4.1%
Representative offices of foreign banks	16	13	-18.8%			
General insurers	121	115	-5.0%	118.0	114.4	-3.1%
Life insurers	28	28	0.0%	256.7	282.7	10.1%
Friendly societies	13	12	-7.7%	6.3	6.6	4.8%
Licensed trustees ³	190	165	-13.2%			
Superannuation entities ^{4,5}	3,379	3,128	-7.4%	970.1	1,128.3	16.3%
Public offer funds	161	160	-0.6%	754.4	905.2	20.0%
Non-public offer funds	125	98	-21.6%	208.5	215.5	3.4%
Small APRA funds	2,950	2,745	-6.9%	2.0	2.1	5.0%
Approved deposit funds	66	59	-10.6%	0.1	0.1	0.0%
Eligible rollover funds	16	13	-18.8%	5.1	5.3	3.9%
Pooled superannuation trusts ⁶	61	53	-13.1%	99.4	108.2	8.9%
Non-operating holding companies	25	25	0.0%			
Total	3,944	3,655	-7.3%	4,528.3	4,928.0	8.8%

Notes:

1 Asset figures for end-June 2014 are based on most recent returns. Asset figures for end-June 2013 have been revised slightly from APRA's 2013 Annual Report in line with the audited returns received during the year.

2 The ADI classification does not include representative offices of foreign banks.

3 Licensed trustees does not include groups of individual trustees (GITs). As at end-June 2014, there were three GITs.

4 Superannuation figures from September 2013 are reported under the new reporting framework. Prior figures are based on the previous reporting framework. The change in total assets reflects, to some extent, the effects of transition to the new reporting framework.

5 Superannuation entities comprise registered and unregistered entities. From 1 July 2006, all trustees operating APRA-regulated superannuation entities were required to hold an RSE licence and register their superannuation entities with APRA. A small number of unregistered entities are still in the process of winding-up or transferring trusteeship to an RSE licensee.

6 Pooled superannuation trust assets are not included in totals as these assets are already recorded in other superannuation categories.

This page is left blank intentionally

COOPERATION AND LIAISON



AUSTRALIA



INTERNATIONAL



TECHNICAL ASSISTANCE

4



Cooperation and liaison with other agencies, both domestic and international, are essential components of APRA's supervisory and policy work. This cooperation and liaison takes the form of:

- engagement with other domestic financial regulatory agencies in pursuit of a resilient and stable financial system;
- liaison with other Australian agencies, industry bodies and overseas regulators as part of APRA's intelligence-gathering on the institutions and industries it regulates; and
- participation in global standard-setting bodies for prudential regulation, which gives Australia an active voice in global reform initiatives. This latter activity is essential for ensuring that characteristics of the Australian financial markets are recognised, as necessary, when global standards are developed, and that APRA can weigh up the suitability of new global standards for the Australian prudential framework.

AUSTRALIA

One of the major strengths of Australia's financial regulation has been the effective working relationships between APRA and the other key Australian financial regulatory agencies – the RBA and ASIC. APRA also maintains a close and cooperative working relationship with the Australian Treasury, reflecting its important role advising the Government on policy and possible legislative reforms that are necessary to promote a sound financial system and architecture.

APRA has bilateral relationships with each of these agencies, built on frequent dialogue at multiple levels within each organisation. These relationships have proved invaluable in ensuring that each agency is aware of significant issues and developments faced by the others and, where relevant, to coordinate activities and exchange relevant information.

The four agencies also cooperate on a multilateral basis through their shared membership of the Council of Financial Regulators. The Council, chaired by the Governor of the RBA, works as a forum for coordination and information exchange between members on financial policy and regulatory issues. Its objectives are to contribute to the efficiency and effectiveness of regulation and promote stability of the Australian financial system.

Over 2013/14, the Council's work on crisis management continued to explore resolution options in the event of a distressed ADI, including how the FCS would be implemented and how other potential crisis management actions may be deployed in a resolution scenario. APRA participates in two Council working groups on crisis management arrangements, and the Council also works with the New Zealand Treasury and the Reserve Bank of New Zealand (RBNZ) on trans-Tasman crisis management arrangements.

APRA also participated in the Council's work on financial market infrastructures. One key component of this work has been the reform of the over-the-counter (OTC) derivatives market; in particular, the G20 commitment to see all OTC derivatives reported to trade repositories and all standardised OTC derivatives centrally cleared and traded on electronic platforms, where appropriate. The other has been to upgrade the regulation of financial-market infrastructures in Australia so as to improve the effectiveness of regulatory oversight and the management of risks to stability and market integrity.

APRA's close relationship with the RBA is the foundation for the shared responsibility of the two agencies for the stability of the Australian financial system. A crucial element in the relationship is, therefore, the regular sharing of information about emerging systemic risks, from both domestic and offshore sources. Other issues discussed during the year, particularly through the formal channel of the RBA/APRA Coordination Committee, included the implementation of the RBA's Committed Liquidity Facility in the context of the Basel III liquidity reforms, residential mortgage lending activity, stress testing, innovation in payments systems and the coordination of RBA and APRA activities on the Basel Committee on Banking Supervision.

Cooperation between APRA and ASIC is clearly important due to the number of financial institutions where both agencies have regulatory responsibilities. Regular forums exist between the two agencies to ensure there is appropriate sharing of relevant information and market intelligence. These meetings focus on a range of matters including policy, operational supervision, and issues related to enforcement. The forums also discuss the practical implications for supervision arising out of changes to legislative and administrative procedures, with a view to reducing the burden of supervision on regulated institutions.

Over 2013/14, a number of specialist groups from APRA and ASIC were formed to work on the various streams of the Stronger Super reforms that affected institutions regulated by both agencies. These groups were instrumental in ensuring coordinated implementation of the reforms.

APRA's active engagement with Treasury in 2013/14 centred on legislative initiatives relevant to APRA's powers and responsibilities. Close attention was given to aspects of the legislation and regulations required to implement the Stronger Super reforms, the second of which granted APRA prudential standards-making power in superannuation. Senior APRA and Treasury officials also met regularly to discuss the reform agenda of the G20 and the FSB, the activities of global standard-setting bodies, and related domestic reform initiatives.

Beyond the members of the Council, APRA also has active engagement with a range of other domestic bodies.

APRA undertakes regular liaison with the Australian Transaction Reports and Analysis Centre (AUSTRAC) via the AUSTRAC/APRA Coordination Committee established under the Memorandum of Understanding (MoU) between the two agencies. Meetings of this Committee allow APRA and AUSTRAC to update each other on relevant regulatory and industry developments, and to share relevant findings from supervisory activities. Referrals on specific regulatory matters and exchanges of information between the agencies are based on protocols that have been developed to comply with relevant confidentiality requirements set out in legislation.

Effective from July 2014, APRA entered into an MoU with the Australian Federal Police to ensure that relevant information can be shared between the two agencies in a timely and transparent manner. APRA will continue to work to ensure it has arrangements in place with regulatory and law enforcement agencies that support the sharing of relevant information.

APRA has a long history of cooperation with the ATO on superannuation matters. These arrangements are set out in the APRA/ATO MoU, which was reviewed and updated in December 2013. Regular consultation occurs across a range of superannuation administration and policy issues, including the public register of superannuation funds, ATO rulings, determinations and interpretative decisions and APRA prudential standards and practice guides. During 2013/14, for example, there was close coordination on introduction of the *Superannuation Data and Payment Standards 2012* and related issues around the implementation of SuperStream, with the Contributions Implementation Working Group and the SuperStream Reference Group proving to be valuable forums for coordination.

Regular interaction between APRA and ATO staff (including on data interchange for superannuation matters) is supported by *ad hoc* meetings on specific issues as required. APRA also participates in the Superannuation Industry Advisory Group (SIAG) and the Superannuation Industry Relationship Network (SIRN), both of which are coordinated by the ATO. SIAG meetings, which are attended by senior representatives from Treasury, APRA, ASIC, the ATO and a wide range of industry bodies, provide a forum for discussion of strategic and other high priority matters relevant to the superannuation industry. SIRN meetings provide a forum to discuss technical issues, to provide industry or Government updates, and to undertake more detailed work commissioned by the SIAG.

APRA and the Private Health Insurance Administration Council (PHIAC), the prudential regulator of the health insurance industry, have had a long-standing cooperative relationship governed by an MoU initially established over a decade ago. Where appropriate, APRA and PHIAC share information on approaches to prudential supervision, and APRA provides training opportunities and specialist resources as required. PHIAC also utilises APRA's IT risk team, on a cost-recovery basis, in reviewing the IT capacity of private health insurers. As part of the 2014/15 Federal Budget, the Government announced that prudential functions of PHIAC will be transferred to APRA by 1 July 2015; inter-agency liaison has begun to afford APRA a more detailed understanding of PHIAC's prudential functions prior to this transfer taking effect.

Under the terms of two MoUs, APRA hosts twice yearly joint liaisons with the Motor Accidents Authority of New South Wales (MAA) and the Motor Accident Insurance Commission of Queensland (MAIC). APRA is also in regular contact with the agencies on prudential matters relating to compulsory third-party (CTP) insurance. As both agencies administer CTP motor vehicle insurance schemes and maintain their own CTP insurer licensing regimes in their respective states, they share a close interest in APRA's monitoring of the solvency of private insurers providing CTP cover in those states. The MAA and MAIC provide APRA with scheme information, while APRA shares solvency information and prudential assessments of the insurers. APRA also liaises with WorkCover State authorities on prudential matters relating to workers' compensation insurance.

APRA monitors accounting and audit developments and from time to time engages with the Australian Accounting Standards Board (AASB) and Auditing and Assurance Standards Board (AUASB). During 2013/14, APRA met with the AASB to discuss developments in superannuation and financial instruments accounting. It also met with the AUASB to discuss auditor guidance relating to its institutions. APRA plays a stakeholder role in monitoring financial reporting infrastructure through its involvement with the Financial Reporting Council (FRC); an APRA representative sits on the Council and represents APRA on its committees for audit quality and strategy, and on a separate taskforce on financial reporting.

APRA is a permanent member of the Banking and Finance Sector Group (BFSG), established under the Government's Trusted Information Sharing Network to strengthen the financial system's ability to respond to an industry-wide operational disruption by providing a framework for sharing security-related information that affects critical infrastructure. The BFSG is an important forum for strengthening the resilience of the banking and finance sector and streamlining business and government coordination in disasters. During 2013/14, an area of particular focus was developing the Group's operational crisis simulation capabilities.

Given the key role played by the actuarial profession in financial and risk management within the general insurance, life insurance and superannuation industries, APRA has regular dialogue with the Actuaries Institute as well as its relevant committees. During 2013/14, topics discussed included implementation of APRA's reforms to capital standards for the general and life insurance industries, impending changes to international financial reporting standards for insurance, the role and responsibilities of appointed actuaries and the recent poor results reported by life insurers particularly in the group risk area. APRA also liaises regularly with Appointed Actuaries as a group, and with groups of auditors of APRA-regulated institutions.

APRA also liaises with professional associations and institutes for each industry sector that APRA regulates, as well as those for accountants, administrators, auditors, company directors, compliance professionals, financial planners, lawyers, risk managers and trustees. APRA's regional offices also have wide-ranging liaison programs with regional offices of ASIC, industry bodies and professional associations.

INTERNATIONAL

An important element of robust supervision for internationally-operating financial institutions is linkages between regulatory agencies in different jurisdictions. As such, APRA's oversight of APRA-regulated institutions that also operate offshore, and of foreign financial institutions for which APRA is 'host' supervisor, is enhanced by direct links with various overseas regulatory agencies. The importance of supervisory cooperation and timely sharing of information in relation to large, internationally active financial institutions was highlighted by the global financial crisis. In many cases supervisory colleges, which are multilateral working groups of relevant agencies, have been formalised to strengthen supervision of each of the largest international banking and insurance groups. APRA participates in relevant colleges established by overseas agencies and has established its own colleges for a number of large, internationally active APRA-regulated institutions headquartered in Australia.

APRA now has formal bilateral information-sharing arrangements with 25 overseas regulatory agencies, following the signing in November 2013 of an MoU with the Reserve Bank of India. Additional arrangements remain under discussion. Institution-specific arrangements are in place to facilitate the activities of supervisory colleges. APRA is also one of 40 signatories to the multilateral MoU (MMoU) put in place by the International Association of Insurance Supervisors (IAIS); this MMoU now covers agencies supervising insurers writing almost 60 per cent of global insurance premiums.

One of the most important direct links for APRA is with the RBNZ as the prudential supervisor of banks and insurance companies in New Zealand. The Australian and New Zealand financial systems are highly connected and a close and cooperative relationship between the two agencies is essential. In that spirit, there is regular liaison on matters relating to, in particular, the supervision of the major Australian banks, including regular information exchange and coordination of supervisory activities as appropriate. Similarly, with the RBNZ taking on supervision of insurance companies as a result of the New Zealand *Insurance (Prudential Supervision) Act 2010*, the bilateral liaison and cooperation now also encompasses insurance matters as well.

Over recent years, APRA and the RBNZ, together with other members of the Trans-Tasman Council on Banking Supervision (the RBA, the Australian and New Zealand Treasuries and, most recently, ASIC and the New Zealand Financial Markets Authority), have done substantial preparatory work for the handling of any episode of financial distress involving a trans-Tasman banking group. A *Memorandum of Cooperation on Trans-Tasman Bank Distress Management* was agreed between the Trans-Tasman Council members in September 2010 and, since that time, work has continued on specific protocols and guidelines that will assist the Trans-Tasman Council members in responding to specific situations of stress.

At the multilateral level, APRA staff participate in relevant groups of the global standard-setting bodies for prudential regulation. This allows APRA to inject supervisory knowledge and local considerations into the global debate on regulatory reforms and ensures that APRA's senior supervisors are well acquainted with the reforms and their context when they are being implemented.

The main standard-setting bodies are:

Basel Committee on Banking Supervision

APRA and the RBA have been members of the Basel Committee, the global standard-setting body for bank regulation and supervision, since 2009. In 2013/14, among other work, the Basel Committee finalised:

- an internationally-agreed framework for measuring bank leverage;
- a new system for measuring and controlling large exposures;
- new capital requirements for banks' exposures to central counterparties; and
- revised guidance on supervisory colleges, and the role of external audit in bank supervision.

The Basel Committee also continued its consultation on the Net Stable Funding Ratio, a key component of the Basel III package that the Committee hopes to finalise by the end of 2014, as well as trading-book and securitisation capital requirements, and supervisory guidance on dealing with weak banks.

Another important priority of the Basel Committee is determining whether the Basel capital framework is delivering consistent outcomes: both in terms of the consistent implementation of Basel standards in national regulatory frameworks, and in the practices adopted within individual institutions. As noted in Chapter 3, Australia's implementation of the Basel III capital framework has been assessed as 'Compliant', following a peer review in 2013/14. More problematic has been the outcome of the Basel Committee's cross-jurisdictional review of risk-weighted asset calculations for banks using internal models. Initial analysis by the Basel Committee has identified considerable variation across global banks in the calculation of risk-weighted assets in both their trading and banking books. An APRA staff member is participating in this work, which will likely lead to more constrained use of internal models by banks in determining their capital adequacy requirements.

APRA is also represented on the Basel Committee's main standing sub-committees: the Policy Development Group, the Supervision and Implementation Group and the Accounting Experts Group (the RBA is represented on the fourth sub-committee, the Macroprudential Supervision Group).

International Association of Insurance Supervisors

The objectives of the IAIS are to promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets, for the benefit and protection of policyholders, and to contribute to global financial stability. APRA is represented on the IAIS Executive Committee, and chairs the IAIS Audit and Risk Committee. APRA is also a member of the Technical Committee and the Financial Stability Committee, which was established in response to the global financial crisis, and of a number of sub-committees most relevant to APRA's supervisory mandate and the Australian insurance industry.

One of the IAIS's most significant initiatives in recent years has been the development of a common framework ('ComFrame') for the supervision of internationally active insurance groups. APRA is in a strong position to contribute to this work as it has had a group-supervision framework for general insurance since 2009, and as a result APRA representatives have either led or participated in a number of ComFrame drafting groups.

In 2013, the IAIS announced a significant initiative that will underpin ComFrame – the development of an international risk-based capital adequacy standard. The IAIS's objective is to have this global standard developed by the end of 2016. APRA is closely involved with this initiative, along with a number of other international insurance regulators with experience in developing capital requirements. A key consideration is the importance of any such international standard being fit-for-purpose, both internationally and within Australia.

Another important piece of work for the IAIS in recent years has been responding to the G20 and FSB requests for it to develop a framework for identifying and dealing with global systemically-important insurers. Through its involvement in the Financial Stability Committee, APRA contributed to the IAIS methodology used to determine whether an insurance group has global systemic importance, and to the development of appropriate supervisory measures to be applied to such groups.

APRA has also continued its involvement in IAIS sub-committees for Accounting and Auditing Issues, Solvency and Actuarial Issues, Insurance Groups and Cross-sectoral Issues and Supervisory Cooperation and Reinsurance.

Joint Forum

APRA and ASIC both represent Australia on the Joint Forum, a body working under the umbrella of the Basel Committee, the IAIS and the International Organization of Securities Commissions (IOSCO). The Joint Forum focusses on financial conglomerates and other issues that are common to, or have cross-sectoral implications for, the banking, insurance and securities sectors.

During 2013/14, an APRA representative chaired a sub-committee of the Joint Forum that undertook a pilot assessment of compliance by selected jurisdictions with the *Principles for the Supervision of Financial Conglomerates* that had been released in 2012. APRA was a participant in that pilot assessment project. The sub-committee also undertook a survey on supervisory colleges for financial conglomerates, on which the Joint Forum released a report in August 2014.

The Joint Forum also recently published reports on its work in three areas:

- mortgage insurance: market structure, underwriting cycle and policy implications;
- longevity-risk transfer markets: market structure, growth drivers and impediments, and potential risks; and
- Point-of-Sale disclosure in the insurance, banking and securities sectors.

Given the continued volume and breadth of international policy work and the constraints on its resources, APRA has indicated its intention to withdraw from future participation in the Joint Forum.

International Organisation of Pension Supervisors

The International Organisation of Pension Supervisors (IOPS) is an independent body representing agencies involved in the supervision of private pension arrangements. It seeks to be the global standard-setting body for pension supervision, to promote international cooperation on pension supervisory issues and to provide a global forum for policy dialogue and exchange of information on these matters. APRA has been on the Executive Committee of IOPS since its foundation and is a member of the Technical Committee.

Since its formation in 2004, IOPS has produced a series of principles, guidelines and research papers relevant to the prudential supervision of superannuation in Australia. During 2013/14 this work continued, with the publication of studies into costs and fees in IOPS member countries and a study into stress testing and scenario analysis among pension funds. In 2014/15, IOPS expects to undertake studies into annuities distribution, target replacement rates in defined contribution funds and the role of actuarial review in pension supervision.

OECD Working Party on Private Pensions

APRA is represented on the OECD Working Party on Private Pensions (WPPP), which surveys and monitors private pensions systems, analyses related policy and technical issues, and formulates policy recommendations for the regulation and supervision of such systems. During 2013/14 the WPPP continued work revising the OECD's *Core Principles for Occupational Pension Regulation*, and extending these principles to cover private pensions. It also surveyed national markets for annuities as part of a project examining the structural guarantees embedded within annuities products, and assessed whether insurers and pension funds may be underestimating the risk of future increases in life expectancy. Work also continued on a project to assess the adequacy of retirement savings in OECD countries and revising the classification of funded-pension plans to better reflect the variety of plans currently provided to individuals in OECD and non-OECD countries.

APRA regularly attends meetings of the OECD Insurance and Private Pensions Committee (IPPC). This Committee studied policies and practices in disaster-risk financing within the APEC region as part of efforts to build financial resilience against disasters, and undertook overarching work on annuities markets in conjunction with the WPPP and IOPS. The IPPC is also a forum for discussion of developments in the insurance market.

International Association of Deposit Insurers

The International Association of Deposit Insurers (IADI) is responsible for promoting principles and guidance in the design and administration of deposit insurance and guarantee arrangements. APRA is a member of IADI, consistent with its responsibilities for the administration of the FCS in Australia. Membership gives APRA access to information on overseas developments on deposit insurance and resolution of banking institutions, with a view to improving practice in Australia. During 2013/14, APRA contributed to a number of IADI surveys examining these issues. APRA is also a member of the International Forum of Insurance Guarantee Schemes, which is the equivalent of IADI for insurance.

International Credit Union Regulators Network

The International Credit Union Regulators Network (ICURN) is an independent network of regulators of financial cooperatives. Its primary objective is to promote the improvement of regulation and supervision of financial cooperatives. ICURN initiates information sharing and research on financial cooperatives and their oversight, identifies best practice and issues, and provides recommendations to its members to improve regulations, safety and soundness. ICURN is governed by a steering committee of representatives from seven regions around the world and APRA is the steering committee representative for Oceania.

Other international activities

Although not a member agency of the FSB, APRA continued to contribute to its work in 2013/14. APRA represents Australia on the FSB's Supervisory Intensity and Effectiveness Group, which seeks to promote robust supervisory practice in relation to systemically-important financial institutions. Principles developed by the Group for an effective risk appetite framework were finalised in late 2013, and a framework for assessing risk culture was finalised in mid-2014. In addition, an APRA representative is chairing an FSB review team that is undertaking peer review of the supervision of globally-systemically-important institutions. This peer review commenced in early 2014 and is expected to be completed by the end of 2014.

APRA is also a member of the FSB's Compensation Monitoring Contact Group, which is responsible for sharing and promoting good practice in implementation of the FSB's *Principles for Sound Compensation Practices*. The Group monitors and reports on national implementation of the Principles, and establishes and maintains a process to ensure consistency of their application.

Together with the RBA, APRA is a member of the Working Group on Banking Supervision of the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP). This Working Group brings together the central banks, banking supervisors and monetary authorities of the 11 key economies within the region, and provides a forum for examining regional financial stability and prudential matters. In 2013/14, these matters included the implications for member economies of global regulatory reforms, and increased concerns regarding property prices and the level of household debt in a number of member economies. As in previous years, the Working Group also continued to work on activities and matters of regional interest.

APRA is also a member of:

- the South-East Asia, New Zealand and Australia (SEANZA) Forum of Banking Supervisors;
- the Financial Regulators Training Initiative (FRTI) of the Banking Supervisors' Advisory Group of Asia-Pacific Economic Cooperation (APEC), coordinated through the Asian Development Bank; and
- the Asian Forum of Insurance Regulators.

APRA provides expert speakers to various international conferences, seminars and professional institutes, and values the opportunity to develop the skills of its staff as both participants and speakers at such events. Over 2013/14, APRA provided seven speakers to conferences organised by various multilateral groups including the Financial Stability Institute (often co-hosted with other regional bodies), the South East Asian Central Banks (SEACEN) Research and Training Centre, SEANZA and APEC FRTI.

As part of its international engagement, APRA also receives visits by international delegations for a wide range of core business and other purposes. With the number of delegations growing, APRA is increasingly conscious of the resources required to service such visits and has tightened its criteria for determining which visits it can accommodate. Over 2013/14, APRA hosted around 120 international delegations involving visitors from 27 countries. By country, visits were most common from the UK, US, China, Indonesia, Korea and Japan. Of the total, around 60 per cent of visits were from organisations from developed countries and a third from developing countries. The visits were from a cross-section of central banks and regulatory agencies, research groups, multilateral bodies, parliamentary delegations and private and public sector organisations.

APRA also hosted supervisory colleges for three Australian-based groups in Sydney. Apart from the many visits for core business purposes, including enquiries to discuss requirements for setting up operations in Australia, there were a number of visits to discuss Australia's 'twin peaks' regulatory model, developments in pension sector regulation and implementation of the Basel III requirements.

TECHNICAL ASSISTANCE

APRA's solid reputation internationally as an effective, integrated regulator makes it a natural reference point for regulatory agencies in developing countries shaping their approach to supervision and other prudential policy and practice. There is also much interest from these countries in seeking practical assistance from APRA.

Over recent times with the growth in the number and breadth of these requests, APRA has had to develop policies to be more discriminating about the resources applied to such assistance. One feature of this policy is that assistance given is increasingly focussed on development partners in the Asia-Pacific region. APRA also looks where possible to leverage the assistance it provides and so favours multilateral activities over bilateral where feasible. While APRA gains benefits engaging with counterpart regulators in the Asia-Pacific around technical assistance activities, it also appreciates the valuable role such engagement plays in staff development and retention.

APRA is funded primarily by levies on the institutions it supervises and as such it is not appropriate for other than incidental amounts of these funds to be used to undertake technical assistance. Consequently, where possible APRA looks to cover the cost of these technical assistance activities from other sources. Depending on the type of activity, this is primarily from agencies tasked with funding international aid, particularly the Department of Foreign Affairs and Trade (DFAT) as part of 'whole-of-Government' engagement programs.

In Asia, APRA's technical assistance activities have been heavily focussed on engagement with Indonesian regulatory agencies. Indonesia has recently established an integrated Financial Services Authority (Otoritas Jasa Keuangan – OJK) which brings together the prudential supervision of bank and non-bank financial institutions, securities markets regulation and protection of consumers of financial services.

APRA has been assisting OJK (and its predecessor institutions including the Bank of Indonesia) during the staged transition to a single agency in a range of areas. This has focussed on risk-based prudential supervision, including development of risk-rating procedures suitable to Indonesian conditions, and practical hands-on training in on- and off-site supervisory activities, primarily through a number of six-month internships which saw OJK staff hosted in APRA frontline units. There were five internships held at different times during 2013/14. APRA also hosted a series of short visits by senior OJK staff, which have been focussed on supporting

OJK's development of functions and operations, coordination arrangements between core agencies, and policies and procedures. Major areas of interest over 2013/14 included supervisory infrastructure and risk rating, conglomerate supervision, coordination arrangements between Indonesia's Central Bank and OJK, and APRA's management reporting and quality assurance activities. Over 2013/14, APRA hosted a total of 35 interns and other visitors from Indonesia.

APRA's technical assistance with Indonesia commenced in 2006 and is part of a long-term relationship that is reinforced through contact for core business purposes. Technical assistance has been on a cost-recovery basis funded by DFAT, most recently through the multi-year, whole-of-Government facility under the Government Partnership Fund II (GPF II). Subject to core business commitments, APRA also accommodates from time to time the request of multilateral agencies such as the IMF to undertake field missions to Asia-Pacific countries to undertake prudential advisory activities. Over 2013/14, APRA staff were involved with IMF missions to Cambodia and Myanmar to advise respectively on reporting arrangements and analysis for off-site bank supervision, and licensing of international banks. Involvement in these missions was also conducted on a cost-recovery basis.

In the Pacific, as elsewhere, prudential regulators have a key role in financial sector governance and it is important they receive assistance to strengthen their regulatory practices and deepen the capacity of their staff. To this end, APRA has supported two projects under the multilateral Public Sector Linkages Program – the Pacific On-Site Prudential Supervision Project (POSP) and the Pacific Prudential Regulator Internship Project.

The POSP provided for APRA supervisors to travel to Pacific countries for two weeks at a time to conduct training programs with on-site review teams comprised of local and other visiting Pacific prudential regulators. An integral part of the Project was a 'train-the-trainer' program to develop the presentation skills of Pacific nation participants. After completing five on-site activities during calendar year 2013, APRA was granted an extension for two additional on-site training visits in 2014. Over the past year, the on-site training programs ranged across banking and other credit providers, insurance and provident funds respectively. While the PSLP facility has now been closed, a Government Partnerships for Development facility has been set up and a proposal to extend APRA's assistance to Pacific supervisory agencies is among those short-listed for consideration for funding from 2014/15 and beyond.

APRA is also Australia's representative as an observer on the Association of Financial Supervisors of Pacific Countries, the regional association of regulatory agencies facilitating supervisory cooperation in the Pacific through meetings of heads of supervision. The annual meeting coordinates discussion of cross-border regulatory issues and developments, including emerging areas of financial sector risk, and training priorities. It develops recommendations for consideration by the annual meeting of the South Pacific Central Bank Governors.

This page is left blank intentionally

APRA'S RESOURCES AND PERFORMANCE



APRA'S STAFFING RESOURCES



APRA'S FINANCIAL RESOURCES



APRA'S PERFORMANCE AS A SUPERVISORY AGENCY



APRA'S PERFORMANCE AS A NATIONAL STATISTICAL AGENCY



TRANSPARENCY AND ACCOUNTABILITY

5



APRA'S STAFFING RESOURCES

From a staffing standpoint APRA has experienced a period of relative stability in recent years, characterised by lower employee turnover and increasing levels of experience.

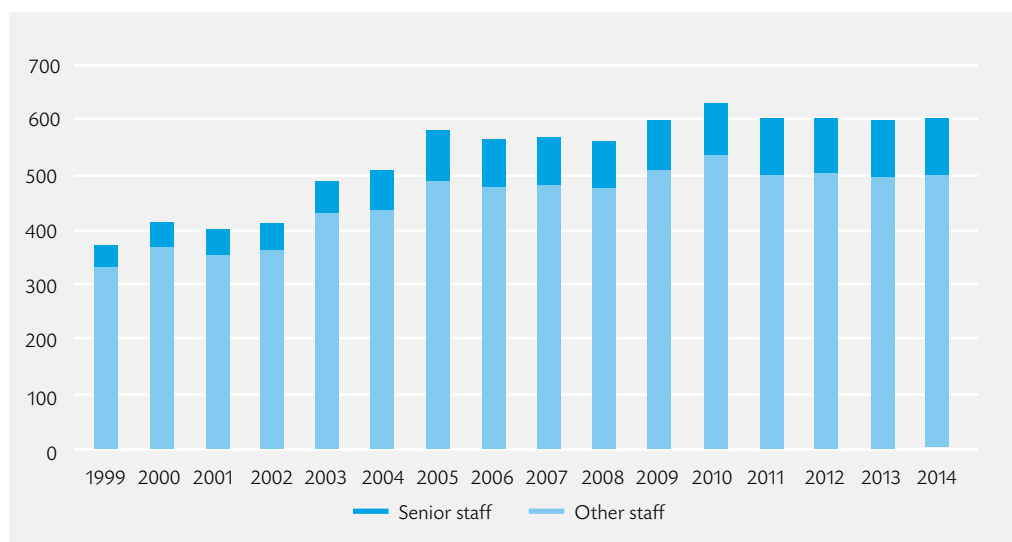
APRA's total permanent staffing at end-June 2014 was 593.4, and the addition of fixed-term employees brought total staffing numbers to 602 on a full-time equivalent basis. This was slightly higher than the total figure of 599 a year earlier, but broadly in line with staffing levels maintained for much of the past decade. Staff turnover was relatively low in the past year, reflecting subdued employment conditions in the finance industry more generally.

Developing the capabilities of APRA's staff – both technical skills and the ability to apply these effectively – continues to be a high priority for APRA. To this end, subject matter experts

across APRA work closely with its Learning and Development team to develop and deliver high quality training initiatives. Over 2013/14, APRA allocated slightly less of its budget to learning and development activities than in prior years; within this, a particular emphasis was given to training programs to build skills necessary to support the implementation of superannuation reforms. APRA also continued to offer support for staff undertaking postgraduate study; in 2013/14, 51 staff members participated in the Studies Support Program.

APRA continued to maintain its well-regarded graduate program, employing 13 graduates as a supplement to general recruitment during the year. As in previous years, the 2014 graduate cadre undertook five weeks of dedicated training on commencement and these employees will continue to receive targeted development opportunities throughout their first two years of employment with APRA.

APRA staffing (as at end June)



APRA's training activities

Training by type (%)	2013	2014
Internal technical training and seminars	42	61
External training	53	35
Management training	5	4
Studies support		
Employees undertaking formal post-graduate studies	70	51
Key training metrics		
Training spend per employee	\$3297	\$2661
Training spend as a proportion of base salary (%)	3.0	2.7
Proportion of staff provided with training (%)	100	100
Average training sessions per employee	11.5	8.7
Average training days per employee	5.6	3.6
Number of internal classroom courses offered	643	416

Promoting a strong leadership culture – one that will encourage and develop the next generation of APRA leaders – remained an important focus for APRA's senior leadership during the year. Leadership and management courses continue to be provided to mid-level and senior managers at APRA with the goal of embedding sound people leadership and management practices across the agency. There has also been a sharpened focus

on the assessment of leadership capabilities for external appointments and internal promotions, with specific measures introduced to improve managers' performance management skills. Implementation of a people management capability index for senior management is underway, with the goal of promoting greater accountability for effective leadership across APRA.

APRA'S FINANCIAL RESOURCES

APRA's income is sourced primarily from annual levies on supervised institutions, and expenditure is directed toward APRA's ongoing supervisory and enforcement activities, as well as implementing and enhancing Australia's prudential regulatory framework.

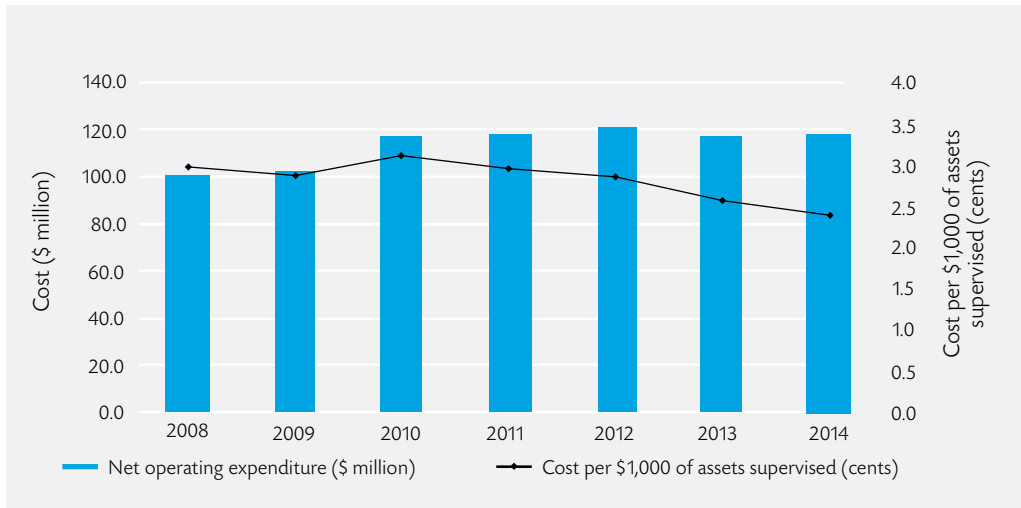
APRA's expenditure

APRA's operating expenditure has changed little over the past five years. Total operating expenditure for the 12 months to 30 June 2014 was \$118.0 million, as against a budget of \$124.4 million. The under-expenditure related mainly to the

deferral of certain activities to 2014/15, a lower-than-budgeted average staffing level, the positive impact from the change in the discount rate on the revaluation of employee liabilities, and savings from productivity and efficiency initiatives.

As a result of the limited growth in its budget, APRA's costs relative to the value of assets supervised have continued to decline, to approximately 2.4 cents per \$1000 of assets supervised in 2013/14.

APRA's costs



APRA's income

APRA's total income in 2013/14 was \$116.8 million, slightly under the \$117.6 million budgeted. As well as levies collected from supervised institutions, APRA's income includes interest earnings, fees for services and miscellaneous recoveries of costs.

Industry levies are raised according to the *Financial Institutions Supervisory Levies Collection Act 1998* and the *Supervisory Levy Imposition Acts 1998* relevant to each of APRA's regulated industries. Following consultation with industry, the Minister determines the levy rates for each regulated industry prior to the beginning of each financial year. The levy rate is applied on each institution's asset value subject to a minimum and maximum amount per institution, with the exception of non-operating holding companies and small APRA-regulated superannuation funds, which are levied at a flat rate. Industry levies are based on the costs incurred in APRA discharging its duties with respect to each sector.

The total levies collected by APRA also cover costs attributable to ASIC, the ATO, the Department of Human Services and the Government's SuperStream initiative. Total levies collected by APRA on behalf of these agencies in 2013/14 were \$257.1 million, compared to the budgeted \$259.0 million. Levies are also collected to cover the costs of the National Claims and Policies Database (NCPD); in this case a rate is applied to the gross earned premiums of general insurers that contribute to this database. The amount raised for NCPD purposes was \$0.7 million.

During the year, the Treasury completed a review of the design and operation of the Financial Industry Supervisory Levy Methodology.

A response paper was released in April 2014, following consideration of submissions to the discussion paper released a year earlier.

The Australian National Audit Office's separate performance audit on the Determination and Collection of Financial Industry Levies was finalised in November 2013. Both reviews concluded that the processes for setting and administering levies were, in general terms, operating effectively. Recommendations for improving these processes were noted and are being considered; most notably, APRA released a Cost Recovery Implementation Statement in June 2014 in order to bring more transparency to the APRA component of levies collected from industry.

Reserves

APRA had an operating deficit from ordinary activities of \$1.3 million in 2013/14, reducing retained surpluses to \$12.6 million as at year-end. An equity contribution of \$4.3 million to support increased capital expenditure took the contributed equity component of reserves to \$16.5 million, while the triennial revaluation of property, plant and equipment resulted in a \$0.2 million increment to the Asset Revaluation Reserve to \$6.8 million. With these items, total reserves increased to \$41.9 million as at period end, including a \$6.0 million Contingency Enforcement Fund to support large unexpected investigation and enforcement activities.

APRA'S PERFORMANCE AS A SUPERVISORY AGENCY

Strategic planning

In July 2014 APRA finalised its 2014-2018 Strategic Plan, which extended from a three-year to a four-year rolling plan to align to the requirements of the *Public Governance, Performance and Accountability Act 2013* that became operational from 1 July 2014. A rolling plan allows specific focus on APRA's immediate priorities within the broader strategic context, and provides flexibility for adjustment each year to internal and external factors that reshape its operating environment.

APRA's four-year plan identifies four strategic objectives, as well as setting out the specific initiatives APRA will undertake to meet each, as follows:

1. to have in place a robust prudential framework that empowers supervisors and sets expectations of prudential behaviour among regulated institutions and their boards;
2. to supervise institutions with timely, risk-based and considered action;
3. to have in place robust organisational processes and infrastructure to effectively support APRA's core functions; and
4. to have highly skilled and engaged people, guided and supported by strong leaders.

The Strategic Plan forms the basis for APRA's annual Operational Plan, which sets out specific actions and targets in support of each strategic objective, and for annual divisional business plans. Relevant objectives are also reflected into the individual performance plans of APRA staff. Overall performance against the plan is reviewed on a quarterly basis by APRA's Executive Group.

Supervisory performance

Two key characteristics of APRA's performance as a prudential supervisor are the extent to which it changes its supervisory stance in response to changes in the risk profile of regulated institutions, and the extent to which the Australian community is exposed to loss through the failure of an APRA-regulated institution. In this regard, two different types of metrics are used to provide broad quantitative indicators of APRA's supervisory performance, namely (a) APRA's 'transition matrices', and (b) data on financial failures and losses to beneficiaries.

Transition matrices

Transition matrices have been developed by APRA to track the migration of institutions between the four supervision stances in APRA's Supervisory Oversight and Response System (SOARS), which guides supervisors in responding to identified risks.

SOARS matrix (2007/14) (%)

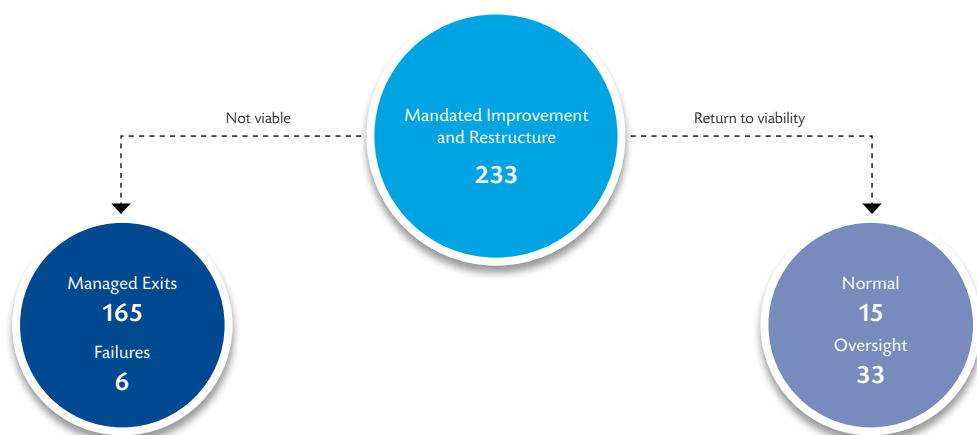
From \ To	Normal	Oversight	Mandated Improvement	Restructure	Exit
Normal	37	17	1	0	45
Oversight	19	42	0	1	37
Mandated Improvement	6	47	0	0	47
Restructure	0	0	0	30	70

Note: One institution in Restructure was recorded as a failure in 2009/10 and four institutions in Restructure were recorded as failures in 2010/11.

As an institution moves out of a Normal stance, routine supervision is likely to give way to greater use of APRA's more specialised intervention and enforcement powers. Institutions in the Oversight category are not there because they are expected to fail, but because there are aspects of their risk position or size that could create vulnerabilities in extremely adverse circumstances and as such require more extensive examination. Institutions classified under Mandated Improvement require intensive supervisory review, but are not expected to be so categorised permanently; ideally, prompt and effective action would see such institutions returned to a lower level of supervisory intensity within a reasonable period of time. If that cannot be achieved, an institution is likely to be moved to the Restructure category. This category covers institutions in which APRA no longer has confidence that financial promises to beneficiaries will be met in the absence of vigorous intervention, or which have ceased to be viable operating businesses and are being assisted to exit the industry in an orderly fashion.

The SOARS transition matrix summarises how APRA's portfolio of regulated entities have moved through its risk categories over the period 2007-2014. It shows that of the 864 institutions whose supervision stance was classified as Normal as at end-June 2007, just over one third of these remain in that risk category. Similarly, of the 408 institutions whose supervision stance was classified as Oversight, 42 per cent remain in Oversight seven years later. Of the remainder of those entities classified as Oversight in June 2007, 19 per cent returned to Normal, one per cent moved on to Restructure and the remaining exited the industry in an orderly manner (such as by placing their liabilities in run-off or through merger). Of the 17 institutions that began the period in Mandated Improvement, about half have exited the industry while the others have moved to an improved supervision stance. Of the 10 institutions that began the period in Restructure, about a third have remained in that stance, while the others have exited the industry.

Outcome for institutions in Mandated Improvement/Restructure, 2003–2014



Over the 11 years to the end of June 2014, a total of 233 institutions have been in Mandated Improvement and/or Restructure (including 10 institutions that have passed through both categories). Of this number, 48 institutions have improved their stance to Normal or Oversight, 14 have remained in their SOARS category, 165 have exited without loss to beneficiaries and six institutions have failed (four of which moved through both Mandated Improvement and Restructure during that period). While it is not possible to compare these outcomes with what would have happened had APRA not intervened, the overall direction of movement of institutions in these two supervisory stances is consistent with timely and effective intervention on APRA's part.

As at end-June 2014, around 54 per cent of risk-rated institutions were in the Normal stance, 44 per cent in Oversight, slightly over one per cent in Mandated Improvement and one per cent in Restructure. These figures were largely unchanged from the end of the previous financial year.

Indicators of financial failures/losses

The second set of quantitative indicators of supervisory performance is linked to financial failures and losses to beneficiaries. These indicators are:

- the Performance Entity Ratio (PER), which is the number of APRA-regulated institutions that met their commitments to beneficiaries in a given year, divided by the total number of APRA-regulated institutions; and
- the Money Protection Ratio (MPR), which is the dollar value of liabilities to beneficiaries in Australia that remained safe in a given year, divided by the total dollar value of liabilities to beneficiaries in Australia in APRA-regulated institutions.

Performing Entity Ratio (PER) and Money Protection Ratio (MPR)

Financial year	Number of failures ¹	Losses (\$million)	Number of institutions ²	Protected Accounts ³ (\$million)	Annual PER %	Annual MPR %
1999	4	11	4,473	\$886,640	99.91	100.00
2000	3	308	4,407	\$993,369	99.93	99.97
2001	8	5,341 ⁴	4,350	\$947,923	99.82	99.44
2002	6	140	3,803	\$1,006,845	99.84	99.99
2003	5	13	3,252	\$1,066,480	99.85	100.00
2004	1	0 ⁵	2,744	\$1,207,241	99.96	100.00
2005	0	0	2,099	\$1,347,813	100.00	100.00
2006	0	0	1,596	\$1,546,338	100.00	100.00
2007	1	0 ⁵	1,244	\$1,832,609	99.92	100.00
2008	0	0	1,129	\$1,923,369	100.00	100.00
2009	0	0	1,028	\$2,048,163	100.00	100.00
2010	1	1	965	\$2,231,887	99.90	100.00
2011	4	72	898	\$2,462,275	99.55	100.00
2012	0	0	827	\$2,650,832	100.00	100.00
2013	0	0	769	\$2,932,568	100.00	100.00
2014	0	0	711	\$3,277,827	100.00	100.00

1 In the case of superannuation, failures refer to the number of funds affected and include failures due to employer sponsors.

2 The number of institutions excludes Small APRA Funds, representative offices of foreign banks and non-operating holding companies.

3 Protected Accounts is an estimate of the funds protected by APRA as defined by relevant legislation and is less than the total assets held by APRA-regulated institutions, which were \$4,928.0 billion at end-June 2014.

4 Includes HIH Group's estimated \$5.3 billion loss incurred by creditors and policyholders, based on liquidator's advice to creditors in April 2002.

5 Losses incurred, due to the failure of an employer sponsor in a superannuation fund, were less than \$0.5 million. In the 2004 case, the superannuation fund was not included in the PAIRS/SOARS database.

These indicators are, however, silent about target outcomes against which APRA's performance can be assessed. APRA's 2014 *Statement of Intent* confirmed that prudential regulation should not pursue a 'zero failure' objective. Rather, the objective is to maintain a low incidence of failure of supervised institutions while not impeding continued improvements in efficiency or hindering competition.

APRA's aim is to identify likely failures early enough so that corrective action can be initiated to prevent the failure, or at the least to set in train appropriate wind-up or other exit strategies to minimise losses to beneficiaries. Since APRA's inception in 1998, the annual PER has averaged 99.92 per cent and the annual MPR, which is dominated by the losses associated with HIH Insurance in 2001, has averaged 99.96 per cent.

APRA'S PERFORMANCE AS A NATIONAL STATISTICAL AGENCY

APRA plays an important role as the central repository of statistical information on the Australian financial system, by means of its ongoing collection and publication of data gathered from prudentially-regulated institutions in the course of discharging its mission.

Data collected by APRA from regulated and unregulated institutions also assists the RBA, the Australian Bureau of Statistics (ABS) and ASIC to fulfil their roles. The data in approximately one third of ADI and RFC reporting forms are collected by APRA primarily for use by the RBA and ABS. Much of the data APRA collects are shared between

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

Data collections

The broad range of financial and risk data collected by APRA are an important input to its supervisory assessments of regulated institutions.

Almost all of APRA's data collection is conducted under the *Financial Sector (Collection of Data) Act 2001* and APRA's associated reporting standards. APRA closely monitors the timeliness and quality of data submissions to ensure the data are available to users by the statutory due dates. For regulated institutions, APRA targets a rate of 95 per cent of returns being submitted by the statutory due date, with the balance submitted within the following week. Over 2013/14, 97 per cent of submissions were received by the relevant deadlines and over 99 per cent within a week of these dates.

During the financial year, APRA updated prudential data collections in line with various changes to prudential standards. This was particularly evident in superannuation, with new superannuation data reporting forms coming into effect, on a staggered timetable, from 1 July 2013. Reporting forms relating to MySuper products, prudential requirements and RSE-level financial statements applied for reporting periods ending on or after 1 July 2013, while those relating to the more detailed investment reporting for all RSEs, and for defined benefit sub-funds and select investment options commence from 1 July 2014 and 1 July 2015 respectively.

For most RSEs, the first quarterly forms applied to the quarter ending September 2013 and the first annual data forms to the year ending 30 June 2014. Just under 90 per cent of the first quarterly forms were submitted by the due date, and over 97 per cent within a week after this date. As industry commenced reporting under the new requirements, APRA received requests for additional guidance around some of the reporting forms and released, in response, answers to frequently asked questions to address the most common issues raised. Minor amendments have subsequently been made to a number of quarterly reporting standards, largely concerning the reporting instructions.

More broadly, APRA made a number of improvements to its reporting requirements and processes during the year that sought to reduce the reporting burden on institutions and enhance the quality and timeliness of data submitted. These changes included the cessation of two reporting forms - ARF 326.0 *Offshore Banking Units* and ARF 320.7 *Deposits and Loans Classified by State and Territory* - no longer required by APRA or other agencies. This change eased the reporting burden of 174 ADIs by eliminating the requirement for each to submit up to 84 data items each month.

APRA also ceased to collect data from 70 smaller ADIs and RFCs by increasing the reporting asset threshold from \$50 million to \$200 million for the ARF 320 (balance sheet) and ARF 390 (finance) series of monthly forms. This change relieved 31 credit unions and building societies and 39 RFCs from the obligation to submit over 1,400 data items each month, leading to material cost savings for those entities.

The effort to streamline data reporting processes saw APRA introduce a significant number of new validation rules within its electronic data collection system, Direct to APRA (D2A). These new rules assist institutions identify and fix data errors and explain anomalies as the data is submitted to APRA; they also ensure that submitted data are immediately fit-for-use by APRA supervisors. APRA also removed or relaxed a number of other validation rules that were deemed no longer effective at identifying errors.

Consistent with the Government's expectation that APRA look for opportunities to reduce compliance costs for business and the community, APRA will continue to consider and implement opportunities to ease reporting burden whilst maintaining quality, timeliness and value of the data that is collected.

During 2013/14, APRA assisted reporting institutions upgrade to AUSKey as part of its commitment to the Government's Standard Business Reporting (SBR) initiative. AUSKey is a secure login that allows users to access and send business information to government online. AUSKey was introduced by SBR to streamline access for institutions reporting to government; almost all institutions that report data to APRA now use AUSKey.

Statistical publications

APRA publishes as much of the data collected as is considered useful and as resources permit, subject to APRA's confidentiality obligations with respect to individual institutions. Publication of industry-level statistics enhances understanding of the industries regulated by APRA, aids public discussion on policy issues, and supports well-informed decision-making by regulated institutions, policy-makers, market analysts and researchers. Publication of institution-level data, where possible, is also consistent with promoting the understanding of the financial soundness of regulated institutions.

APRA observes international statistical standards in developing, producing and managing its statistics, except in the few cases where doing so would conflict with APRA's primary role as a prudential regulator. By doing so, APRA helps protect commercially-sensitive information provided by institutions, whilst providing statistics that are useful and reliable, and that meet the needs of users.

In response to users' desire for more statistics, and more granular statistics in particular, APRA delivered several improvements to its regular statistical publications during 2013/14. These included a new *Quarterly Authorised Deposit-Taking Institution (ADI) Property Exposures* publication setting out statistics on residential and commercial property exposures and new home loan approvals, which was released in August 2013.

Following consultations, in December 2013 APRA also introduced new *General Insurance Institution-level Statistics* and *Life Insurance Institution-level Statistics* publications. The new general insurance publication presents more than 50 new statistical items, including revised capital adequacy data and entirely new statistics on general insurance groups. The new life insurance series includes more than 80 new statistical items for this industry, including revised capital adequacy statistics, and more granular information for breakdowns of more than 60 industry-level data items. Life insurance statistics were also published in a new database form that assists users more easily analyse the information.

Also in December 2013, APRA released an enhanced version of the *Quarterly General Insurance Performance Statistics*, which includes additional statistics on operating income and expenses, solvency and additional classes of business.

In June 2014 APRA released a new *Life Insurance Supplementary Statistical Tables* publication.

This annual publication contains aggregate data on sources of profit, policy liabilities and assets backing policy liabilities.

APRA consulted during the year on its proposal to determine certain data submitted by RSE licensees as non-confidential and therefore publicly accessible. Following this consultation, selected data was classified non-confidential, with APRA to decide which other superannuation data will be deemed non-confidential over the coming year. In the meantime APRA continues to apply measures to ensure that confidential information relating to an individual institution cannot be derived from APRA's statistics.

TRANSPARENCY AND ACCOUNTABILITY

APRA is accountable for its activities and performance through a wide range of existing oversight mechanisms, including the following:

- APRA is required to publish its *Annual Report*, which provides a thorough account of its activities each year. The Report is tabled in Parliament and published on the APRA website;
- APRA makes regular appearances at Senate Estimates, as well as *ad hoc* appearances before other committees. In future, it is proposed that APRA will also make a regular half-yearly appearance before the House of Representatives Standing Committee on Economics, on a similar basis as the RBA;
- APRA receives an SoE from the Government which sets out the Government's expectations about the role and responsibilities of APRA, its relationship with the Government, issues of transparency and accountability, and operational matters to guide its activities. In response, APRA issues an Sol to indicate how it will meet the Government's expectations. APRA's Sol provides details of its commitment to effective and efficient delivery of its activities and to ensuring that it operates in accordance with relevant legislation and Government requirements;
- APRA publishes an Annual Regulatory Plan that sets out APRA's current policy agenda and the status of various policy initiatives;
- APRA's expense base is set annually by the Government, and its budget is subject to scrutiny by the Department of Finance;
- APRA is subject to annual financial audits by the Australian National Audit Office, as well as occasional performance audits;
- APRA complies with the Government's best practice regulation process administered by the Office of Best Practice Regulation, which includes cost-benefit analysis and extensive consultation on policy proposals;

- APRA's regulation-making power is in the form of prudential standards, which are disallowable instruments and therefore subject to veto by Parliament; and
- APRA's exercise of its supervisory powers is, for the most part, done confidentially, but it is ultimately subject to review by either the Administrative Appeals Tribunal or the courts under the *Administrative Decisions (Judicial Review) Act 1977*.

In addition to meeting these requirements:

- APRA senior executives regularly give speeches and public presentations to explain APRA's current priorities and activities;
- APRA commissions regular independent surveys of key stakeholders to elicit their feedback on its performance; and
- APRA's operations are subject to independent reviews by various international bodies, including the IMF, the FSB and the Basel Committee.

The outputs from these accountability and oversight mechanisms, such as audit reports, Regulation Impact Statements, policy consultation responses and submissions, speeches and stakeholder survey reports are regularly published, along with other information on APRA's activities.

APRA has a number of initiatives underway to further improve the means by which it accounts for its performance. These are consistent with the Government's wider objectives to improve the accountability and transparency of regulators and include commissioning periodic independent reviews of aspects of APRA's operations by appropriately qualified experts, enhancing reporting against key performance measures and undertaking reviews after the implementation of major policy reforms. Consideration is also being given to enhancing the information that is regularly published in relation to APRA's strategic and operating plans, budget forecasts and performance. APRA is also proactively engaging with the Government on implementation of the proposed Regulator Performance Framework (based on the approach outlined recently in the Productivity Commission's Regulator Audit Framework) and the enhanced reporting and other requirements proposed under the *Public Governance, Performance and Accountability Act 2013*.

This page is left blank intentionally

GOVERNANCE



GOVERNANCE STRUCTURE



RISK MANAGEMENT IN APRA



APRA MEMBERS

6



GOVERNANCE STRUCTURE

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

In performing and exercising its functions and powers, APRA is required to balance the objectives of financial safety and efficiency, competition, contestability and competitive neutrality and, in balancing these objectives, is to promote financial system stability in Australia. APRA also acts as a national statistical agency for the Australian financial system and is responsible for administering the Financial Claims Schemes provided for in legislation governing the banking and general insurance industries.

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

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

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

Member	Meetings	Attended
John Laker	19	18
Ian Laughlin	19	16
Helen Rowell	19	18

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

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

RISK MANAGEMENT IN APRA

Risk Management and Audit Committee

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

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

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

The members of the Committee in 2013/14 were:

Mr W Peter Day

LLB (Hons), MBA, FCPA, FCA, CTA, FAICD

Chair

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

Ms Fiona Bennett

BA (Hons), FCA, FAICD, FAIM

External member

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

Mr Ian Laughlin

APRA Deputy Chairman and Member

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

Attendee	Meetings	Attended
Peter Day	5	4
Fiona Bennett	5	5
Ian Laughlin	5	5

RISK MANAGEMENT AND INTERNAL AUDIT

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

APRA has in place a risk management framework that includes a clear statement of its risk appetite. It covers material risks to APRA's mandate and objectives, each captured in a defined category. A member of APRA's Management Group is allocated responsibility for the ongoing review, management and reporting of each such risk. Risks are reassessed on a regular basis and the unit provides APRA's Executive Group and the Risk Management and Audit Committee with consolidated risk reports on a quarterly basis. In 2013/14 greater focus was given to risks and how they affect APRA via the formalisation of risk considerations in papers submitted to APRA's main governance committees. In addition, liaison commenced with peer supervisors overseas to understand their approach to Enterprise Risk Management and to identify opportunities to enhance APRA's risk framework. This work will continue over 2014/15.

A broad-ranging and robust program of internal audits is developed by the unit each year following consultation with APRA management and an assessment of APRA's strategies and key risks. The risk-based program covers specific aspects of APRA's supervisory and operational processes and its financial systems. Audit reviews identify and rate risks, and make recommendations aimed at improving APRA's internal control environment and processes. A quality assurance and improvement program is also in operation within the unit.

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

APRA has a range of external accountabilities and, to ensure compliance, applies a comprehensive APRA-wide compliance framework based upon the relevant *Australian Standard AS 3806-2006 Compliance Programs*. This framework includes a broad range of compliance attestations by senior management. Monitoring and ongoing development of this framework is the responsibility of the APRA Secretary.

APRA MEMBERS

**DR JOHN LAKER AO**

BEd (Hons 1) (Syd), MSc,
PhD (London)

Chairman and Member

Dr Laker served as a Member and Chairman of APRA from 1 July 2003 to 30 June 2014. During this period Dr Laker was APRA's representative on the Reserve Bank of Australia's (RBA) Payments System Board, the Council of Financial Regulators, the Basel Committee on Banking Supervision and its governing body, and the Trans-Tasman Council on Banking Supervision. He was also a director of the Centre for International Finance and Regulation. Dr Laker worked in the Commonwealth Treasury and International Monetary Fund before joining the RBA in 1982. He held senior positions in the economic, bank supervision and international areas before becoming the RBA's London-based Chief Representative in Europe from 1991 to 1993. Dr Laker was appointed Assistant Governor (Corporate Services) in 1994 and, in 1998, Assistant Governor (Financial System) and Deputy Chair of the RBA's Payments System Board. Dr Laker was made an Officer of the Order of Australia in 2008 for services to the regulation of the Australian financial system and to the development and implementation of economic policies nationally and internationally.

**MR IAN LAUGHLIN**

BSc (Qld), FIA, FIAA,
FAICD, CERA

Deputy Chairman and Member

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

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

Mr Laughlin is APRA's representative on the Executive Committee of the International Association of Insurance Supervisors and on the Financial Reporting Council. Mr Laughlin is also a Fellow of the Institute of Actuaries of Australia and has served on its Council.



MRS HELEN ROWELL

BA (Macquarie), FIAA
Member

Mrs Rowell was appointed as a Member of APRA on 1 July 2013 for a five-year term.

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



MR WAYNE BYRES

BEC (Hons), MAppFin, F Fin
Chairman and Member

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

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

FINANCIAL STATEMENTS

TABLE OF CONTENTS*

Statement by Members and the Chief Financial Officer	102	Administered schedule of comprehensive income	108
Statement of comprehensive income	103	Administered schedule of assets and liabilities	109
Statement of financial position	104	Administered reconciliation schedule	109
Statement of changes in equity	105	Administered statement of cash flows	110
Statement of cash flows	106	Administered schedule of commitments	111
Schedule of commitments	107	Administered schedule of contingencies	111
Schedule of contingencies	108		

Notes

Note 1: Summary of significant accounting policies	112	Note 17: Financial instruments	146
Note 2: Events after the reporting period	121	Note 18: Financial assets reconciliation	148
Note 3: Calculation of APRA Special Appropriation	122	Note 19: Administered expenses	148
Note 4: Expenses	123	Note 20: Administered income	149
Note 5: Income	125	Note 21: Administered financial assets	151
Note 6: Other comprehensive income	126	Note 22: Administered statement of cash flows reconciliation	152
Note 7: Fair value measurements	126	Note 23: Administered contingent assets and liabilities	153
Note 8: Financial assets	130	Note 24: Appropriations	154
Note 9: Non-financial assets	132	Note 25: Special Accounts	156
Note 10: Payables	137	Note 26: Compensation and debt relief	157
Note 11: Provisions	138	Note 27: Assets held in trust	158
Note 12: Statement of cash flows reconciliation	139	Note 28: Reporting of outcomes	159
Note 13: Contingent assets and liabilities	140	Note 29: Competitive neutrality and cost recovery	159
Note 14: Remuneration of APRA Members	141	Note 30: Compliance with statutory conditions for payments from the Consolidated Revenue Fund	160
Note 15: Remuneration of senior executives	142		
Note 16: Remuneration of auditors	146		

* Administered items are distinguished from departmental items throughout these financial statements by background shading.

7



STATEMENT BY MEMBERS AND THE CHIEF FINANCIAL OFFICER

In our opinion, the attached financial statements for the year ended 30 June 2014 are based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, as amended.



MR WAYNE BYRES

Chairman

16 September 2014



MR IAN LAUGHLIN

Deputy Chairman

16 September 2014



MRS HELEN ROWELL

Member

16 September 2014



MR STEVE MATTHEWS

Chief Financial Officer

16 September 2014

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2014

	Notes	2014 \$'000	2013 \$'000
Expenses			
Employee benefits	4A	87,795	86,617
Supplier expenses	4B	22,943	23,868
Depreciation and amortisation	4C	7,006	5,855
Finance costs	4D	90	48
Losses from asset disposals	4E	193	127
Total expenses		118,027	116,515
Less:			
Own-source income			
Own-source revenue			
Rendering of services	5A	3,831	4,331
Rental income	5B	12	12
Other revenue	5C	1,030	366
Total own-source revenue		4,873	4,709
Gains			
Other gains	5D	136	131
Total gains		136	131
Total own-source income		5,009	4,840
Net cost of services		113,018	111,675
Revenue from Government	5E	111,761	116,777
Operating surplus/(deficit)		(1,257)	5,102
Other comprehensive income			
Items not subject to subsequent reclassification to profit or loss			
Changes in asset revaluation reserves	6A	222	63
Total other comprehensive income		222	63
Total comprehensive income/(loss)		(1,035)	5,165

The above statement should be read in conjunction with the accompanying Notes.

STATEMENT OF FINANCIAL POSITION

as at 30 June 2014

	Notes	2014 \$'000	2013 \$'000
Assets			
Financial assets			
Cash	8A	1,639	1,360
Trade and other receivables	8B	58,544	56,552
Total financial assets		60,183	57,912
Non-financial assets			
Property, plant and equipment	9A,B	3,997	5,472
Intangibles	9C,D	16,869	16,124
Other non-financial assets	9E	2,637	2,102
Total non-financial assets		23,503	23,698
Total assets		83,686	81,610
Liabilities			
Payables			
Suppliers	10A	475	683
Unearned fees and charges	10B	483	753
Other payables	10C	5,366	6,031
Total payables		6,324	7,467
Provisions			
Employee provisions	11A	32,467	32,580
Other provisions	11B	2,997	2,900
Total provisions		35,464	35,480
Total liabilities		41,788	42,947
Net assets		41,898	38,663
Equity			
Contributed equity		16,549	12,279
Reserves		12,752	12,530
Retained surpluses		12,597	13,854
Total equity		41,898	38,663

The above statement should be read in conjunction with the accompanying Notes.

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2014

	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
	Retained surpluses		Asset revaluation reserve		Contingency Enforcement Fund		Contributed equity/capital		Total equity	
Opening balance										
Balance carried forward from previous period	13,854	8,752	6,530	6,467	6,000	6,000	12,279	7,469	38,663	28,688
Opening balance as at 1 July	13,854	8,752	6,530	6,467	6,000	6,000	12,279	7,469	38,663	28,688
Comprehensive income										
Other comprehensive income	–	–	222	63	–	–	–	–	222	63
Surplus/(deficit) for the period	(1,257)	5,102	–	–	–	–	–	–	(1,257)	5,102
Total comprehensive income	(1,257)	5,102	222	63	–	–	–	–	(1,035)	5,165
Distributions to owners										
Return of Government equity contribution	–	–	–	–	–	–	–	(3,197)	–	(3,197)
Contributions by owners										
Equity injection – appropriations	–	–	–	–	–	–	4,270	8,007	4,270	8,007
Sub-total: transactions with owners	–	–	–	–	–	–	4,270	4,810	4,270	4,810
Closing balance as at 30 June	12,597	13,854	6,752	6,530	6,000	6,000	16,549	12,279	41,898	38,663

The above statement should be read in conjunction with the accompanying Notes.

STATEMENT OF CASH FLOWS

for the year ended 30 June 2014

	Notes	2014 \$'000	2013 \$'000
Operating activities			
Cash received			
Appropriations		117,598	114,176
Rendering of services		4,808	4,918
Net GST received		2,140	2,098
Other		1,556	367
Total cash received		126,102	121,559
Cash used			
Employees		(87,973)	(86,036)
Suppliers		(26,982)	(24,295)
Section 31 receipts transferred to Official Public Account (OPA)		(8,425)	(7,395)
Total cash used		(123,380)	(117,726)
Net cash from operating activities	12	2,722	3,833
Investing activities			
Cash used			
Purchase of property, plant and equipment		(352)	(1,326)
Purchase/development of software intangibles		(6,362)	(7,696)
Total cash used		(6,713)	(9,022)
Net cash (used by) investing activities		(6,713)	(9,022)
Financing activities			
Cash received			
Equity injection – appropriations		4,270	8,007
Total cash received		4,270	8,007
Cash used			
Return of Government equity contribution		–	(3,197)
Total cash used		–	(3,197)
Net cash from financing activities		4,270	4,810
Net increase/(decrease) in cash held		279	(379)
Cash at the beginning of the reporting period		1,360	1,739
Cash at the end of the reporting period	8A	1,639	1,360

The above statement should be read in conjunction with the accompanying Notes.

SCHEDULE OF COMMITMENTS

as at 30 June 2014

	2014 \$'000	2013 \$'000
By type¹		
Commitments receivable		
Net GST recoverable on commitments	(2,056)	(3,066)
Total commitments receivable	(2,056)	(3,066)
Commitments payable		
Operating leases	15,374	22,037
Other	7,236	11,690
Total commitments payable	22,610	33,727
Net commitments by type	20,554	30,661
By maturity		
Commitments receivable		
Net GST recoverable on commitments		
One year or less	(1,039)	(1,250)
From one to five years	(1,017)	(1,811)
Over five years	—	(5)
Total net GST recoverable on commitments	(2,056)	(3,066)
Commitments payable		
Operating lease commitments		
One year or less	7,108	6,662
From one to five years	8,266	15,321
Over five years	—	54
Total operating lease commitments	15,374	22,037
Other		
One year or less	4,318	7,090
From one to five years	2,918	4,600
Total other	7,236	11,690
Net commitments by maturity	20,554	30,661

Leases for office accommodation

Lease payments in Sydney (except for one level) are subject to prevailing market rates. Leases for all other offices are subject to fixed annual increments. Office leases, with current expiry dates shown in brackets, are current for space in Perth (2017), Canberra (2015), Melbourne (2016), Sydney (2016), Brisbane (2018) and Adelaide (2019).

The above schedule should be read in conjunction with the accompanying Notes.

¹ Commitments are stated inclusive of GST where relevant.

SCHEDULE OF CONTINGENCIES

as at 30 June 2014

	2014 \$'000	2013 \$'000
Contingent assets		
Claims for damages or costs	–	–
Total contingent assets	–	–
Contingent liabilities		
Claims for damages or costs	–	–
Total contingent liabilities	–	–
Net contingent assets (liabilities)	–	–

The above schedule should be read in conjunction with the accompanying Notes.

ADMINISTERED SCHEDULE OF COMPREHENSIVE INCOME
for the year ended 30 June 2014

	Notes	2014 \$'000	2013 \$'000
Expenses			
Supervisory Levy waivers	19	3,228	3,536
Total expenses administered on behalf of Government		3,228	3,536
Less:			
Income			
Taxation/levy revenue			
Financial Institutions Supervisory Levies	20A	260,297	273,932
Financial Assistance Levy	20B	875	17,662
Total taxation/levy revenue		261,172	291,594
Net contribution by services		257,944	288,058

The above schedule should be read in conjunction with the accompanying Notes.

ADMINISTERED SCHEDULE OF ASSETS AND LIABILITIES as at 30 June 2014

	Notes	2014 \$'000	2013 \$'000
Assets			
Financial assets			
Receivables	21	525	775
Total assets administered on behalf of Government		525	775
Liabilities			
Liabilities administered on behalf of Government		–	–
Total liabilities administered on behalf of Government		–	–
Net assets administered on behalf of Government		525	775
The above schedule should be read in conjunction with the accompanying Notes.			

ADMINISTERED RECONCILIATION SCHEDULE as at 30 June 2014

	2014 \$'000	2013 \$'000
Opening administered assets less administered liabilities as at 1 July	775	2,201
Plus: Administered income	261,172	291,594
Less: Administered expenses	(3,228)	(3,536)
Transfers to/from Australian Government:		
Plus: Appropriation transfers from Official Public Account	15	343
Less: Transfers to Official Public Account	(258,209)	(289,827)
Closing administered assets less administered liabilities as at 30 June	525	775

ADMINISTERED STATEMENT OF CASH FLOWS for the year ended 30 June 2014

	Notes	2014 \$'000	2013 \$'000
Operating activities			
Cash received			
Financial Institutions Supervisory Levies		257,125	270,480
Financial Assistance Levy		1,072	19,347
Total cash received		258,197	289,827
Cash used			
Refunds for overpayment of Supervisory Levies		(3)	(343)
Total cash used		(3)	(343)
Net cash flows from operating activities	22	258,194	289,484
Net increase in cash held		258,194	289,484
Cash at the beginning of the reporting period		–	–
Cash from Official Public Account for:			
– APRA Special Account: Supervisory Levies		15	343
		15	343
Cash to Official Public Account for:			
– Financial Institutions Supervisory Levies		(257,137)	(270,480)
– Financial Assistance Levy		(1,072)	(19,347)
		(258,209)	(289,827)
Cash at the end of the reporting period		–	–

APRA administers the collection of Financial Institutions Supervisory Levies and Financial Assistance Levies on behalf of the Government. While the revenues from Financial Institutions Supervisory Levies are in part used to fund the operations of APRA, they are not directly available to APRA for its own purposes. The revenues from the Financial Assistance Levy are not available to APRA for its own purposes. All administered collections are remitted to the Official Public Account. Transactions and balances relating to levies are reported in Note 20: *Administered income*.

This schedule should be read in conjunction with the accompanying Notes.

ADMINISTERED SCHEDULE OF COMMITMENTS
for the year ended 30 June 2014

APRA had no administered commitments as at balance date (2013: Nil).

ADMINISTERED SCHEDULE OF CONTINGENCIES
for the year ended 30 June 2014

APRA had no quantifiable administered contingencies as at balance date (2013: Nil).

This should be read in conjunction with the accompanying notes.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 Objectives of Australian Prudential Regulation Authority (APRA)

APRA's mission is to establish and enforce prudential standards and practices designed to ensure that, under all reasonable circumstances, financial promises made by institutions we supervise are met within a stable, efficient and competitive financial system. APRA also acts as a national statistical agency for the Australian financial sector and plays a role in preserving the integrity of Australia's retirement incomes policy. In performing and exercising its functions and powers, APRA is to balance the objectives of financial safety and efficiency, competition, contestability and competitive neutrality and, in balancing these objectives, is to promote financial system stability in Australia.

APRA's activities contributing toward these outcomes are classified as either 'departmental' or 'administered'. Departmental activities involve the use of assets, liabilities, revenues and expenses controlled or incurred by APRA in its own right. Administered activities involve the management or oversight by APRA, on behalf of the Government, of items controlled or incurred by the Government.

APRA's continued existence in its present form and with its present programs is dependent on Government policy and on continuing appropriations from Parliament.

1.2 Basis of preparation of the financial statements

The financial statements and notes are required by section 49 of the *Financial Management and Accountability Act 1997* and are general purpose financial statements.

The financial statements and notes have been prepared in accordance with:

- Finance Minister's Orders (FMOs) for reporting periods ending on or after 1 July 2013; and
- Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial statements have been prepared on an accrual basis and in accordance with the historical cost convention, except for certain assets and liabilities at fair value. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

The financial statements are presented in Australian dollars and values are rounded to the nearest thousand dollars unless otherwise specified.

Unless an alternative treatment is specifically required by an accounting standard or the FMOs, assets and liabilities are recognised in the *Statement of Financial Position* when and only when it is probable that future economic benefits will flow to APRA or a future sacrifice of economic benefits will be required and the amounts of the assets or liabilities can be reliably measured. Liabilities and assets that are unrecognised are reported in the *Schedule of Commitments* and the *Schedule of Contingencies*.

Unless alternative treatment is specifically required by an accounting standard, income and expenses are recognised in the *Statement of Comprehensive Income* when and only when the flow, consumption or loss of economic benefits has occurred and can be reliably measured.

1.3 Significant accounting judgements and estimates

No accounting assumptions and estimates have been identified that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next accounting period.

APRA has assessed the value of its non-financial assets as at 30 June 2014 and is satisfied that they reflect the fair value.

1.4 Changes in Australian Accounting Standards

Adoption of new Australian Accounting Standard requirements

No accounting standard has been adopted earlier than the application date as stated in the standard. No new accounting standards, amendments to standards and interpretations issued by the AASB that were issued prior to the signing of the financial statements by Members and the Chief Financial Officer and that are applicable in the current period, have had a material financial effect on APRA or are expected to have a future financial impact on APRA.

Future Australian Accounting Standard requirements

New accounting standards, amendments to standards and interpretations that were issued prior to the signing of the financial statements by Members and the Chief Financial Officer and are effective for future reporting periods have been issued by the AASB. It is expected that the following standard, when effective, will have a material disclosure impact for APRA:

- AASB 1055 Budgetary Reporting – The new standard will require that where budgeted financial statements reflecting either controlled items or administered items are presented to Parliament, the original budgeted financial statements or information must be disclosed, restated if necessary, to align with the presentation and classification adopted in the financial statements (for controlled items) or in accordance with AASB 1050 Administered Items (for administered items). Explanations of major variances between actual and budgeted amounts are also required to be disclosed.

1.5 Revenue

Revenue from Government

APRA is funded primarily through levies imposed on the industries it supervises. These levies, known as the Financial Institutions Supervisory Levies, are administered transactions collected on behalf of the Government and paid into the Consolidated Revenue Fund (CRF). An amount equal to the net levy revenue, less an amount specified by the Minister in an annual determination made under subsection 50(1) of the *Australian Prudential Regulation Authority Act 1998* (APRA Act), is credited to the APRA Special Account as a Special Appropriation, in accordance with subsections 50(2), (3) and (5) of the APRA Act. The amounts specified in the Minister's Determinations are retained in the CRF to cover: the costs of activities of the Australian Taxation Office (ATO) for unclaimed monies, lost member functions and for the implementation of the Stronger Super – SuperStream reforms; the Australian Securities and Investments Commission (ASIC) for consumer protection and market integrity functions; and the Department of Human Services (DHS) for the administration of claims for early release of superannuation benefits on compassionate grounds. The calculation of the Special Appropriation is shown at Note 3.

Amounts appropriated for APRA's outputs for the year (adjusted for any formal additions and reductions) are recognised as Revenue from Government when APRA gains control of the appropriation, except for certain amounts that relate to activities that are reciprocal in nature, in which case revenue is recognised only when it has been earned. Appropriations receivable are recognised at their nominal amounts.

Other revenue

Revenue from rendering of services is recognised by reference to the stage of completion of contracts at the reporting date. The revenue is recognised when:

- the amount of revenue, stage of completion and transaction costs incurred can be reliably measured; and
- the probable economic benefits associated with the transaction will flow to APRA.

The stage of completion of contracts at the reporting date is determined by reference to the proportion that costs incurred to date bear to the estimated total costs of the transaction.

Revenue and receipts from sources other than an appropriation Act are classified as Section 31 receipts.

Receivables for goods and services, which have 30-day terms, are recognised at the nominal amounts due less any impairment allowance. Collectability of debts is reviewed at balance date. Allowances are made when collectability of the debt is no longer probable.

Parental leave payments scheme

Amounts received under the Parental Leave Payments Scheme not yet paid to employees are presented gross as cash and a liability (payable) by APRA. The total amount received under the scheme was \$225,389 (2013:\$118,927).

1.6 Gains

Resources received free of charge

Resources received free of charge are recognised as revenue or gains when, and only when, a fair value can be reliably determined and the services would have been purchased if they had not been donated. Use of those resources is recognised as an expense.

Sale of assets

Gains or losses from disposal of assets are recognised when control of the asset has passed to the buyer.

1.7 Transactions with the Government as owner

Equity injections

Amounts appropriated as 'equity injections' for a year (less any formal reductions) are recognised directly in contributed equity in that year.

1.8 Employee benefits

Liabilities for 'short-term employee benefits' (as defined in AASB 119 *Employee Benefits*) and termination benefits due within 12 months of the balance date are measured at their nominal amounts. The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability.

All other long-term employee benefits are measured as the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date.

Leave

The liability for employee benefits includes provision for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees of APRA is estimated to be less than the annual entitlement for sick leave.

The annual and long service leave liabilities are calculated on the basis of employees' remuneration at the estimated salary rates that will be applied at the time the leave is taken, including APRA's employer superannuation contribution rates, assuming that the leave is likely to be taken during service rather than paid out on termination.

The liability for long service leave has been recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the end of the financial year. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

Separation and redundancy

Provision is made for separation and redundancy benefit payments, in cases where APRA has developed a detailed formal plan for the terminations and has informed those employees affected that it will carry out the terminations.

Superannuation

Certain employees of APRA are members of the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS). The CSS and PSS are defined benefit schemes for the Australian Government. The liability for defined benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course. This liability is reported in the Department of Finance's administered schedules and notes. APRA makes employer contributions to the employees' superannuation scheme at rates determined by an actuary to be sufficient to meet the current cost to the Government of the superannuation entitlement of APRA's employees. APRA accounts for the contributions as if they were contributions to defined contribution plans.

APRA also makes employer contributions to the Reserve Bank Officers' Superannuation Fund and to State-based superannuation schemes for former employees of the Reserve Bank of Australia and State-based regulators, respectively. These are defined benefit schemes and the liability for the defined benefits are recognised in the financial statements of the relevant entity.

For all other employees, employer contributions are made to other superannuation (accumulation) funds, as nominated by the employee.

The liability for superannuation recognised at the balance date represents outstanding contributions for the remaining days following the last payroll in June 2014.

1.9 Leases

A distinction is made between finance leases and operating leases. Finance leases effectively transfer from the lessor to the lessee substantially all the risks and rewards incidental to ownership of leased assets. APRA has no finance leases. In operating leases, the lessor effectively retains substantially all such risks and benefits.

Operating lease payments are expensed on a straight-line basis that is representative of the pattern of benefits derived from the leased assets.

1.10 Fair Value Measurement

APRA deems transfers between levels of the fair value hierarchy to have occurred between Level 1 and Level 2 if an asset has observable inputs other than quoted prices. An asset moves from Level 2 to Level 3 when inputs are no longer observable and are valued using depreciated replacement cost.

1.11 Cash

Cash includes cash on hand and cash at bank.

1.12 Financial assets

APRA classifies its financial assets as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Financial assets are recognised and derecognised upon trade date.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate.

Impairment of financial assets

Financial assets are individually assessed for impairment at each balance date. Where there is sufficient evidence to suggest that an impairment loss has been incurred, the carrying amount is reduced by way of an allowance account. The loss is recognised in the *Statement of Comprehensive Income*.

1.13 Financial liabilities

APRA classifies its financial liabilities as 'payables'. Financial liabilities are recognised and derecognised upon trade date. Supplier and other payables are recognised at amortised cost. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).

Other payables are initially measured at fair value, net of transaction costs. These liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

1.14 Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are not recognised in the *Statement of Financial Position* but are reported in the relevant Schedules and Notes. They may arise from uncertainty as to the existence of an asset or liability, or represent an asset or liability in respect of which the amount cannot be reliably measured. Contingent assets are disclosed when settlement is probable but not virtually certain and contingent liabilities are disclosed when the probability of settlement is greater than remote.

1.15 Acquisition of assets

Assets are recorded at cost on acquisition, except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken. Financial assets are initially measured at their fair value plus transaction costs where appropriate.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and income at their fair value at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. In the latter case, assets are initially recognised as contributions by owners at the amounts at which they were recognised in the transferor entity's accounts immediately prior to the restructuring.

1.16 Property, plant and equipment

Asset recognition threshold

Purchases of property, plant and equipment are recognised initially at cost in the *Statement of Financial Position*, except for purchases costing less than \$5,000, which are expensed in the year of acquisition (other than where they form part of a group of similar items that are significant in total).

The initial cost of an asset includes an estimate of the cost of dismantling and removing the item and restoring the site on which it is located. This is particularly relevant to 'make good' provisions in property leases taken up by APRA where there exists an obligation to restore the property to its original condition. These costs are included in the value of APRA's leasehold improvements with a corresponding provision for the 'make good' recognised. Adjustments to the value of the provision are recognised in the *Statement of Comprehensive Income* as expenses or gains as incurred.

Revaluations

Following initial recognition at cost, property, plant and equipment are carried at fair value, less subsequent accumulated depreciation and accumulated impairment losses. Valuations are conducted with sufficient frequency such that the carrying amount of each class of asset is not materially different, at reporting date, from its fair value. Valuations are undertaken every three years as at 30 June (last valuation in 2014).

Fair values for each class of asset are determined as shown below:

Asset Class	Fair Value measured at:
Leasehold improvements	Depreciated replacement cost
Computer hardware and office equipment	Market selling price and depreciated replacement cost

Revaluation adjustments are made on a class basis. Any revaluation increment is credited to equity under the heading of asset revaluation reserve except to the extent that it reverses a previous revaluation decrement of the same asset class that was previously recognised in the *Statement of Comprehensive Income*. Revaluation decrements for a class of assets are recognised directly in the *Statement of Comprehensive Income* except to the extent that they reversed a previous revaluation increment for that class.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the asset restated to the revalued amount.

Depreciation

Depreciable plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to APRA using, in all cases, the straight-line method of depreciation. Leasehold improvements are depreciated on a straight-line basis over the lesser of the estimated useful life of the improvements or the unexpired period of the lease.

Depreciation rates (useful lives) and residual values are reviewed at each reporting date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate.

Depreciation rates applying to each class of depreciable asset are based on the following useful lives:

Asset Class	2014	2013
Leasehold improvements	Lesser of 10 years or lease term	Lesser of 10 years or lease term
Computer hardware and office equipment	3 to 5 years	3 to 5 years

Impairment

All assets were assessed for indications of impairment as at 30 June 2014. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset. Where the future economic benefit of an asset is not primarily dependent on the asset's ability to generate future cash flows, and the asset would be replaced if APRA were deprived of the asset, its value in use is taken to be its depreciated replacement cost.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

1.17 Intangibles

APRA's intangibles comprise internally developed software and purchased software for internal use. These assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Software is amortised on a straight-line basis over its anticipated useful life. The useful lives of APRA's software are the lesser of five years or assessed useful life (2012/13: lesser of five years or assessed useful life).

All software assets were assessed for indications of impairment as at 30 June 2014.

1.18 Taxation

APRA is exempt from all forms of taxation except Fringe Benefits Tax (FBT) and Goods and Services Tax (GST).

Revenues, expenses and assets are recognised net of GST except where the amount of GST incurred is not recoverable from the Australian Taxation Office. Receivables and payables are recognised inclusive of GST.

1.19 Reporting of administered activities

Administered revenues, expenses, assets, liabilities and cash flows are disclosed in the *Administered Schedules* and related Notes. These administered items are distinguished from departmental items throughout these financial statements by background shading.

Except where otherwise stated below, administered items are accounted for on the same basis and using the same policies as for departmental items, including the application of Australian Accounting Standards.

Administered cash transfers to and from the Official Public Account (OPA)

Revenue collected by APRA for use by the Government rather than by APRA is administered revenue. Collections are transferred to the OPA maintained by the Department of Finance. Conversely, cash is drawn from the OPA to make payments under Parliamentary appropriation on behalf of the Government. These transfers to and from the OPA are adjustments to the administered cash held by APRA on behalf of the Government and reported as such in the *Schedule of Administered Cash Flows* and in the *Administered Reconciliation Schedule*.

Revenue

All administered revenues relate to the ordinary activities performed by APRA on behalf of the Government. These revenues are not directly available to be used by APRA for its own purposes and are remitted to the OPA.

APRA undertakes the collection of certain levies on behalf of the Government. These comprise Financial Institutions Supervisory Levies, Financial Assistance Levies and late payment penalties collected under the *Financial Institutions Supervisory Levies Collection Act 1998*.

Administered revenue arising from levies (including Financial Assistance Levies) is recognised on an accrual basis, in line with the Minister's regulations and determinations. The collectability of debts is reviewed at balance date. Provisions are made when collection of the debt is judged to be less, rather than more, likely.

Expenses

Administered expenses arising from waivers of levy debts are recognised at the time of approval by delegated APRA officials.

Waivers of levies under the *Financial Institutions Supervisory Levies Collection Act 1998* are shown at Note 26, as required by the FMOs. Waivers generally occur due to a change of status of a supervised entity during the year, resulting in the annual levy being wholly or partly waived.

Contingent assets and liabilities

There were no administered contingent assets or liabilities in 2014 or in 2013.

1.20 Compliance with statutory conditions for payments from the Consolidated Revenue Fund

The Australian Government continues to have regard to developments in case law, including the High Court's most recent decision on Commonwealth expenditure in *Williams v Commonwealth* [2014] HCA 23, as they contribute to the larger body of law relevant to the development of Commonwealth programs. In accordance with its general practice, the Government will continue to monitor and assess risk and decide on any appropriate actions to respond to risks of expenditure not being consistent with constitutional or other legal requirements.

NOTE 2: EVENTS AFTER THE BALANCE SHEET DATE

There were no significant events occurring after the balance sheet date that have the potential to significantly affect the ongoing structure or financial activities of APRA.

NOTE 3: CALCULATION OF APRA SPECIAL APPROPRIATION

The APRA Special Appropriation is calculated in accordance with the provisions of s50 of the *Australian Prudential Regulation Authority Act 1998*.

Details are as follows:

	2014 \$'000	2013 \$'000
Table 1: Summary		
Current year levies and penalties (see Note 20A, Table 1)	260,297	273,932
Less: Waivers and doubtful debts (see Note 19)	(3,228)	(3,536)
Net current year levies and penalties (see Table 2 below)	257,069	270,396
Less: Amount retained in the CRF (see Table 3 below)	(147,543)	(153,500)
Total	109,526	116,896
Table 2: Net current year levies and penalties by levy type		
Superannuation funds	155,498	183,307
Authorised deposit-taking institutions	61,277	50,149
Life insurers and friendly societies	14,241	12,985
General insurers	26,053	23,955
Total	257,069	270,396
Table 3: Amounts retained in the CRF by levy type¹		
Superannuation funds	(125,443)	(144,900)
Authorised deposit-taking institutions	(13,900)	(3,400)
Life insurers and friendly societies	(3,300)	(2,300)
General insurers	(4,900)	(2,900)
Total	(147,543)	(153,500)
Table 4: Amounts of levy payable to APRA under the APRA Special Appropriation by levy type		
Superannuation funds	30,055	38,407
Authorised deposit-taking institutions	47,377	46,749
Life insurers and friendly societies	10,941	10,685
General insurers	21,153	21,055
Total	109,526	116,896
This is represented by:		
Special Appropriation	109,526	113,699
Government equity contribution	—	3,197
Total	109,526	116,896

¹ Including amounts as determined by the Minister in accordance with subsection 50 (1) of the *Australian Prudential Regulation Authority Act 1998*.

NOTE 4: EXPENSES

	2014 \$'000	2013 \$'000
Note 4A: Employee benefits		
Salaries and wages	72,596	70,886
Superannuation	7,829	7,414
Leave and other entitlements	7,190	7,867
Separation and redundancies	87	353
Other employee benefits	93	97
Total employee benefits	87,795	86,617
Note 4B: Supplier expenses		
Goods and services		
Consultants	471	1,974
Contractors	1,314	1,049
Travel-related expenses	2,151	2,669
Operational expenses	10,807	9,875
Training and conference expenses	1,469	1,688
Other professional services	95	25
Total goods and services	16,307	17,280
Goods and services are made up of:		
Provision of goods – external parties	2,582	1,954
Rendering of services – related entities	1,923	1,875
Rendering of services – external parties	11,802	13,451
Total goods and services	16,307	17,280
Other supplier expenses		
Operating lease rentals – external parties:		
– minimum lease payments	6,205	6,103
Workers' compensation premiums	431	485
Total other supplier expenses	6,636	6,588
Total supplier expenses	22,943	23,868

NOTE 4: EXPENSES (CONTINUED)

	2014 \$'000	2013 \$'000
Note 4C: Depreciation and amortisation		
Depreciation:		
Computer hardware	624	497
Leasehold improvements	1,179	1,195
Total depreciation	1,803	1,692
Amortisation:		
Intangibles – computer software	5,203	4,163
Total amortisation	5,203	4,163
Total depreciation and amortisation	7,006	5,855
Note 4D: Finance costs		
Unwinding of discount	90	48
Total finance costs	90	48
Note 4E: Losses from asset sales/disposals		
Property, plant and equipment		
Proceeds from sale	–	–
Carrying value of assets disposed	14	127
Total losses from asset sales/disposals	14	127
Intangibles		
Proceeds from sale	–	–
Carrying value of assets disposed	179	–
Total losses from asset sales/disposals	179	–
Total losses from asset sales/disposals	193	127

NOTE 5: INCOME

	Notes	2014 \$'000	2013 \$'000
Note 5A: Rendering of services			
Rendering of services – government entities		1,888	2,008
Rendering of services – external entities		1,943	2,323
Total rendering of services		3,831	4,331
Note 5B: Rental income			
Rental income		12	12
Total rental income		12	12
Note 5C: Other revenue			
Licence fees from finance sector entities		729	192
Superannuation trustee applications		29	6
Fees from foreign bank representative offices		199	80
Recoveries from RBA for scholarships		23	–
Other		51	88
Total other revenue		1,030	366
Note 5D: Other gains			
Resources received free of charge		136	131
Total other gains		136	131
Note 5E: Revenue from Government			
Appropriations:			
Special Appropriations	3	109,526	113,699
Departmental outputs		2,235	3,078
Total revenue from Government		111,761	116,777

NOTE 6: OTHER COMPREHENSIVE INCOME

	2014 \$'000	2013 \$'000
Note 6A: Changes in asset revaluation reserve		
Net asset revaluation	236	–
Make good revaluation	(14)	63
	222	63

NOTE 7: FAIR VALUE MEASUREMENTS

The following tables provide an analysis of assets and liabilities that are measured at fair value. The different levels of the fair value hierarchy are defined below.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

Note 7A: Fair value measurements

Fair value measurements at the end of the reporting period by hierarchy for assets and liabilities in 2014

	Fair value measurements at the end of the reporting period using			
	Fair value \$'000	Level 1 inputs \$'000	Level 2 inputs \$'000	Level 3 inputs \$'000
Non-financial assets				
Computer hardware and office equipment	957	–	832	125
Leasehold improvements	3,040	–	101	2,939
Total non-financial assets	3,997	–	933	3,064

NOTE 7: FAIR VALUE MEASUREMENTS (CONTINUED)

	Fair value measurements at the end of the reporting period using			
	Fair value \$'000	Level 1 inputs \$'000	Level 2 inputs \$'000	Level 3 inputs \$'000
Total fair value measurements of assets in the statement of financial position	3,997	–	933	3,064
Total assets not measured at fair value in the statement of financial position	–	–	–	–

Fair value measurements – best use

APRA's assets are held for operational purposes and not held for the purposes of deriving a profit. The current use of all controlled assets is considered their best use.

Note 7B: Level 1 and Level 2 transfers for recurring fair value measurements

There have been no transfers between levels of the hierarchy during the year.

NOTE 7: FAIR VALUE MEASUREMENTS (CONTINUED)

Note 7C: Valuation technique and inputs for Level 2 and Level 3 fair value measurements

Level 2 and 3 fair value measurements – valuation technique and the inputs used for assets and liabilities in 2014

	Category (Level 2 or Level 3)	Fair value \$'000	Valuation technique(s) ¹	Inputs used	Range (weighted average) ²
Non-financial assets					
Computer hardware and office equipment	2	688	Market approach	Adjusted market transactions	
Computer hardware and office equipment	2	144	Market approach	Supplier invoices	
Computer hardware and office equipment	3	125	Depreciated replacement cost (DRC)	Replaced cost	
				Consumed economic benefit/obsolescence of asset	12.50%-20.00% (14.29%) per annum
Leasehold improvements	2	101	Market approach	Supplier invoices	
Leasehold improvements	3	821	Depreciated replacement cost (DRC)	Lease agreement	
Leasehold improvements	3	2,118	Depreciated replacement cost (DRC)	Replacement cost (price per square metre)	
				Consumed economic benefit/obsolescence of asset	5.6%-34.3% (7.1%) per annum

1 There have been no changes to valuation techniques.

2 Significant unobservable inputs only. Not applicable for assets or liabilities in the Level 2 category.

Recurring Level 3 fair value measurements – valuation processes

APRA conducts an internal management review of asset valuations at least once every 12 months (with a formal revaluation undertaken once every three years). During 2013-14, APRA procured the service of the Australian Valuation Services (AVS) to undertake a comprehensive valuation of all non-financial assets at 30 June 2014.

NOTE 7: FAIR VALUE MEASUREMENTS (CONTINUED)

Recurring Level 3 fair value measurements – sensitivity of inputs

Significant Level 3 inputs used by APRA are derived and evaluated as follows:

Computer hardware, office equipment and leasehold Improvements – Consumed economic benefit / obsolescence of asset

Assets that do not transact with enough frequency or transparency to develop objective opinions of value from observable market evidence have been measured utilising the cost (Depreciated Replacement Cost or DRC) approach. Under the DRC approach the estimated cost to replace the asset is calculated and then adjusted to take into account its consumed economic benefit / asset obsolescence (accumulated depreciation). Consumed economic benefit / asset obsolescence has been determined based on professional judgement regarding physical, economic and external obsolescence factors relevant to the asset under consideration.

The weighted average is determined by assessing the fair value measurement as a proportion of the total fair value for the class against the total useful life of each asset.

Recurring Level 3 fair value measurements – sensitivity analysis for financial assets

Computer hardware, office equipment and leasehold improvements

The significant unobservable inputs used in the fair value measurement of the entity's leasehold improvements asset class relate to the consumed economic benefit / obsolescence of the asset. A significant increase (decrease) in this input would result in a significantly higher (lower) fair value measurement.

Note 7D: Reconciliation for Recurring Level 3 Fair Value Measurements

Recurring Level 3 fair value measurements – reconciliation for assets

	Non-financial assets		Total
	Computer hardware and office equipment	Leasehold improvements	
	2014 \$'000	2014 \$'000	2014 \$'000
Opening balance	1,572	3,900	5,472
Total gains/(losses) recognised in net cost of services ¹	78	158	236
Additions	263	166	429
Disposals	(10)	(4)	(14)
Depreciation	(624)	(1,180)	(1,804)
Reclassification	(322)	–	(322)
Closing balance	957	3,039	3,997

¹ Opening balance as determined in accordance with AASB 13.

NOTE 8: FINANCIAL ASSETS

	2014 \$'000	2013 \$'000
Note 8A: Cash		
APRA official bank accounts	1,637	1,358
Cash on hand	2	2
Total cash and cash equivalents	1,639	1,360
Note 8B: Trade and other receivables		
Goods and services:		
Goods and services – related entities	106	104
Goods and services – external parties	1,933	2,665
Total receivables for goods and services	2,039	2,769
Appropriations receivable:		
For existing outputs	280	726
Special Appropriations	214	267
APRA Special Account	55,977	52,766
Total appropriations receivable	56,471	53,759
Other receivables:		
GST receivable from the Australian Taxation Office	128	22
Other	–	2
Total other receivables	128	24
Total trade and other receivables (gross)	58,638	56,552
Less: impairment allowance account:		
Trade and other receivables	(94)	–
Total impairment allowance account	(94)	–
Total trade and other receivables (net)	58,544	56,552
Receivables are expected to be recovered in:		
No more than 12 months	58,544	56,552
More than 12 months	–	–
Total trade and other receivables (net)	58,544	56,552

NOTE 8: FINANCIAL ASSETS (CONTINUED)

	2014 \$'000	2013 \$'000
Receivables are aged as follows:		
Not overdue	58,491	56,395
Overdue by:		
– 0 to 30 days	2	46
– 31 to 60 days	11	12
– 61 to 90 days	7	3
– more than 90 days	127	96
Total receivables (gross)	58,638	56,552

The impairment allowance account is aged as follows:

– more than 90 days	94	–
Total impairment allowance account	94	–

Reconciliation of the impairment allowance account:

	Other receivables \$'000	Total \$'000
Movements in relation to 2014		
Opening balance	–	–
Increase/(decrease) recognised in net cost of services	(94)	(94)
Amounts written off	–	–
Closing balance	(94)	(94)

	Other receivables \$'000	Total \$'000
Movements in relation to 2013		
Opening balance	–	–
Increase/(decrease) recognised in net cost of services	–	–
Amounts written off	–	–
Closing balance	–	–

NOTE 9: NON-FINANCIAL ASSETS

	2014 \$'000	2013 \$'000
Note 9A: Property, plant and equipment		
Computer hardware and office equipment		
– fair value	1,236	2,651
– accumulated depreciation	(279)	(1,079)
Total computer hardware and office equipment	957	1,572
Leasehold improvements		
– fair value	5,435	7,688
– accumulated depreciation	(2,395)	(3,788)
Total leasehold improvements	3,040	3,900
Total property, plant and equipment	3,997	5,472

No property, plant or equipment is expected to be sold or disposed of within the next 12 months

Revaluations of non-financial assets

Revaluations are conducted in accordance with the revaluation policy stated in Note 1.16. The latest revaluation was undertaken by an independent valuer in May 2014. The revalued assets have been valued as at 30 June 2014.

A revaluation increment of \$78,152 for computer hardware and office equipment (2013: nil) and an increment of \$158,146 for leasehold improvements (2013: nil) were credited to the asset revaluation reserve by asset class and included in the equity section of the *Statement of financial position*; no decrement was expensed (2013: nil).

NOTE 9: NON-FINANCIAL ASSETS (CONTINUED)

Note 9B: Reconciliation of the opening and closing balances of property, plant and equipment – 2014

	Computer hardware and office equipment \$'000	Leasehold improvements \$'000	Total \$'000
As at 1 July 2013			
Gross book value	2,651	7,688	10,339
Accumulated depreciation	(1,079)	(3,788)	(4,867)
Net book value 1 July 2013	1,572	3,900	5,472
Additions:			
By purchase	263	137	400
By additional make good provision	–	28	28
Revaluations and impairments recognised in other comprehensive income	78	158	236
Depreciation expense	(624)	(1,179)	(1,803)
Reclassification ¹	(322)	–	(322)
Disposals:			
Write-off (at cost)	(18)	(149)	(167)
Write-off (accumulated depreciation)	8	145	153
Net book value 30 June 2014	957	3,040	3,997
Net book value as of 30 June 2014 represented by:			
Gross book value	1,236	5,435	6,671
Accumulated depreciation	(279)	(2,395)	(2,674)
Net book value 30 June 2014	957	3,040	3,997

¹ This includes amounts expensed or reclassified as intangibles.

NOTE 9: NON-FINANCIAL ASSETS (CONTINUED)

Note 9B: Reconciliation of the opening and closing balances of property, plant and equipment – 2013

	Computer hardware and office equipment \$'000	Leasehold improvements \$'000	Total \$'000
As at 1 July 2012			
Gross book value	1,382	7,686	9,068
Accumulated depreciation	(583)	(2,693)	(3,276)
Net book value 1 July 2012	799	4,993	5,792
Additions:			
By purchase	1,270	56	1,326
By additional make good provision	–	46	46
Depreciation expense	(497)	(1,195)	(1,692)
Disposals:			
Write-off (at cost)	(1)	(100)	(101)
Write-off (accumulated depreciation)	1	100	101
Net book value 30 June 2013	1,572	3,900	5,472
Net book value as of 30 June 2013 represented by:			
Gross book value	2,651	7,688	10,339
Accumulated depreciation	(1,079)	(3,788)	(4,867)
Net book value 30 June 2013	1,572	3,900	5,472

Note 9C: Intangibles

	2014 \$'000	2013 \$'000
Computer software:		
– internally developed – in progress	1,822	4,877
– internally developed – in use	29,644	23,521
– purchased – in progress	48	540
– purchased – in use	7,174	6,403
– accumulated amortisation	(21,819)	(19,217)
Total computer software	16,869	16,124
Total intangibles	16,869	16,124

No intangibles are expected to be sold or disposed of within the next 12 months.

NOTE 9: NON-FINANCIAL ASSETS (CONTINUED)

Note 9D: Reconciliation of the opening and closing balances of intangibles – 2014

	Computer software internally developed \$'000	Computer software purchased \$'000	Total \$'000
As at 1 July 2013			
Gross book value	28,398	6,943	35,341
Accumulated amortisation	(13,891)	(5,326)	(19,217)
Net book value 1 July 2013	14,507	1,617	16,124
Additions:			
By purchase	–	543	543
Internally developed	5,269	–	5,269
Amortisation	(4,601)	(601)	(5,202)
Reclassification ¹	314	–	314
Disposals:			
Write-off (at cost)	(2,515)	(264)	(2,779)
Write-off (accumulated amortisation)	2,367	233	2,600
Net book value 30 June 2014	15,341	1,528	16,869
Net book value as of 30 June 2014 represented by:			
Gross book value	31,466	7,222	38,688
Accumulated amortisation	(16,125)	(5,694)	(21,819)
Net book value 30 June 2014	15,341	1,528	16,869

¹ Reclassified from property, plant and equipment.

NOTE 9: NON-FINANCIAL ASSETS (CONTINUED)

Note 9D (Cont'd): Reconciliation of the opening and closing balances of intangibles – 2013

	Computer software internally developed \$'000	Computer software purchased \$'000	Total \$'000
As at 1 July 2012			
Gross book value	21,451	6,501	27,952
Accumulated amortisation	(10,469)	(4,766)	(15,235)
Net book value 1 July 2012	10,982	1,735	12,717
Additions:			
By purchase	–	750	750
Internally developed	6,947	–	6,947
Amortisation	(3,422)	(741)	(4,163)
Disposals:			
Write-off (at cost)	–	(308)	(308)
Write-off (accumulated amortisation)	–	181	181
Net book value 30 June 2013	14,507	1,617	16,124
Net book value as of 30 June 2013 represented by:			
Gross book value	28,398	6,943	35,341
Accumulated amortisation	(13,891)	(5,326)	(19,217)
Net book value 30 June 2013	14,507	1,617	16,124
Note 9E: Other non-financial assets	2014 \$'000	2013 \$'000	
Prepayments	2,630	2,043	
Lease incentives	7	59	
Total other non-financial assets	2,637	2,102	
Total other non-financial assets are expected to be recovered in:			
– less than 12 months	2,474	2,012	
– more than 12 months	163	90	
Total other non-financial assets	2,637	2,102	

NOTE 10: PAYABLES

	2014	2013
	\$'000	\$'000
Note 10A: Suppliers		
Operating lease rentals	475	345
Trade creditors	–	338
Total suppliers payables	475	683

Operating lease rentals payable relate to external parties and are expected to be settled during the lease period.

Note 10B: Unearned fees and charges

Unearned revenue	483	753
Total unearned fees and charges	483	753

Unearned fees and charges are expected to be settled in less than 12 months.

Note 10C: Other payables

Accrued expenses	2,252	3,062
Salaries and wages	2,653	2,428
Lease incentives	302	541
Treasurer's Determination owed to Official Public Account	123	–
Other	36	–
Total other payables	5,366	6,031

Other payables are expected to be settled in:

– less than 12 months	5,150	5,587
– more than 12 months	216	444
Total other payables	5,366	6,031

NOTE 11: PROVISIONS

	2014 \$'000	2013 \$'000
Note 11A: Employee provisions		
Leave	26,880	27,566
Bonus	5,072	4,886
Other	515	128
Total employee provisions	32,467	32,580
Employee provisions are expected to be settled in:		
– less than 12 months	13,825	13,606
– more than 12 months	18,642	18,974
Total employee provisions	32,467	32,580
Note 11B: Other provisions		
Provisions for make good	2,997	2,900
Total other provisions	2,997	2,900
Other provisions are expected to be settled in:		
– less than 12 months	–	42
– more than 12 months	2,997	2,858
Total other provisions	2,997	2,900

	Provision for make good \$'000	Total \$'000
Reconciliation of other provisions:		
Carrying amount 1 July 2013	2,900	2,900
Additional provisions made	28	28
Amounts used	(35)	(35)
Unwinding of discount or change in rate	103	103
Closing balance 30 June 2014	2,997	2,997

APRA leases premises in Sydney, Melbourne, Canberra, Brisbane, Perth and Adelaide.

In the lease conditions of all locations except Canberra and Perth, there is a requirement for APRA, upon expiration of the lease, to restore the premises to the condition they were in at the commencement of the lease. The required level of 'make good' provision is being accumulated for each location over the terms of the various leases.

NOTE 12: STATEMENT OF CASH FLOWS RECONCILIATION

	2014 \$'000	2013 \$'000
Reconciliation of cash and cash equivalents as per Statement of Financial Position to Statement of Cash Flows		
Cash as per:		
Statement of cash flows	1,639	1,360
Statement of financial position	1,639	1,360
Difference	–	–
Reconciliation of net cost of services to net cash from operating activities		
Net cost of services	(113,018)	(111,675)
Add: revenue from Government	111,761	116,777
Adjustments for non-cash items		
Depreciation/amortisation	7,006	5,855
Loss on disposal of assets	193	127
Make good	(42)	16
Changes in assets / liabilities		
(Increase) in net receivables	(1,853)	(9,991)
(Decrease) in other non-financial assets	(526)	(107)
Increase/(decrease) in employee provisions	(113)	580
Increase/(decrease) in supplier payables	(208)	310
(Decrease) in unearned fees and charges	(270)	(283)
Increase/(decrease) in other payables	(305)	2,205
Increase in other provisions	97	19
Net cash from operating activities	2,722	3,833

NOTE 13: CONTINGENT ASSETS AND LIABILITIES

	Claims for damages or costs	
	2014	2013
	\$'000	\$'000
Contingent assets		
Balance from previous period	—	—
New contingent assets recognised	—	—
Expired	—	—
Total contingent assets	—	—
Contingent liabilities		
Balance from previous period	—	—
New contingent liabilities recognised	—	—
Obligations expired	—	—
Total contingent liabilities	—	—
Net contingent assets (liabilities)	—	—

Quantifiable contingencies

APRA has no quantifiable contingencies as at balance date (2013: Nil).

Unquantifiable contingencies

APRA has no unquantifiable contingencies as at balance date (2013: Nil).

Significant remote contingencies

APRA has no significant remote contingencies as at balance date (2013: Nil).

NOTE 14: REMUNERATION OF APRA MEMBERS

APRA Members are appointed by the Governor General under Part 3 of the *Australian Prudential Regulation Authority Act 1998* and remuneration is set by the Remuneration Tribunal under the *Remuneration Tribunal Act 1973*. Total remuneration as determined by the Tribunal for 2013/14 was Chairman \$819,200 (2012/13: \$800,000); Deputy Chairman \$655,360 (2012/13: \$640,000); and Member \$614,400 (2012/13: \$600,000). Any difference between the Tribunal determination and the cost to APRA is due to changes in unused annual and long service leave entitlements accumulated in the year and funding changes to defined benefit superannuation schemes where relevant.

	2014	2013
The remuneration of APRA Members, measured in terms of the cost to APRA, is shown in the relevant remuneration bands:		
\$585,000 to \$614,999	–	1
\$675,000 to \$704,999	1	1
\$735,000 to \$764,999	1	–
\$795,000 to \$824,999	1	–
\$885,000 to \$914,999	–	1
Total	3	3
Total remuneration of APRA Members	\$2,281,447	\$2,225,234

NOTE 15: REMUNERATION OF SENIOR EXECUTIVES

Note 15A: Remuneration expenses for senior executives¹

	2014	2013
	\$	\$
Short-term employee benefits:		
Salary (including annual leave)	6,571,828	7,110,638
Performance bonuses	336,654	506,651
Allowances	816	365
Total short-term employee benefits	6,909,298	7,617,654
Post-employment benefits:		
Superannuation	730,671	707,833
Total post-employment benefits	730,671	707,833
Other long-term benefits:		
Movement in annual leave provision	(42,569)	61,901
Long-service leave accrued	56,909	74,925
Total other long-term benefits	14,340	136,826
Total senior executive remuneration expenses	7,654,308	8,462,313

¹ Note 15A was prepared on an accrual basis (therefore the performance bonus expenses disclosed above may differ from the cash 'Bonus paid' in Note 15B). Note 15A excludes acting arrangements and part-year service where total remuneration expensed for a senior executive was less than \$195,000.

NOTE 15: REMUNERATION OF SENIOR EXECUTIVES (CONTINUED)

Note 15B: Average annual reportable remuneration paid to senior executives during the reporting period

2014						
Average annual reportable remuneration ¹	Senior executives No.	Reportable salary ² \$	Contributed superannuation ³ \$	Reportable allowances ⁴ \$	Bonus paid ⁵ \$	Total reportable remuneration ⁶ \$
Total remuneration (including part-time arrangements):						
Less than \$195,000	1	163,105	15,087	–	–	178,192
\$225,000 to \$254,999	2	217,999	20,451	–	1,780	240,230
\$255,000 to \$284,999	7	241,416	23,946	–	13,	278,550
\$285,000 to \$314,999	5	250,222	33,719	–	14,623	298,564
\$315,000 to \$344,999	7	272,226	32,467	60	15,040	319,794
\$405,000 to \$434,999	1	328,619	71,926	–	16,660	417,205
\$435,000 to \$464,999	1	408,836	25,000	–	16,606	450,442
\$465,000 to \$494,999	1	413,677	25,000	396	29,109	468,182
Total number of senior executives	25					
2013						
Average annual reportable remuneration ¹	Senior executives No.	Reportable salary ² \$	Contributed superannuation ³ \$	Reportable allowances ⁴ \$	Bonus paid ⁵ \$	Total reportable remuneration ⁶ \$
Total remuneration (including part-time arrangements):						
Less than \$195,000	2	130,856	13,108	–	23,032	166,996
\$195,000 to \$224,999	3	170,090	13,942	–	23,363	207,395
\$255,000 to \$284,999	7	234,356	23,570	52	12,329	270,307
\$285,000 to \$314,999	8	254,030	28,267	–	18,156	300,453
\$315,000 to \$344,999	2	260,773	36,953	–	29,186	326,912
\$345,000 to \$374,999	1	316,139	22,462	–	18,829	357,429
\$375,000 to \$404,999	1	343,565	23,583	–	11,064	378,213
\$405,000 to \$434,999	3	365,521	38,973	–	23,277	427,770
\$435,000 to \$464,999	1	403,594	22,306	–	15,690	441,590
Total number of senior executives	28					

NOTE 15: REMUNERATION OF SENIOR EXECUTIVES (CONTINUED)

1 This table reports on substantive senior executives who received remuneration during the reporting period. Each row is an averaged figure based on headcount for individuals in the band.

2 'Reportable salary' includes the following:

- (a) gross payments (less any bonuses paid, which are separated out and disclosed in the 'bonus paid' column);
- (b) reportable fringe benefits (at the net amount prior to 'grossing up' for tax purposes);
- (c) reportable employer superannuation contributions; and
- (d) exempt foreign employment income.

3 'Contributed superannuation' is the average cost to APRA for the provision of superannuation benefits to substantive senior executives in that reportable remuneration band during the reporting period.

4 'Reportable allowances' are the average actual allowances paid as per the 'total allowances' line on individuals' payment summaries.

5 'Bonus paid' represents average actual bonuses paid during the reporting period in that reportable remuneration band. The 'bonus paid' within a particular band may vary between financial years due to various factors such as individuals commencing with or leaving APRA during the financial year.

6 Various salary sacrifice arrangements are available to senior executives including superannuation, motor vehicle and expense payment fringe benefits. Salary sacrifice benefits are reported in the 'reportable salary' column, excluding salary sacrificed superannuation, which is reported in the 'contributed superannuation' column.

Senior executives have the following leave entitlements:

- annual leave 20 days (2012/13: 20 days) each full year worked (pro-rata for part-time senior executives);
- unlimited personal leave; and
- long service leave (LSL) in accordance with the *Long Service Leave (Commonwealth Employees) Act 1976*.

NOTE 15: REMUNERATION OF SENIOR EXECUTIVES (CONTINUED)

Note 15C: Average annual reportable remuneration paid to other highly paid staff during the reporting period

Average annual reportable remuneration ¹²	2014					
	Other highly paid staff No.	Reportable salary \$	Contributed superannuation \$	Reportable allowances \$	Bonus paid \$	Total reportable remuneration \$
Total remuneration (including part-time arrangements):						
\$195,000 to \$224,999	43	177,181	18,748	20	12,271	208,219
\$225,000 to \$254,999	29	197,173	25,436	9	13,612	236,230
\$255,000 to \$284,999	10	209,639	35,871	23	20,438	265,972
\$285,000 to \$314,999	1	274,605	12,541	459	13,766	301,370
Total number of other highly paid staff	83					

Average annual reportable remuneration ¹²	2013					
	Other highly paid staff No.	Reportable salary \$	Contributed superannuation \$	Reportable allowances \$	Bonus paid \$	Total reportable remuneration \$
Total remuneration (including part-time arrangements):						
\$195,000 to \$224,999	46	179,990	18,482	58	11,681	210,212
\$225,000 to \$254,999	19	195,191	26,434	–	14,672	236,296
\$255,000 to \$284,999	5	211,546	30,405	–	20,487	262,437
Total number of other highly paid staff	70					

1 This table reports staff:

- (a) who were employed by APRA during the reporting period;
- (b) whose reportable remuneration was \$195,000 or more for the financial period; and
- (c) were not required to be disclosed in Notes 15A or 15B.

Each row is an averaged figure based on headcount for individuals in the band.

2 Disclosures for other highly paid staff in Note 15C are aligned with disclosures for senior executives in Note 15B.

NOTE 16: REMUNERATION OF AUDITORS

	2014 \$'000	2013 \$'000
Financial statement audit services were provided free of charge to APRA in 2013/14.		
Fair value of the services provided by:		
The Australian National Audit Office	136	131
Total	136	131

No other services were provided by the auditors of the financial statements.

NOTE 17: FINANCIAL INSTRUMENTS

	2014 \$'000	2013 \$'000
Note 17A: Categories of financial instruments		
Financial assets		
Loans and receivables:		
Cash	1,639	1,360
Trade receivables	2,039	2,769
Other receivables	–	2
Carrying amount of financial assets	3,678	4,131
Financial liabilities		
At amortised cost:		
Suppliers	475	683
Other payables	5,366	6,031
Carrying amount of financial liabilities	5,841	6,714

The carrying amounts of the financial instruments are a reasonable representation of their fair value.

NOTE 17: FINANCIAL INSTRUMENTS (CONTINUED)

Note 17B: Credit risk

APRA's maximum exposure to credit risk at the reporting date is the carrying amount of the trade receivables reported in the *Statement of Financial Position*. APRA has no significant exposures to any other concentrations of credit risk.

Credit quality of financial instruments not past due or individually determined as impaired

	Not past due nor impaired 2014 \$'000	Not past due nor impaired 2013 \$'000	Past due or impaired 2014 \$'000	Past due or impaired 2013 \$'000
Cash	1,639	1,360	–	–
Trade receivables	1,986	2,612	53	157
Other receivables	–	2	–	–
Total	3,625	3,974	53	157

Ageing of financial assets that were past due but not impaired for 2014

	0 to 30 days \$'000	31 to 60 days \$'000	61 to 90 days \$'000	90+ days \$'000	Total \$'000
Trade receivables	2	11	7	33	53
Total	2	11	7	33	53

Ageing of financial assets that were past due but not impaired for 2013

	0 to 30 days \$'000	31 to 60 days \$'000	61 to 90 days \$'000	90+ days \$'000	Total \$'000
Trade receivables	46	12	3	96	157
Total	46	12	3	96	157

NOTE 17: FINANCIAL INSTRUMENTS (CONTINUED)

Note 17C: Liquidity risk

APRA is funded annually by appropriations from Government based on the actual cost of regulation of the financial sector, fee for service activities and other activities that APRA may be required to perform from time to time. In addition, APRA maintains reserves and a Contingency Enforcement Fund. These arrangements, along with strictly controlled cash flow monitoring and forecasting, expose APRA to negligible liquidity risk.

Note 17D: Market risk

APRA is not exposed to any form of currency risk, interest rate risk or other price risk.

NOTE 18: FINANCIAL ASSETS RECONCILIATION

	2014 \$'000	2013 \$'000
Financial assets		
Total financial assets as per <i>Statement of financial position</i>	60,183	57,912
Less: non-financial instrument components:		
Other GST receivable	128	22
Appropriation receivable	56,471	53,759
Total non-financial instrument components	56,599	53,781
Total financial assets as per financial instruments note	3,584	4,131

NOTE 19: ADMINISTERED EXPENSES

	2014 \$'000	2013 \$'000
Note 19: Waivers		
Supervisory Levy waivers	3,228	3,536
Total waivers	3,228	3,536
Levies and late payment penalties waived by levy type		
Superannuation funds	3,228	3,536
Total	3,228	3,536

NOTE 20: ADMINISTERED INCOME

	2014	2013
	\$'000	\$'000
Revenue		
Taxation revenue		
Note 20A: Financial Institutions Supervisory Levies		
Current year levies and penalties (see Table 1) ¹	260,297	273,932
Total Financial Institutions Supervisory Levies	260,297	273,932
Table 1: Financial Institutions Supervisory Levies revenue by type		
Levy:		
Superannuation funds	158,640	186,755
Authorised deposit-taking institutions	61,277	50,149
Life insurers and friendly societies	14,241	12,985
General insurers	26,053	23,955
Total levies	260,211	273,844
Late payment penalties:		
Superannuation funds	86	88
Total late payment penalties	86	88
Total current year levies and penalties	260,297	273,932
¹ Financial institutions supervisory levies are detailed in the annual consultation paper released by Treasury.		

NOTE 20: ADMINISTERED INCOME (CONTINUED)

	2014 \$'000	2013 \$'000
Note 20B: Financial Assistance Levy		
Current year levies	—	16,719
Other – recoveries	874	940
Total Financial Assistance Levy	874	17,659
Late payment penalties:	1	3
Total late payment penalties	1	3
Total current year levies and penalties	875	17,662

The financial institutions supervisory levies are set to recover the operational costs of APRA, and other specific costs incurred by certain Commonwealth agencies and departments. The proportion of total current year levies and penalties attributable to APRA is set out in Note 3.

NOTE 21: ADMINISTERED FINANCIAL ASSETS

	2014	2013
	\$'000	\$'000
Financial assets		
Receivables		
Financial Institutions Supervisory Levies	215	267
Financial Assistance Levy	310	508
Total receivables (gross)	525	775
Less: impairment allowance account		
Supervisory Levies	–	–
Total receivables (net)	525	775
Receivables were aged as follows:		
Not overdue	215	482
Overdue by:		
– 0 to 30 days	–	274
– 31 to 60 days	–	19
– more than 90 days	310	–
Total receivables (gross)	525	775
The impairment allowance account is aged as follows:		
– more than 90 days	–	–
Total impairment allowance account	–	–

NOTE 22: ADMINISTERED STATEMENT OF CASH FLOWS RECONCILIATION

	2014	2013
	\$'000	\$'000
Reconciliation of cash as per Administered schedule of assets and liabilities to Administered statement of cash flows		
Cash as per:		
Administered statement of cash flows	—	—
Administered schedule of assets and liabilities	—	—
Difference	—	—
Reconciliation of net cost of services to net cash from operating activities:		
Net cost of services	257,944	288,058
Changes in assets / liabilities		
Decrease in net receivables	250	1,426
Net cash from operating activities	258,194	289,484

NOTE 23: ADMINISTERED CONTINGENT ASSETS AND LIABILITIES

Unquantifiable administered contingencies

APRA is responsible for the administration of the Financial Claims Scheme. The FCS provides depositors of authorised deposit-taking institutions (ADIs) and claimants of general insurers (GIs) with timely access to their funds in the event of a financial institution failure.

Under the *Banking Act 1959* the scheme provides a mechanism for making payments to depositors under the Government's guarantee of deposits in ADIs. Payments are capped at \$250,000 per account holder per ADI. As at 31 December 2013, deposits eligible for coverage under the Scheme were estimated to be \$722.8 billion, compared to \$692.3 billion at 30 June 2013, reflecting overall deposit growth in the financial system.

Under the *Insurance Act 1973* the scheme provides a mechanism for making payments to eligible beneficiaries with a valid claim against a failed GI.

In the very unlikely event of an ADI or GI failure, any payments made under the FCS would be recovered through the liquidation of the failed institution. If there was a shortfall in the amount recovered through the liquidation of the failed institution, a levy could be applied to the relevant industry to recover the difference between the amount expended and the amount recovered in the liquidation.

Under the FCS, any payments to eligible depositors or claimants will be made out of APRA's FCS Special Account. Under the legislation, initial amounts available to meet payments and administer the FCS, in the event of activation are \$20.1 billion per institution.

It is not possible to estimate the amounts of any eventual payments that may be required in relation to these claims and as such no amount is included in the *Administered schedule of contingencies*.

NOTE 24: APPROPRIATIONS

Note 24A: Annual appropriations ('recoverable GST exclusive')

2014 Appropriations					Appropriation applied in 2014 (current and prior years) \$'000	Variance \$'000
Appropriation Act		FMA Act		Total appropriation \$'000		
Annual appropriation \$'000	Appropriations reduced \$'000	Section 31 \$'000				
Departmental						
Ordinary annual services ¹	2,235	–	6,285	8,520	8,966	(446)
Other services						
Government equity contribution	4,270	–	–	4,270	4,270	–
Total departmental	6,505	–	6,285	12,790	13,236	(446)
Administered						
Other services						
New administered outcomes	–	–	–	–	–	–
Total administered	–	–	–	–	–	–

2013 Appropriations					Appropriation applied in 2013 (current and prior years) \$'000	Variance \$'000
Appropriation Act		FMA Act		Total appropriation \$'000		
Annual appropriation \$'000	Appropriations reduced \$'000	Section 31 \$'000				
Departmental						
Ordinary annual services ¹	3,078	–	5,297	8,375	8,587	(212)
Other services						
Government equity contribution ²	4,810	–	–	4,810	1,613	3,197
Total departmental	7,888	–	5,297	13,185	10,200	2,985
Administered						
Other services						
New administered outcomes	–	–	–	–	–	–
Total administered	–	–	–	–	–	–

1 The variance between the total appropriation and the appropriation applied is made up of the prior year appropriation receivable applied in the current year less the current year appropriation receivable.

2 Whilst the 2013 government equity contribution of \$3,197,000 was physically returned to consolidated revenue in March 2013, the Finance Minister's approval for extinguishing the underlying appropriation is outstanding. This appropriation expires on 30 June 2015.

There were no advances to the Finance Minister under the Appropriation Acts in 2014 or in 2013.

There were no transactions for section 30 or section 32 of the FMA Act in 2014 or in 2013.

NOTE 24: APPROPRIATIONS (CONTINUED)

Note 24B: Unspent annual appropriations ('recoverable GST exclusive')

	2014	2013
Authority	\$'000	\$'000
Departmental		
Appropriation Act (No. 1) 2013-14	280	–
Appropriation Act (No. 1) 2012-13	–	726
Appropriation Act (No. 2) 2012-13	3,197	3,197
Total	3,477	3,923

Note 24C: Special appropriations applied ('recoverable GST exclusive')

			Appropriation applied	
Authority	Type	Purpose	2014	2013
			\$'000	\$'000
Australian Prudential Regulation Authority Act 1998 – section 50, Departmental	Unlimited	To provide an appropriation for levy money received that exceeds the amount determined by the Minister under section 50(1) of the Australian Prudential Regulation Act 1998.	109,782	116,639
Total			109,782	116,639

Note 24D: Reduction in administered items ('recoverable GST exclusive')

There were no reductions of administered items in 2014 or in 2013.

NOTE 25: SPECIAL ACCOUNTS

	APRA Special Account (Departmental) ¹		Financial Claims Scheme Special Account (Administered) ²		Lloyd's Deposit Trust Special Account (Special Public Money) ³	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Balance brought forward from previous period	54,124	44,552	242	293	2,000	2,000
Increases:						
Departmental						
Special appropriation for reporting period	109,782	116,639	—	—	—	—
Appropriation Act No.1	8,966	7,853	—	—	—	—
Appropriation Act No.2	4,270	4,810	—	—	—	—
Appropriation Act No.3	—	722	—	—	—	—
Total departmental increases	123,018	130,024	—	—	—	—
Administered						
Special appropriation for reporting period	—	—	593	—	—	—
Total administered increases	—	—	593	—	—	—
Available for payments	177,142	174,576	835	293	2,000	2,000
Decreases:						
Departmental						
Payments made – employees	(87,973)	(86,036)	—	—	—	—
Payments made – suppliers	(25,452)	(23,017)	—	—	—	—
Payments made – purchase assets	(6,103)	(8,202)	—	—	—	—
Payments made – return of Government equity contribution	—	(3,197)	—	—	—	—
Total departmental decreases	(119,528)	(120,452)	—	—	—	—
Administered						
Repayments made from the Special Account	—	—	—	(51)	—	—
Total administered decreases	—	—	—	(51)	—	—
Total balance carried to the next period	57,614	54,124	835	242	2,000	2,000

NOTE 25: SPECIAL ACCOUNTS

1 Appropriation: *Financial Management and Accountability Act 1997*, section 21.

Establishing Instrument: *Australian Prudential Regulation Authority Act 1998*, section 52.

Purpose: To pay the costs and other obligations incurred by APRA in the performance of its functions or the exercise of its powers; to pay any remuneration or allowances payable to persons appointed or engaged under the APRA Act; and to make any other payments that APRA is authorised or required to make under the APRA Act or any other law of the Commonwealth.

2 Appropriation: *Financial Management and Accountability Act 1997*, section 21.

Establishing Instrument: *Australian Prudential Regulation Authority Act 1998*, section 54A.

Purpose: To meet account-holders' entitlements under Subdivision C (Payment of account-holders with declared ADI) of Division 2AA of Part II of the *Banking Act 1959*; meet persons' entitlements under Division 3 (Early payment of claims) of Part VC of the *Insurance Act 1973*; pay APRA's agents or delegates amounts equal to the entitlements the agents or delegates meet on APRA's behalf or in the performance of APRA's delegated functions; and repayment of principal, interest and other costs connected with the borrowings under Division 2 of the APRA Act.

3 Appropriation: *Financial Management and Accountability Act 1997*, section 20.

Establishing Instrument: *Financial Management and Accountability Determination 2006/26*.

Purpose: To disburse amounts in accordance with section 92Q of the *Insurance Act 1973*.

Responsibility for the administration of the Lloyd's Deposit Trust Special Account was transferred from the Department of Treasury to APRA with effect from 26 May 2008.

The market valuation as at 30 June 2014 for Lloyd's inscribed stock is \$2,076,800 (2013: \$2,111,020).

* The 'Services for Other Entities and Trust Monies (Special Public Money)' account was abolished on 22 Nov 2012 under *Financial Management and Accountability Determination 2012/17*.

NOTE 26: COMPENSATION AND DEBT RELIEF

	2014	2013
	\$	\$
Compensation and debt relief – Departmental		
Nil payments were made during the reporting period (2013: Nil payments made).	–	–
Compensation and debt relief – Administered		
292 waivers of amounts owing to the Government were made pursuant to section 12 of the <i>Financial Institutions Supervisory Levies Collection Act 1998</i> (2013: 16 waivers).	3,228,450	3,535,916
No other debt relief was made during the reporting period (2013: Nil payments made).		

NOTE 27: ASSETS HELD IN TRUST**Monetary assets**

Lloyd's inscribed stock is held by APRA in trust. Responsibility for the administration of the Lloyd's Deposit Trust Special Account was transferred from the Department of Treasury to APRA with effect from 26 May 2008. The purpose is to disburse amounts in accordance with section 92Q of the *Insurance Act 1973*.

Non-monetary assets

APRA has no non-monetary assets held in trust.

	2014	2013
	\$'000	\$'000
Lloyd's inscribed stock		
Total amount held at the beginning of the reporting period	2,000	2,000
Receipts	95	130
Payments	(95)	(130)
Total amount held at the end of the reporting period	2,000	2,000
Total	2,000	2,000

The market valuation as at 30 June 2014 for Lloyd's inscribed stock is \$2,076,800 (2013: \$2,111,020).

NOTE 28: REPORTING OF OUTCOMES

Note 28A: Net cost of outcome delivery

APRA is structured to meet the following outcome:

Outcome 1: To enhance public confidence in Australia's financial institutions through a framework of prudential regulation that balances financial safety and efficiency, competition, contestability and competitive neutrality.

	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
	Outcome 1		Total	
Departmental				
Expenses	118,027	116,515	118,027	116,515
Own-source Income	5,009	4,840	5,009	4,840
Administered				
Expenses	3,228	3,536	3,228	3,536
Own-source income	261,172	291,594	261,172	291,594
Net (contribution) of outcome delivery	(144,926)	(176,383)	(144,926)	(176,383)

NOTE 29: COMPETITIVE NEUTRALITY AND COST RECOVERY

	2014 \$'000	2013 \$'000
Receipts Subject to Cost Recovery Policy		
Other cost recovery arrangements		
Statistical information provided to RBA	506	518
Statistical information provided to ABS	345	306
Assessment of models-based capital adequacy requirements for ADIs – Basel II	1,650	2,300
Total receipts subject to cost recovery policy	2,501	3,124

NOTE 30: COMPLIANCE WITH STATUTORY CONDITIONS FOR PAYMENTS FROM THE CONSOLIDATED REVENUE FUND

Section 83 of the Constitution provides that no amount may be paid out of the Consolidated Revenue Fund except under an appropriation made by law. The Department of Finance (DoF) provides guidance regarding the need for risk assessments in relation to compliance with statutory conditions on payments from Appropriations, including Special Accounts.

In 2012/13, APRA reviewed its exposure to risks of not complying with statutory conditions on payments from appropriations. The review involved:

- implementing procedural changes to reduce the risk of non-compliance to an acceptably low level, such as tracking payment drawdowns from each Special Appropriation and Special Account; and
- managing the risk of non-compliance by monitoring statutory conditions ensuring that existing payment systems and processes satisfy those conditions.

These processes were reconfirmed in 2013/14, with no instances of non-compliance identified.



INDEPENDENT AUDITOR'S REPORT

To the Treasurer

I have audited the accompanying financial statements of the Australian Prudential Regulation Authority for the year ended 30 June 2014, which comprise: a Statement by the Members and Chief Financial Officer; Statement of Comprehensive Income; Statement of Financial Position; Statement of Changes in Equity; Statement of Cash Flows; Schedule of Commitments; Schedule of Contingencies; Administered Schedule of Comprehensive Income; Administered Schedule of Assets and Liabilities; Administered Reconciliation Schedule; Administered Statement of Cash Flows; Administered Schedule of Commitments; Administered Schedule of Contingencies; and Notes comprising a Summary of Significant Accounting Policies and other explanatory information.

Chairman's Responsibility for the Financial Statements

The Chairman of the Australian Prudential Regulation Authority is responsible for the preparation of financial statements that give a true and fair view in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, including the Australian Accounting Standards, and for such internal control as is necessary to enable the preparation of financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These auditing standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Australian Prudential Regulation Authority's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Australian Prudential Regulation Authority's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting

GPO Box 707 CANBERRA ACT 2601
19 National Circuit BARTON ACT 2600
Phone (02) 6203 7300 Fax (02) 6203 7777

estimates made by the Chairman of the Australian Prudential Regulation Authority, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

In conducting my audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the requirements of the Australian accounting profession.

Opinion

In my opinion, the financial statements of the Australian Prudential Regulation Authority:

- (a) have been prepared in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, including the Australian Accounting Standards; and
- (b) give a true and fair view of the matters required by the Finance Minister's Orders, including the Australian Prudential Regulation Authority's financial position as at 30 June 2014 and its financial performance and cash flows for the year then ended.

Australian National Audit Office



Carla Jago

Executive Director

Delegate of the Auditor-General

Canberra

16 September 2014

This page is left blank intentionally

STATUTORY REPORT



STATUTORY REPORTING REQUIREMENTS



OTHER REPORTING



STATUTORY REPORTING REQUIREMENTS

APRA reports in accordance with the following Commonwealth legislation and other requirements:

- *Australian Prudential Regulation Authority Act 1998*;
- *Environment Protection and Biodiversity Conservation Act 1999*;
- *Equal Employment Opportunity (Commonwealth Authorities) Act 1987*;
- *Freedom of Information Act 1982*;
- *Work Health and Safety Act 2011*;
- *Commonwealth Fraud Control Guidelines*; and
- *Requirements for annual reports for departments, executive agencies and FMA Act bodies*.

APRA's financial arrangements during 2013/14 were subject to the *Financial Management and Accountability Act 1997*. From 1 July 2014, APRA's financial framework will have to comply with the *Public Governance, Performance and Accountability Act 2013*.

AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY ACT 1998 (APRA ACT)

Section 59 of the APRA Act requires APRA to report on:

- the activities of ADI statutory managers within the meaning of the *Banking Act 1959* and persons conducting investigations under Division 2 of Part II and section 61 of that Act;
- the operation of Division 2AA (Financial Claims Scheme for account-holders with insolvent ADIs) of Part II of the *Banking Act 1959*;

- the operation of Part VC (Financial Claims Scheme for policyholders with insolvent general insurers) of the *Insurance Act 1973*;
- the number of times during the year that APRA determined, under subsection 13(1) of the *Financial Sector (Collection of Data) Act 2001*, a reporting standard that is not a legislative instrument; and
- the exercise during the year of APRA's powers under Part 15 of the *Retirement Savings Accounts Act 1997* (RSA Act) and Part 29 of the *Superannuation Industry (Supervision) Act 1993* (SIS Act).

APRA did not appoint any ADI statutory managers or persons to conduct an investigation under Division 2 of Part II or section 61 of the *Banking Act 1959* during 2013/14. There were no continuing appointments during the year.

There were no schemes in operation under Division 2AA of Part II of the *Banking Act 1959*.

On 15 October 2009, the Minister made a declaration under section 62ZZC of the *Insurance Act 1973* that Division 3 of Part VC of that Act applied in relation to a general insurer.¹ No payments were made from the Financial Claims Scheme Special Account in 2013/14 to satisfy claims against the general insurer.

APRA did not determine any reporting standards under subsection 13(1) of the *Financial Sector (Collection of Data) Act 2001* during 2013/14 that were not legislative instruments.

APRA did not exercise its powers under Part 15 of the RSA Act in 2013/14.

¹ Australian Family Assurance limited (in liquidation).

APRA exercised its powers under Part 29 of the SIS Act in relation to particular entities or persons as set out below:

Exemption number	Date	Provision of SIS Act/regulations exempted
A7 of 2013	15/10/2013	93(4)
A8 of 2013	18/10/2013	29MB(1)
A9 of 2013	24/10/2013	93(3)(a)(ii)
A10 of 2013	13/10/2013	7.04 ²
A11 of 2013	13/10/2013	7.04
A12 of 2013	06/12/2013	9.29(4)
A13 of 2013	04/12/2013	9.04D
A14 of 2013	04/12/2013	9.04D(1) and 9.04I
A15 of 2013	24/12/2013	9.29A
A1 of 2014	12/05/2014	12A.10(3)(a) and (b)

² Revoked instrument A2 of 2013.

Modification declaration number	Date	Provision of SIS regulations modified
A5 of 2013	01/07/2013	Reg 1.03
A6 of 2013	18/10/2013	Reg 1.03
A7 of 2013	24/10/2013	93(4) ³
A8 of 2013	13/10/2013	Reg 6.17(2)(a)(i)
A1 of 2014	10/01/2014	6.20A, 7A.03J, 7A.03K, 7A.12, 7A.13 and 7A.16
A2 of 2014	20/03/2014	6.20A, 7A.03J, 7A.03K, 7A.12, 7A.13 and 7A.16
A3 of 2014	04/04/2014	6.17(2)(a)(i)
A4 of 2014	08/04/2014	4.08(3)
A5 of 2014	20/05/2014	1.03
No. 1 of 2014	10/04/2014	4.07E ⁴

ENVIRONMENT PROTECTION AND BIODIVERSITY CONSERVATION ACT 1999

Ecologically-sustainable development and environmental performance

APRA's Environmental Policy Statement reinforces its commitment to operating in an ecologically sustainable manner and APRA continues to take practical steps to reduce its environmental impact. Measures include zone-controlled lighting; energy-efficient power management settings on office equipment; recycling of paper, cardboard, office furniture and printer cartridges; and fostering staff awareness on environmental issues.

APRA's Environmental Issues Subgroup (EIS) examines environmental issues in relation to APRA's day-to-day operations, as well as measures by which APRA can reduce wastage and carbon emissions. During 2013/14, the EIS actively encouraged recycling within the organisation and also provided information to staff in relation to environmental options.

APRA will continue to make improvements in its environmental management and looks to adopt environmentally-friendly options where practical.

³ Revoked instrument A6 of 2007.

⁴ This was an exercise of powers in relation to a class of trustees.

EEO staff data - staff diversity as at 30 June 2014⁵

Level	Female	Male	ATSI	NESB1	NESB2	PWD
Level 1	18	11	0	10	1	1
Level 2	66	46	0	24	3	0
Level 3	82	82	0	63	5	1
Level 4	75	139	1	43	4	2
Senior	25	70	0	11	3	2
Executive	2	5	0	1	0	0
Total	268	353	1	152	16	6

⁵ Includes permanent and fixed-term staff but excludes casuals.

ATSI Aboriginal and Torres Strait Islander

NESB1 Non-English-speaking background, first generation

NESB2 Non-English-speaking background, second generation

PWD People with disability

EQUAL EMPLOYMENT OPPORTUNITY (COMMONWEALTH AUTHORITIES) ACT 1987 (EEO ACT)

Workplace diversity program report

APRA has maintained an active approach to meeting its responsibilities under the EEO Act through a comprehensive workplace diversity strategy. Women now occupy 24 per cent of senior positions within the organisation (compared with 16 per cent five years ago) and around 25 per cent of APRA employees come from a first-generation, non-English-speaking background. APRA also encourages staff to balance their work and personal commitments, and to this end offers a range of flexible work arrangements to ensure a culture supportive of a diverse workforce.

APRA's membership of Diversity Council Australia (DCA), an independent, not-for-profit diversity adviser to business, enables it to remain current and consistent with industry benchmarks on workplace diversity. APRA works with DCA to ensure that its Staff Consultative Group and select members of Human Resources are trained in the important role of Contact Officers and are available to provide confidential and impartial assistance to any employees with concerns relating to workplace diversity.

Pointers to APRA's success in fostering a supportive and flexible workplace that values and utilises the contribution of people of different backgrounds, experiences, perspectives and abilities include:

- APRA management support for diversity in the workplace;
- all employees being treated with respect, regardless of their role;
- staff being encouraged to balance their work and personal lives; and
- APRA's providing a work environment free of discrimination and harassment.

FREEDOM OF INFORMATION ACT 1982 (FOI ACT)

The FOI Act provides the public with a general right of access to documents held by Commonwealth agencies, including APRA. This general right is limited by exceptions needed to protect essential public interests or the privacy and business affairs of those who give information to APRA or the Commonwealth.

In 2013/14, APRA dealt with 56 applications for access to documents under the FOI Act and 10 applications for internal review. Of the 56, four were on hand at the beginning of the period and the other 52 were new applications. Three applicants disagreed with APRA's decisions on access to documents and applied to the Information Commissioner for review under Part VII of the FOI Act. Of these three applications, one was withdrawn and at 30 June 2014 the Commissioner had yet to determine the remaining two. APRA was subsequently advised the matters were not going to be reviewed and as a result APRA's decision stands.

Of the seven applications to the Information Commissioner that were outstanding from 2012/13, the Commissioner decided not to undertake a review of four applications, one application was withdrawn and one decision was varied by APRA. As at 30 June 2014 the Commissioner had yet to determine the remaining application, however it subsequently affirmed APRA's decision.

During the year, the FOI applications for access were dealt with as follows:

Granted in full	3
Granted in part	1
Access refused	31
Withdrawn	18
Transferred to another agency	0
On hand at 30 June 2014	3
Total	56

Charges collected for FOI requests amounted to \$328, while the estimated cost of handling initial FOI requests, internal and Commissioner reviews, and an Administrative Appeals Tribunal proceeding in 2013/14 was \$147,951.

Information Publication Scheme

Part II of the FOI Act requires APRA to publish information as part of the Information Publication Scheme. APRA's Information Publication Plan shows the information APRA publishes in accordance with the Scheme requirements and is accessible on the APRA website.

WORK HEALTH AND SAFETY ACT 2011 (WHS ACT)

APRA's work health and safety reporting is in accordance with the *Work Health and Safety Act 2011*.

Details of investigations and other matters as prescribed

In compliance with reporting obligations under Schedule 2, Part 4 of the WHS Act, there were:

- no notifiable incidents arising out of the conduct of business of APRA;
- no investigations conducted during the year that related to undertakings carried on by APRA;
- no tests conducted on any plant, substance or thing in the course of such investigations;
- no directions to APRA by an investigator that the workplace not be disturbed; and
- no prohibition or improvements and provisional notices given to APRA.

Work health and safety measures

APRA continued to undertake a number of work health and safety measures during 2013/14 to safeguard the health and safety of its staff and visitors. These measures included:

- availability of comprehensive health assessments for senior staff and staff aged over 40;
- availability of cardiac-risk assessments for all other staff;
- an annual flu-vaccination program;
- ergonomic assessments and presentations;
- employee assistance program;
- provision of first-aid services in all APRA offices;
- the implementation of mental-health awareness training for people managers;
- staff-elected Work Health and Safety Representatives; and
- an active and responsive Work Health and Safety Committee.

A key initiative in 2013/14 from the implementation of APRA's Mental Health and Wellbeing Strategy was the presentation of Mental Health Awareness Training for People Managers. Eleven two-hour sessions were delivered by APRA's employee assistance program provider AccessEAP, attended by 148 people managers across the organisation.

WHS policies including establishment of staff committees and selection of health and safety representatives

APRA has arrangements for consultation on all occupational health and safety issues, including maintenance of the WHS Committee with four staff and four management representatives. The WHS Committee satisfies legislative requirements, including meeting at least every three months and providing all staff with access to minutes of the meetings.

Health and safety outcomes

The number of worker compensation claims submitted by current employees increased from two in 2012/13 to four in 2013/14. APRA's health and wellbeing program has helped to ensure that personal leave, which includes leave for personal illness and carer's leave, is not taken beyond a reasonable level. In the 2013 calendar year, APRA staff were absent for an average of 5.9 days personal leave per person, down from 6.9 days in 2012. APRA compares favourably to the overall public sector average and 'all-industry' averages on metrics for staff absences.

Statistics requiring the giving of notice under Part 3 of the WHS Act

During the year there were no incidents notified to APRA that required a report to Comcare under Part 3 of the WHS Act.

OTHER REPORTING

Advertising and market research

The *Commonwealth Electoral Act 1918* requires Commonwealth agencies to report annually on the amounts paid to advertising agencies, market research and media advertising organisations.

In 2013/14, APRA paid \$74,134 for recruitment advertising, of which \$24,563 was paid to Adcorp Australia Ltd and \$22,467 to LinkedIn Australia Limited. APRA did not conduct any advertising campaigns or market research during the financial year.

Agency resources and expenses by outcome

See pages 181-182.

Auditor-General's activities

The Australian National Audit Office (ANAO) undertook the required statutory financial audit of APRA for 2013/14. The ANAO also completed and tabled a performance audit, *Determination and Collection of Financial Industry Levies: APRA and the Treasury*. The recommendations of the report were accepted by APRA and the Treasury, and actions have been taken to address the issues raised in the report.

Collective Agreements and common law contracts

As at 30 June 2014, 520 staff were covered by the terms of the *APRA Employment Agreement, 2011*. Ninety-eight senior staff were covered by common-law agreements.

All staff are appointed under the APRA Act 1998. APRA applies a total remuneration package (TRP) approach whereby all salary, superannuation and 'salary-sacrifice' benefits are included in an employee's TRP.

The TRP pay ranges for non-executive staff as at 30 June 2014 were:

Level 4	\$119,900 - \$199,900
Level 3	\$84,400 - \$140,600
Level 2	\$58,200 - \$97,000
Level 1	\$38,600 - \$64,400

The *APRA Employment Agreement, 2011* expired on 30 June 2014. Preparations for a new APRA employment agreement in accordance with the *Australian Government Public Sector Bargaining Policy* are currently underway.

Commonwealth Fraud Control Guidelines

The Chairman of APRA certifies that he is satisfied that:

- fraud risk assessments and fraud control plans have been prepared that meet APRA's needs and comply with the *Commonwealth Fraud Control Guidelines*;
- appropriate fraud prevention, detection, investigation, reporting and data collection procedures and processes are in place; and
- APRA has taken all reasonable measures to minimise the incidence of fraud and to investigate and recover any proceeds of fraud.

Commonwealth Ombudsman

In 2013/14, the Commonwealth Ombudsman did not conduct any investigation into APRA's conduct.

Commonwealth Procurement Rules

The APRA *Chairman's Finance Instructions and Financial Policies*, and associated operational procedures, ensure that APRA's procurement process complies with the Commonwealth Procurement Rules (CPRs). In particular, they ensure that the core procurement principle of value-for-money is observed.

As an FMA Act agency, APRA conducts its procurement processes within the CPRs, including but not limited to:

- conducting open tenders for procurement activities of more than \$80,000 (unless otherwise exempted under the CPRs);
- reporting all procurements over \$10,000 on AusTender; and
- reporting all purchases over \$100,000 on APRA's website.

In 2013/14, APRA had no AusTender-exempt contracts and all APRA competitively-tendered contracts over \$100,000 provided for the Auditor-General to have access to the contractor's premises, as required under the CPRs.

Consultancies

APRA's *Chairman's Finance Instructions and Financial Policies*, and associated operational procedures, include specific provisions on consultants.

APRA engages consultants where it lacks specialist expertise or when independent research, review or assessment is required. Consultants are typically engaged to investigate or diagnose a defined issue or problem; carry out defined reviews or evaluations; or provide independent advice, information or solutions to assist in APRA's decision-making.

Prior to engaging consultants, APRA takes into account the skills and resources required for the task, the skills available in-house, and the cost-effectiveness of engaging external expertise. The decision to engage a consultant is made in accordance with the FMA Act and related regulations, including the CPRs, and with internal policies.

During 2013/14, APRA entered into nine new consultancy contracts involving a total actual expenditure of \$521,759. In total there were 25 consultancy contracts active during the 2013/14 year, involving total actual expenditure of \$972,122.

Information on the value of contracts and consultancies is available on the AusTender website www.tenders.gov.au.

Consultative arrangements

APRA consults extensively with regulated entities, industry bodies and other interested parties prior to formulating or amending prudential policies or finalising prudential standards.

APRA complies with the Government's policy on best practice regulation. During 2013/2014, APRA fully met the requirements of the Office of Best Practice Regulation (OBPR) for Regulation Impact Statements (two in number). In addition, APRA completed 23 preliminary assessments; of these, the OBPR advised that further regulatory impact analysis was required for three.

Courts and tribunals

Over 2013/14, there were no judicial decisions that had or may have a significant effect on APRA's operations, or any court and tribunal decisions relating to enforcement action taken by APRA during the year.

Executive and consultative committees

Executive Group

The Group comprises the APRA Members and it meets formally on a monthly basis, and more frequently as required, to discuss and resolve the major prudential policy, supervisory and strategic issues facing APRA at the time.

Management Group

This Group comprises the APRA Members and the Executive General Managers and is responsible for high-level information-sharing and decisions on more routine supervisory and organisational matters. It meets weekly or more frequently as required.

Leadership Team

The Leadership Team, which comprises APRA Members, Executive General Managers and General Managers, generally meets twice a year to develop APRA's strategic and business plans, to monitor performance against plans and to discuss major operational issues.

Steering Groups

To strengthen its efficiency and effectiveness and to coordinate decision-making across its different divisions, APRA has three Steering Groups responsible for the prioritisation and implementation of a range of initiatives. These groups comprise an APRA Member as Chair and relevant Executive General Managers and General Managers. The groups are:

- Supervision Steering Group, overseeing the development and integration of APRA's supervisory systems, tools and processes;
- Infrastructure Steering Group, overseeing the development of APRA's physical and IT infrastructure and its business, financial and resource planning systems; and
- People and Engagement Steering Group, addressing initiatives on management and leadership, performance management, rewards and recognition, and APRA culture.

Industry groups

There are four industry groups comprising representatives of the various divisions of APRA, covering APRA's four regulated industries:

- ADIs;
- superannuation;
- general insurance; and
- life insurance (including friendly societies).

These groups are important forums for identifying and seeking an APRA-wide assessment of emerging industry issues. Their main roles are to monitor industry developments so as to identify emerging risks and issues and act as a sounding board for prudential-policy issues in the different industries.

Licensing Group

This Group, comprising representatives from across APRA, seeks to assist supervisors considering licence applications and ensure consistency in licensing practice and application across all APRA-regulated industries. It provides APRA-wide guidance on issues that need to be considered in licensing submissions and, after consideration of an application, recommends to the relevant Executive General Manager action to be taken.

Enforcement Committee

This Committee comprises an APRA Member as Chair, an Executive General Manager and the General Managers of APRA's enforcement and legal areas. Other APRA staff, including supervision representatives, participate in meetings as required. The Committee ensures that a whole-of-APRA perspective is brought to potential and actual investigation and enforcement actions. The Committee monitors ongoing enforcement actions and provides a forum to ensure a consistent approach is taken to any significant use of enforcement powers by areas within APRA.

International committees

APRA has two committees that coordinate its involvement with international bodies, one for banking and one for insurance. Their purpose is to prioritise the allocation of resources for APRA's involvement in international activities, coordinate consistent and timely responses to issues raised in the relevant international forums, and ensure information from international sources is communicated effectively within APRA. Membership includes senior APRA staff involved in international committee work and also draws on other APRA staff with relevant expertise.

Work Health and Safety Committee

This committee, which includes both staff and management representatives, focusses on issues to do with the health, safety and wellbeing of staff and ensures that these are integrated into broader management systems and practices.

Staff Consultative Group

This group facilitates communication and consultation with all APRA staff below the senior management level on the terms and conditions of their employment (including the *Human Resources Policy Manual*) and the impact of these on APRA's organisational culture and values.

Security Group

This is the key forum for maintaining strategic and operational oversight of APRA's security policy, initiatives and their implementation. Its main priority is to develop an over-arching policy and governance strategy on all security matters affecting APRA and to take the measures necessary to implement the strategy.

Grant programs

Grant programs, including discretionary grant programs, that APRA either jointly administered or participated in during 2013/14 are the:

- Brian Gray Scholarship; and
- University of New South Wales (UNSW) Cooperative Actuarial Scholarship.

Information on the Brian Gray Scholarship program and a list of previous recipients is on APRA's website at: www.apra.gov.au/AboutAPRA/WorkingAtAPRA/Pages/brian-gray-scholarship-program.aspx. Information on other grants awarded by APRA is available on APRA's website at: www.apra.gov.au/AboutAPRA/Pages/grants-and-scholarships.aspx. Information on grants awarded by APRA during 2013/14 is available at www.apra.gov.au/AboutAPRA/Pages/StatutoryReportingRequirements.aspx.

Indemnities and insurance premiums

APRA Members and officers are covered by the professional indemnity insurance cover of the Commonwealth-managed insurance scheme, Comcover. The generic terms and conditions of the insurance cover provided by Comcover to Commonwealth agencies are available on the Comcover website www.finance.gov.au/comcover. Under the conditions of the cover, APRA is prohibited from disclosing the specific nature and limit of the liabilities covered and the amount of the premium.

Legal Services Directions 2005

The *Legal Services Directions 2005* require Commonwealth agencies to make available publicly information on records of their legal services expenditure for the previous financial year. During 2013/14, APRA's total expenditure on external legal advice and litigation services was \$516,510 (excluding GST).

National Disability Strategy

Since 1994, Commonwealth departments and agencies have reported on their performance as policy adviser, purchaser, employer, regulator and provider under the Commonwealth Disability Strategy. In 2007/08, reporting on the employer role was transferred to the Australian Public Service Commission's *State of the Service Report* and the *APS Statistical Bulletin*. These reports are available at www.apsc.gov.au. APRA is no longer required to report on its performance under these various roles.

The National Disability Strategy 2010-2020, which has applied since 2010/11, sets out a 10-year national policy framework to improve the lives of people with disability, promote participation and create a more inclusive society. A high-level two-yearly report will track progress against each of the six outcome areas of the Strategy and present a picture of how people with disability are faring. The first of these reports will be available in late 2014 and can be found at www.dss.gov.au.

APRA continues to ensure that those with disabilities face no obstacles in public access to information through APRA's website. For those services that are not provided electronically, there is regular assessment to ensure that particular groups are not excluded by virtue of either their financial circumstances or their physical or intellectual disability. APRA supports access for people with speech or hearing disabilities via Telstra's service for TTY (Text Telephone) users and maintains a free-call number and email address to accept and respond to enquiries and feedback.

APRA also ensures that all employment policies, guidelines and processes meet the requirements of the *Disability Discrimination Act 1992* and do not discriminate on the basis of disability. APRA's commitment to this Act is included in its *Human Resources Policy Manual* and *Code of Conduct*. APRA's recruitment policy ensures that recruitment advertising does not dissuade people with disabilities who have the necessary experience, skills and qualifications from submitting applications for employment. The policy also ensures that selection processes take into account the special needs of applicants, so that those with disabilities are not disadvantaged. All staff and managers are responsible for supporting the principles of workplace diversity.

Parliamentary committees

Avenues through which APRA is accountable to the Parliament include Parliament's ad hoc and standing committees, and specific references on legislation or issues of particular interest to Parliamentary committees.

During 2013/14, APRA Members and officers made themselves available for public hearings before the Senate Economics Legislation Committee (sitting as Senate Estimates) when requested. Transcripts of APRA's appearances before, and copies of its submissions to, parliamentary committees may be downloaded from its website www.apra.gov.au.

Performance pay

APRA has a performance bonus system, designed in consultation with staff and management and covering all eligible employees. For 2013/14, the aggregate bonus pool was \$4.92 million. Under deferred bonus arrangements introduced in the APRA Employment Agreement, 2013/14 bonuses were paid in September 2014 to eligible staff still in APRA's employ at the payment date.

Privacy Commission

There were no investigations by the Privacy Commissioner under section 40 of the *Privacy Act* 1988 during 2013/14. No reports were served under section 30 of the Act. The Privacy Commissioner made no determinations under section 52, nor did APRA seek any under section 73. There were no adverse or favourable comments made by the Privacy Commissioner in respect of APRA's operations.

Privacy inquiries relating to APRA sent by post should be addressed to:

Freedom of Information Coordinator
Australian Prudential Regulation Authority
GPO Box 9836
Sydney NSW 2001
Phone: 02 9210 3000
Fax: 02 9210 3424
or by email to foi@apra.gov.au

Responsible Ministers

At 30 June 2014, the Hon Joe Hockey MP, Treasurer of the Commonwealth of Australia, has portfolio responsibility for APRA. He is assisted in this role by Senator the Hon Mathias Cormann, Minister for Finance and Acting Assistant Treasurer.

Staff statistics

Staff by location and full-time/part-time as at 30 June 2014

Location	Full-time	Part-time	Total
Adelaide	4	2	6
Brisbane	13	1	14
Canberra	2	0	2
Melbourne	58	7	65
Perth	4	1	5
Sydney	489	40	529
Total	570	51	621

Staff by division and full-time/part-time as at 30 June 2014⁶

Division	Full-time	Part-time	Total
Corporate	107	10	117
Diversified Institutions	121	10	131
Policy, Statistics and International	78	6	84
Specialised Institutions	137	12	149
Supervisory Support	127	13	140
Total	570	51	621

Full-time equivalent (FTE) staff strength as at 30 June 2014

Employment Type	Total
Permanent	593.4
Fixed-term	8.6
Casual	0.0
Total	602

⁶ Includes permanent and fixed-term staff but excludes casuals.

Agency resources and expenses by outcome

Under the *Requirements for annual reports for departments, executive agencies and FMA Act bodies*, issued by the Department of Prime Minister and Cabinet, APRA must provide information outlining its various funding sources during the financial year and total expenses for each Agency outcome. To this end, APRA's Agency Resource Statement and Expenses by Outcome Statement for 2013/14 are set out below.

Agency Resources Statement

		Actual available appropriation \$'000	Payments made \$'000	Balance remaining \$'000
		(a)	(b)	(a) – (b)
Ordinary annual services⁷				
Departmental appropriation		9,246	8,966	280
Total		9,246	8,966	280
Total ordinary annual services		9,246	8,966	280
Departmental non-operating				
Equity injections		7,467	4,270	3,197
Total		7,467	4,270	3,197
Total available annual appropriations and payments	A	16,713	13,236	3,477
Special Accounts				
Opening balance		54,124		
Appropriation receipts		13,236		
Special appropriation receipts		109,782		
Payments made			119,528	
Total Special Account	B	177,142	119,528	57,614
Total resources and payments				
A+B		193,855	132,764	61,091
Less appropriations drawn from annual or special appropriations above and credited to special accounts		16,713	13,236	3,477
Total net resourcing and payments for APRA		177,142	119,528	57,614

⁷ This combines Appropriation Bill (No.1) 2013/14, and relevant prior and current year receipts from independent sources.

Expenses by Outcome Statement

Outcome 1: Enhanced public confidence in Australia's financial institutions through a framework of prudential regulation which balances financial safety and efficiency, competition, contestability and competitive neutrality.

	Budget \$'000	Actual expenses \$'000	Variation \$'000
	(a)	(b)	(a)-(b)

Program 11: Australian Prudential Regulation Authority

Departmental expenses

Departmental appropriation ⁸	7,950	10,661	(2,711)
Special Accounts	112,470	103,096	9,374
Other services (Appropriation Bill No. 2)	4,270	4,270	–
Total expenses for Outcome 1	124,690	118,027	6,663

	2012/13	2013/14	
Average staffing level (number)	609	597	12

⁸ Departmental appropriation combines 'Ordinary annual services (Appropriation Bill No.1)' and 'Revenue from independent sources'.

List of requirements

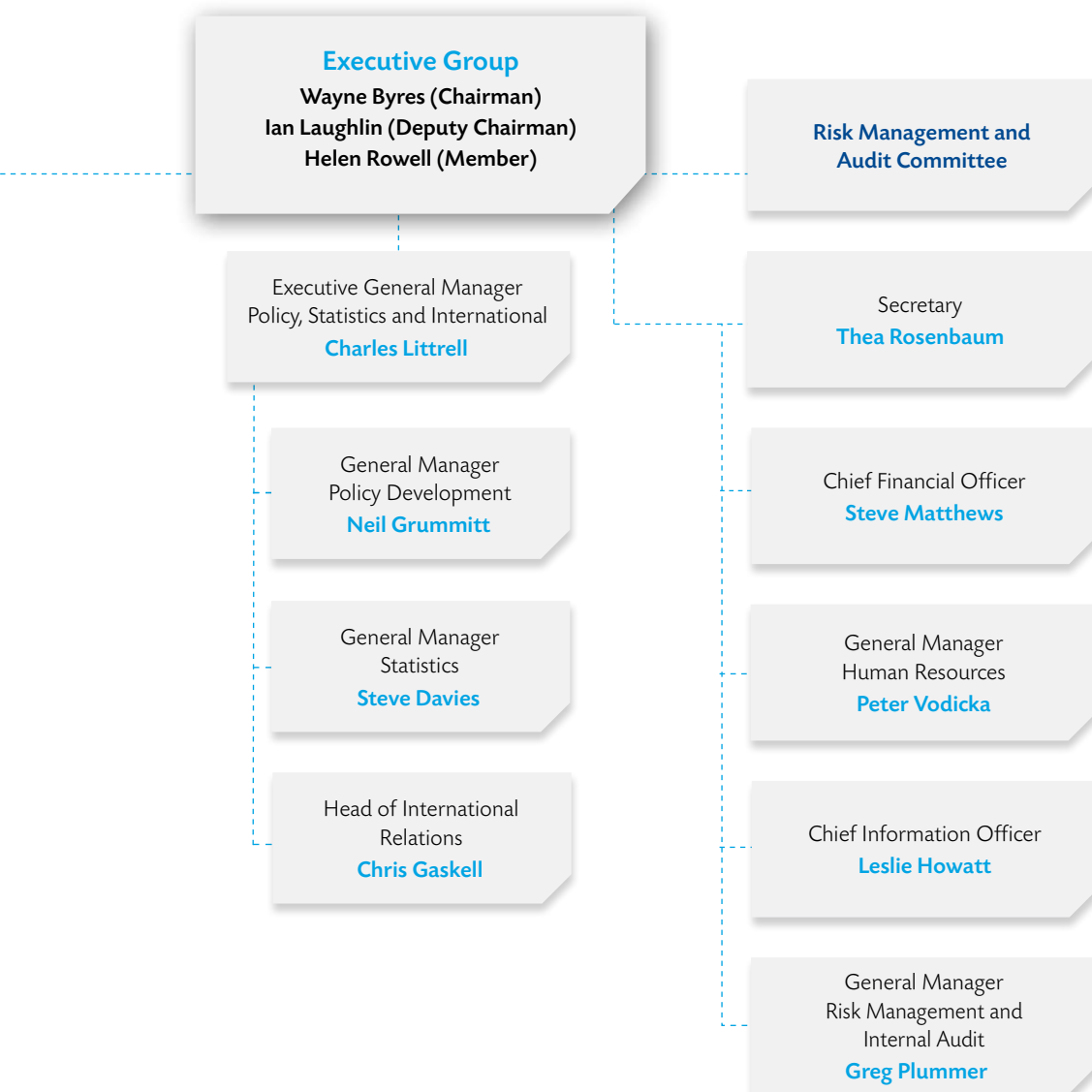
The following list of mandatory annual reporting requirements, as outlined in the *Requirements for annual reports for departments, executive agencies and FMA Act bodies* approved by the Joint Committee of Public Accounts and Audit, has been annotated with either 'not applicable' or the location of the information in this Report.

Part of Report	Description	Location or applicability
	Letter of transmittal	Page 2
	Table of contents	Page 4
	Index	Pages 190-191
	Glossary	Pages 188-189
	Contact officer(s)	Page 192
	Internet home page address and internet address for report	Page 192
Review by Chairman		Chapter 1
Overview of Authority	Overview	Chapter 6
	Role and functions	Page 3, Chapters 2-4
	Organisational structure	Page 186-187
	Outcome and program structure	Chapter 5
Report on performance	Review of performance in relation to programs and contribution to outcomes	Chapter 5
	Actual performance in relation to deliverables and KPIs	Chapter 5
	Narrative discussion and analysis of performance	Chapters 2-4
	Trend information	Chapters 2-4
	Performance against service charter customer service standards	Not applicable
	Discussion and analysis of the Authority's financial performance	Chapter 5
	Discussion of any significant changes from prior year, from budget or anticipated to have a significant impact on future operations	Not applicable
	Authority's resource statement and summary resource tables by outcomes	Chapter 8
	Developments since the end of the financial year that have affected or may significantly affect the Authority's operations or financial results in future	Not applicable
Corporate governance	Compliance with the <i>Commonwealth Fraud Control Guidelines</i>	Chapter 6
	Statement of the main corporate governance practices in place	Chapter 8

Part of Report	Description	Location or applicability
External scrutiny	Significant developments in external scrutiny	Chapter 8
	Judicial decisions and decisions of administrative tribunals	Chapter 2 and Chapter 8
	Reports by the Auditor-General, a Parliamentary Committee or the Commonwealth Ombudsman	Chapter 8
Management of human resources	Assessment of effectiveness in managing and developing human resources to achieve the Authority's objectives	Chapter 5
	Statistics on staffing	Chapter 5 and Chapter 8
	Enterprise or collective agreements, determinations and common law contracts	Chapter 8
	Performance pay	Chapter 8
Assets management	Assessment of effectiveness of assets management	Not applicable
Purchasing	Assessment of purchasing against core policies and principles	Chapter 8
Consultants	Summary statement detailing consultancy arrangements and confirming that information on contracts and consultancies is available through the AusTender website.	Chapter 8
Australian National Audit Office access clauses	Absence of provisions in contracts allowing access by the Auditor-General	Chapter 8
Exempt contracts	Contracts exempt from the AusTender process	Chapter 8
Financial statements		Chapter 7
Other information	Occupational health and safety (section 74 of the <i>Occupational Health and Safety Act 1991</i>) and Schedule 2 Part 4 of the <i>Work Health and Safety Act 2011</i>	Chapter 8
	Advertising and market research (Section 311A of the <i>Commonwealth Electoral Act 1918</i>) and statement on advertising campaigns	Chapter 8
	Ecologically sustainable development and environmental performance (Section 516A of the <i>Environment Protection and Biodiversity Conservation Act 1999</i>)	Chapter 8
	Grant programs	Chapter 8
	Correction of material errors in previous annual report	Not applicable
	Information Publication Scheme statement	Chapter 8

This page is left blank intentionally





¹ AAMIRS – Actuarial, Accounting, Market and Insurance Risk Services

² CORS – Credit and Operational Risk Services

AASB	Australian Accounting Standards Board
ADI	Authorised deposit-taking institution
ANAO	Australian National Audit Office
APEC	Asia-Pacific Economic Cooperation
APRA	Australian Prudential Regulation Authority
APRA Act	<i>Australian Prudential Regulation Authority Act 1998</i>
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
AUSTRAC	Australian Transaction Reports and Analysis Centre
CET1	Common Equity Tier 1
CLF	Committed Liquidity Facility
CRF	Consolidated Revenue Fund
D2A	Direct to APRA
D-SIB	Domestic systemically important bank
FCS	Financial Claims Scheme
FSI	Financial System Inquiry
FSB	Financial Stability Board
G-SIB	Global systemically important bank
IAIS	International Association of Insurance Supervisors
ICAAP	Internal Capital Adequacy Assessment Process
IMF	International Monetary Fund

IOPS	International Organisation of Pension Supervisors
IOSCO	International Organisation of Securities Commissions
LCR	Liquidity Coverage Ratio
MoU	Memorandum of Understanding
NSFR	Net Stable Funding Ratio
OECD	Organisation for Economic Co-operation and Development
PAIRS	Probability and Impact Rating System
PHIAC	Private Health Insurance Administration Council
RBA	Reserve Bank of Australia
RBNZ	Reserve Bank of New Zealand
RCAP	Regulatory Consistency Assessment Programme
RCDF	Religious charitable development fund
RFC	Registered Financial Corporation
RSE	Registrable Superannuation Entity
SIS Act	<i>Superannuation Industry (Supervision) Act 1993</i>
SOARS	Supervisory Oversight and Response System
SoE	<i>Statement of Expectations</i>
Sol	<i>Statement of Intent</i>

A

Actuaries Institute, 66

APRA Members, 14, 92, 94, 100, 141, 175, 177, 179

APRA's powers, 41, 64, 166

Asian Development Bank, 72

Asian Forum of Insurance Regulators, 72

Asia-Pacific Economic Cooperation, 72

Association of Financial Supervisors of Pacific Countries, 74

Australian Accounting Standards Board, 65, 95, 112,

Australian National Audit Office, 81-89, 95, 146, 172, 184,

Australian Prudential Regulation Authority Act 1998, 94, 113, 122, 155, 157, 166,

Australian Securities and Investments Commission, 29, 40, 47, 52, 62-64, 66-67, 69, 95, 113,

Australian Taxation Office, 37, 38, 57, 64, 81, 113, 119, 130,

Australian Transaction Reports and Analysis Centre, 40, 64,

Authorised deposit-taking institutions, 8-11, 13, 16, 20-25, 30, 44-53, 56, 58, 63, 86-88, 122, 149, 153, 157, 166, 176,

 Basel III, 10-11, 44, 47, 49, 63, 67, 68, 72

 Capital, 24

 Credit quality, 22

 Liquidity, 25, 49

 Residential mortgage lending, 9, 22, 23, 51, 63

 Securitisation, 50

B

Bank for International Settlements, 86, 99

Banking Act 1959, 40, 52, 153, 157, 166

Basel Committee on Banking Supervision, 11, 44, 47-51, 63, 67-69, 90, 98, 99

C

Capital, 10-11, 13, 20, 24, 26-28, 30, 32, 44, 46-51, 53, 66-68, 81, 88, 105, 159

China, 72

Commonwealth Fraud Control Guidelines, 166, 173, 183

Commonwealth Ombudsman, 173, 184

Conglomerate groups, 11, 44, 46, 47

Council of Financial Regulators, 9, 21, 23, 62, 98, 99

Credit quality, 22, 62, 147

Crisis preparedness, 20, 52

D

Direct to APRA, 87,

Dividend reinvestment plans, 24

E

Enforcement, 39, 40, 63, 64, 80, 81, 83, 175, 176

Environment Protection and Biodiversity Conservation Act 1999, 166, 184

Equal Employment Opportunity (Commonwealth Authorities) Act 1987, 166, 169

Executive remuneration, 142

F

Financial Claims Scheme, 21, 53, 153, 156, 166,

Financial Institutions Supervisory Levies Collection Act 1998, 81, 120, 157

Financial Management and Accountability Act 1997, 102, 112, 157, 166,

Financial Reporting Council, 65, 98

Financial Sector (Collection of Data) Act 2001, 55, 86, 166

Financial Stability Board, 44, 64, 69, 71, 90, 99,

Financial Statements, 100

Freedom of Information Act 1982, 166, 170,

Future of Financial Advice, 32

G

General Insurance, 8-9, 26-27, 40, 54, 55, 66, 68, 88, 94, 99, 176,

 Catastrophe risk management, 27

 Data confidentiality, 55

 Governance structure, 94

 Group insurance, 54

 Industry groups, 176

 Low interest rate environment, 26

 Reinsurance counterparty data collection, 54

 Reserving risk, 28

H

HIH Insurance, 14, 86

I

Indonesia, 72, 73

Insurance Act 1973, 153, 157, 158, 166

Insurance and Private Pensions Committee, 70

International Association of Deposit Insurers, 70

International Association of Insurance Supervisors, 66, 98, 99,

International Credit Union Regulators Network, 71

International Organisation of Pension Supervisors, 69,

J

Joint Forum, 69, 99

L

Lenders' Mortgage Insurance, 20

Life Insurance, 8, 10, 29, 31-32, 42, 54, 66, 88, 98, 176

Life insurance and friendly societies, 16, 29-32

Claims experience, 30

Group risk insurance, 30

Liquidity, 8, 10, 22, 25, 37, 38, 44, 47, 49, 50-51, 63, 148

M

Money Protection Ratio, 84-85

Motor Accident Insurance Commission of Queensland, 65

Motor Accidents Authority of New South Wales, 65

N

National Claims and Policies Database, 81

Non-operating holding companies, 81, 85

O

OECD, 70,

Operational Risk Financial Requirement, 35

Organisational chart, 186

Over-the-counter derivatives, 63

P

Probability and Impact Rating System, 18, 85,

Parliamentary committees, 179

Performance Entity Ratio, 84

Private Health Insurance Administration Council, 65,

R

Registerable Superannuation Entity, 33, 54, 56, 57, 86, 89

Regulatory Consistency Assessment Programme, 44, 50

Research, 70, 71, 72, 172, 174, 184

Reserve Bank of Australia, 21, 98, 99, 116,

Reserve Bank of New Zealand, 63,

Residential mortgage-backed securities, 25

Residential mortgage lending, 9, 51, 63

Retirement Savings Accounts Act 1997, 166,

Risk Management and Audit Committee, 95, 96

S

Securitisation, 11, 44, 50, 51, 67

South-East Asia, New Zealand and Australia (SEANZA), 72

Standard Business Reporting, 88

Statement of Expectations, 11, 12, 89

Statement of Intent, 12, 86, 89,

Statistics, 86, 88, 172, 180, 184, 187

Superannuation, 8, 10, 14, 19, 29, 30, 31, 33-40, 42, 44, 55-58, 64-66, 70, 78, 81, 85-86, 89, 113, 115-116, 141, 144-145, 173, 176

Conflicts of interest, 36

Data integrity, 37

Governance, 35

Insurance in superannuation, 36

Liquidity, 37

MySuper authorisation, 34

Risk management, 36

Stronger Super reforms, 10, 55

SuperStream, 57

Superannuation Industry (Supervision) Act 1993, 34, 166,

Supervisory Oversight and Response System, 18, 82,

T

Total and permanent disablement, 30

Treasury, 38, 53, 57, 62, 63, 64, 81, 98, 149, 157, 158, 172

W

Work Health and Safety Act 2011, 166, 171, 184

HEAD OFFICE

New South Wales

Delivery address:

APRA
Level 26, 400 George Street
SYDNEY NSW 2000

Mailing address:

GPO Box 9836
SYDNEY NSW 2001

T: 02 9210 3000

F: 02 9210 3411

APRAinfo: 1300 55 88 49

Website: www.apra.gov.au

Email: info@apra.gov.au

OTHER OFFICES

Australian Capital Territory

Delivery address:

APRA
Level 4, 10 Rudd Street
Canberra 2601

Mailing address:

GPO Box 9836
Canberra ACT 2601

T: 1300 55 88 49

F: 02 6213 5251

Queensland

Delivery address:

APRA
Level 9, 500 Queen Street
Brisbane QLD 4000

Mailing address:

GPO Box 9836
Brisbane QLD 4001

T: 07 3001 8500

F: 07 3001 8501

South Australia

Delivery address:

APRA
Level 22, 25 Grenfell Street
ADELAIDE SA 5000

Mailing address:

GPO Box 9836
ADELAIDE SA 5001

T: 08 8235 3200

F: 08 8235 3222

Victoria

Delivery address:

APRA
Level 21, Casselden Place
2 Lonsdale Street
MELBOURNE VIC 3000

Mailing address:

GPO Box 9836
MELBOURNE VIC 3001

T: 03 9246 7500

F: 03 9663 5085

Western Australia

Delivery address:

APRA
Level 5, 5 Mill Street
PERTH WA 6000

Mailing address:

GPO Box 9836
PERTH WA 6001

T: 08 9481 8266

F: 08 9481 8142

