APRA ANNUAL REPORT 2005

APRA

The Australian Prudential Regulation Authority (APRA) is the prudential regulator of the 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 approximately $2.2 trillion in assets for 20 million Australian depositors, policyholders and superannuation fund members.

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Our vision is to be a world-class integrated prudential supervisor recognised for its leadership, professionalism and innovation.

Our 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.

Our values are underpinned by the highest standards of individual and corporate integrity, as well as by flexibility, openness and 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.

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FROM THE CHAIRMAN

APRA had a very active year in 2004/05. There was no let-up in the tempo of its normal supervisory activities and major reforms to Australia's supervisory framework converged and gathered momentum. Some of these reforms – such as the adoption of new international financial reporting standards and the new global capital adequacy regime for deposit-taking institutions – are international initiatives running on international timetables; others in the general insurance and superannuation industries are domestic in their origin. Over the year, as well, APRA continued to build up its own strength and effectiveness, boosting staffing levels in its front line and specialist areas and improving the consistency of its supervisory oversight.

Taken together, these various initiatives are helping to promote 'good practice' in risk management and to lay the foundations for a more robust supervisory framework in Australia for the next decade and beyond. They will leave regulated financial institutions, as a whole, better able to withstand adversity, however it might arise.

Adversity is not a prospect that appears to be on the immediate horizon. Supported by sustained domestic and global economic growth and stronger equity markets, the Australian financial system remains in sound condition. The Australian economy enjoyed its fourteenth year of expansion in 2004/05, with stable inflation and generation-low levels of unemployment, although the pace of growth eased and the credit environment changed. With the housing market cooling, growth in housing credit – a major focus for APRA over recent years – moderated and competition for quality loan assets and deposits intensified, putting interest margins under further downward pressure. Thus far, the deposit-taking sector has negotiated the changed credit environment without stress on asset quality or capital adequacy, but there are early signs that loan arrears have begun to rise from their low base.

The record-breaking rally in the Australia share market and rises in international equity markets were positive developments for the insurance and superannuation sectors. With strong growth, too, in premium revenue and favourable claims experience, the general insurance industry recorded a second consecutive year of underwriting profits, an uncommon occurrence. The superannuation and life insurance industries also enjoyed strong investment returns for the second year running.

The supervisory framework

APRA works closely with the Government in developing the reform agenda for Australia's supervisory framework.

Broadly speaking, the reforms in the deposit-taking and insurance sectors are aimed at:

- enhancing the calibre and decision-making processes of those charged with running institutions in these sectors;
- strengthening the ways in which institutions identify and manage their risks; and
- better aligning capital requirements to the risks being borne.

The adoption of international financial reporting standards, though not APRA's direct responsibility, will improve disclosures about regulated financial institutions and reinforce market discipline, a powerful ally of the prudential regulator.

Two basic and mutually reinforcing principles guide APRA's pursuit of these reforms. Firstly, as its mandate requires, APRA seeks to achieve an appropriate degree of financial safety without stifling the strong competitive dynamics of the Australian financial system. Secondly, it seeks to treat like risks in a like manner across regulated sectors – where possible, through the introduction of harmonised prudential standards. APRA also consults extensively with a full range of interested parties to ensure that its reform proposals are both practical to implement and relevant to the business of each regulated institution. To ensure, that is, that the reforms 'go with the grain' of the market, to use a phrase of increasing resonance to prudential regulators.

APRA's reforms place a greater focus on personal behaviour and accountability. Beyond the traditional requirement that a regulated institution comply with APRA's prudential standards, the supervisory framework will increasingly require a senior person – typically a board director or executive but in some cases an auditor or actuary – to take personal responsibility for different aspects of the prudent management of the institution. That person, in turn, will presumably look for the comfort of strong internal risk management and reporting systems before providing any assurances. This element of personal accountability is not new and is an important component of any supervisory framework.

The detection by APRA of another 'sham' reinsurance arrangement designed to disguise the true financial position of a general insurance company was another reminder, regrettably, of the need for the highest standards of personal honesty and integrity in our financial system. Zurich Group in Australia admitted that its auditor and actuary, as well as APRA, had been knowingly misled about this reinsurance arrangement, which enabled the insurance company to portray itself as meeting its regulatory solvency requirement in 2000 when it did not. APRA is cooperating with regulators in other major jurisdictions that have likewise discovered sham reinsurance arrangements involving major insurance companies.

In the superannuation sector, the two major planks in the Government's reforms to superannuation safety are in, or are moving into place. Operating requirements and standards in areas such as risk management and fitness and propriety have been upgraded and the transition to the comprehensive licensing regime is underway. APRA has been geared up for this latter task for some time and has consulted extensively on licensing requirements with trustees and industry groups; to date, however, applications have been slow to arrive. APRA has discretion to close the licensing window before the two-year transition period ends on 30 June 2006 so that it can process any late rush of applications. Tardy trustees face a real risk of missing the cut.

APRA's capabilities

On its establishment, APRA set itself the ambition of being a world-class integrated prudential regulator recognised for its leadership, professionalism and innovation. That ambition remains undaunted. APRA's Executive Group – Ross Jones (Deputy Chairman), Steve Somogyi (APRA Member) and myself – are determined to bring it within close reach through a number of initiatives to strengthen APRA's vigilance, vigour and effectiveness.

For some time, the priority has been to ensure that APRA is able to identify, investigate and act promptly upon critical warning signs of an institution's distress. A sophisticated risk-rating system, introduced over two years ago, is now well bedded-down in APRA and proving its diagnostic value. The system underpins the judgments of supervisors about the overall riskiness of an institution and any remedial actions that APRA should take, and helps APRA direct its supervisory resources to institutions in greater need. With good progress on this front, the Executive Group's priorities have shifted to APRA's staffing levels and how APRA conducts its normal supervision activities.

APRA's strength and effectiveness depend fundamentally on its staff. It is their skills, judgment and intuition which make the difference between successful early intervention and arriving late at the scene. With Government and industry support, APRA has been building-up its staff numbers to improve its supervision of large and complex financial institutions, where resources had been lacking. Despite a fiercely competitive market for financial and risk management skills, APRA has attracted experienced staff from industry and the professions into front-line supervision positions and into its specialist risk, industry and technical areas. The recruiting effort, now largely complete, has taken staff numbers (excluding fixed-term staff for superannuation licensing) to around 580, an increase of 10 per cent over the year. Along the way, APRA lost a number of staff whose skills are in demand by industry. Though unfortunate, these losses are an acknowledgement of the high calibre of APRA's people and do mean there are more in industry who understand and have been well versed in the perspectives of the prudential regulator.

APRA has comprehensive training programs to boost the competencies of its staff and, during the year, it expanded its secondments program to include a limited number of placements at major financial institutions abroad.

Following a review of our supervisory processes, a detailed APRA-wide supervisory framework was introduced in 2004/05 to ensure that APRA takes a consistent and comprehensive approach to its supervisory activities, both off- and on-site. This framework will improve the quality of inputs into APRA's risk-rating system but it is not intended as a substitute for astute supervisory judgment. As part of the framework, APRA has reassessed its communications with regulated institutions to ensure that they are clear about what is expected of them, particularly after prudential reviews. APRA has also introduced a new tool for tracking activities and issues that will enable supervisory staff to plan more effectively and, at a broader level, will provide for better accountability and performance measurement.

Left to right:
Mr Ross Jones
Dr John Laker
Mr Steve Somogyi

Looking ahead

APRA will have its hands full over the year ahead with its reform agenda and monitoring the health of regulated institutions in changing times. Consultations on a number of key changes to the supervisory framework are nearing their end and, once changes are implemented, there is clear air ahead for industry. Where it can, APRA will look to a sensible sequencing of changes so as to lighten the impact on regulated institutions. Nonetheless, there is no better time to introduce reforms of this importance than when financial institutions, and the Australian financial system as a whole, are in a position of strength.

This strength cannot, of course, be guaranteed and now is the time for financial institutions, themselves, to ensure that their risk management defences are up to the mark. The economic outlook, though positive, has its vulnerabilities. The debt servicing burden of households is at a record level and housing credit growth is still running at double-digit rates, notwithstanding uncertainty about the immediate course of housing prices. The changing credit environment will reward a strong credit culture in deposit-taking institutions and those which have allowed a 'drip-by-drip' dilution of credit standards to accommodate ambitious growth targets will come to rue this if household finances were to deteriorate.

The very competitive pricing now apparent in some housing lending products and classes of life and general insurance business may be signalling a greater appetite for risk by some institutions at a time when, around the globe, policymakers have been questioning whether risk is being underestimated and underpriced. In its supervisory activities, APRA has been emphasising that the business strategies and risk appetite of institutions should not lose touch with economic realities.

Our people

APRA's prudential policy and supervisory workload and its internal improvement programs have put considerable demands on our people, during a period of inevitable disruption from staff movements in and out. Their response has been excellent and their commitment to providing high quality prudential supervision on behalf of the Australian community unwavering. The Executive Group thanks all of them for their dedication, resilience and sheer hard work during the year.

Dr John F. Laker
Chairman

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APRA'S SUPERVISORY ACTIVITIES IN 2004/05

AUTHORISED DEPOSIT-TAKING INSTITUTIONS

Authorised deposit-taking institutions (ADIs) continued to enjoy good financial health, with strong earnings, impaired assets at historical lows and capital ratios increasing in most areas. This general picture has altered little over recent years, although the underlying credit environment has changed. In 2004/05, credit growth slowed overall and there was a significant shift in its composition away from housing lending, as housing markets cooled, in favour of business lending. In this environment, interest margins came under further downward pressure. Competition for quality assets intensified and discounting of mortgage interest rates became more widespread; credit spreads in business lending appear to have narrowed as well. Competition for deposits also intensified with the introduction of a number of high-rate on-line deposit accounts. One indicator that APRA is closely monitoring is loans that are past due but not yet considered impaired; these 'delinquent' loans have begun to increase, though from a low base.

Credit standards

APRA's supervision of ADIs over 2004/05 has focussed on the ADI sector's response to the slowdown in housing credit growth and the more aggressive competition for lending and funding. APRA has cautioned that ADIs should be attuning their business strategies and risk appetite to the changed credit environment and should not be pursuing growth targets that require them to take on more risk, without robust risk management systems and appropriate pricing. In addition, APRA has cautioned that ADIs looking for potential revenue growth in areas outside their traditional housing lending franchise should not move in these directions without ensuring that they have the personnel, expertise and systems to do so prudently.

APRA has also expressed its concerns, as has the Reserve Bank of Australia, about slippages in credit standards in housing lending. These slippages can take different forms. One is the failure to independently verify customer data, particularly debt servicing ability, where loans are originated via mortgage brokers and other third party channels. Another is the increase in the maximum permissible debt servicing ratio of borrowers based on new assessment procedures introduced by ADIs, which treat all incomes above a minimum cost of living estimate as potentially available for debt servicing. A third is the use of various informal means of property valuation for loans on which lenders would traditionally require formal valuations – the subject of a separate survey by APRA (see below).

Property valuation practices

During 2004/05, APRA surveyed the property valuation practices used by ADIs and lenders mortgage insurers (LMIs) as part of their mortgage and insurance approval processes. The results were published in May 2005. The main conclusion was that there has been a movement away from the traditional reliance on a full valuation of a property (involving an internal inspection) in favour of more streamlined valuation methodologies, particularly by the larger ADIs. These methodologies include greater use of restricted (or kerbside) valuations, or the use of valuations based on information drawn from sources such as the contract of sale, Valuer-General's records or desk-based electronic systems.

APRA is conscious of the pressures on ADIs to reduce valuation expenses but has noted that the new valuation methodologies have not been tested in a major property market downturn and may expose lenders to increased credit risk if appropriate controls are not in place. Good practice, in APRA's view, would see these new techniques appropriately researched and approved at senior levels before introduction, and limited in their application to lower risk lending.

Foreign currency options exposures

Following the announcement by the National Australia Bank (NAB) in January 2004 of losses from irregular foreign currency options trading, APRA undertook an investigation that revealed significant deficiencies in

NAB's risk management and governance framework. APRA's report, which was subsequently made public by NAB in March 2004, outlined a range of remedial actions that NAB was required to implement to address these deficiencies. The actions covered front and back office operations, internal control systems and NAB's risk culture and governance framework. Until APRA was satisfied that these actions had been completed, NAB's target capital adequacy ratio was raised to ten per cent, NAB's approval to use an internal model to determine market risk capital was withdrawn and NAB's currency options desk was to remain closed to corporate business and proprietary trading.

NAB made significant progress on its remedial program during 2004/05 and, as a consequence, APRA agreed to the re-opening of NAB's currency options trading desk in May 2005. APRA is continuing to work closely with NAB to finalise the remedial program.

ANAO Performance Audit

During 2004/05, the Australian National Audit Office (ANAO) undertook a follow-up audit to assess the extent to which APRA had implemented recommendations made in the ANAO's 2001 performance audit of bank prudential supervision. In its report, which was tabled in July 2005, the ANAO found that APRA had implemented or made progress in implementing all of those recommendations.

APRA considered recommendations concerning the supervisory process as being of the greatest importance. As a result, it has made the most progress in implementing the 2001 recommendation concerning a review of its risk-rating process. In addition to introducing a new risk-rating process (PAIRS/SOARS), the implementation of a new supervision framework has led APRA to refine the basis on which it determines the frequency of on-site visits to banks and to step-up the number of such visits. The PAIRS/SOARS process and the new supervision framework are discussed in the *Supervisory Capabilities* section of this Report. APRA has also implemented those recommendations dealing with large exposures and aspects of cross-border banking.

Now that APRA has been able to build-up staff resources, it is making good progress on the other recommendations:

- it is implementing a structured review program of visits to Australian banks (and other APRA-regulated institutions) with material activities in offshore locations;
- it has increased efforts to establish Memoranda of Understanding (MOUs) with overseas regulators, and recently has signed two MOUs additional to those mentioned in the ANAO's report; and
- it is strengthening contacts with overseas regulators to supplement its efforts to establish formal MOUs.

Trans-Tasman Council on Banking Supervision

In February 2005, the Australian Treasurer and the New Zealand Finance Minister established a Trans-Tasman Council on Banking Supervision as the next major step towards the development of a single Trans-Tasman economic market in banking services. The Australian and New Zealand banking markets are among the most highly interdependent in the world. Around 85 per cent of New Zealand banking system assets are Australian-owned, and New Zealand banking assets comprise around 15 per cent of total assets of Australian-owned banks.

The Council is chaired jointly by the Secretaries to the Treasuries of Australia and New Zealand and also comprises senior officials from APRA, the Reserve Bank of Australia and the Reserve Bank of New Zealand (RBNZ). The Council's aims are to enhance cooperation and information sharing between respective supervisors on the supervision of Trans-Tasman banks; promote and regularly review Trans-Tasman crisis response preparedness relating to events that involve banks that are common to both countries; and guide the development of policy advice to both governments. In the first instance, the Council has been reviewing legislative changes in Australia and New Zealand that may be required to ensure APRA and the RBNZ can support each other in the performance of their current regulatory responsibilities at least regulatory cost.

GENERAL INSURANCE

In 2004/05, continued strong premium income, well-performing investment markets, lower claims costs in many insurance lines and lower frequency of claims in almost all insurance lines enabled the general insurance industry to record a second consecutive year of solid underwriting profits. Share prices of listed insurers rose strongly and the industry's capital position strengthened as many insurers built reserves to meet higher internal capital ratios. These developments are a further dividend from the more robust prudential framework introduced in 2002. That said, underwriting profits over the past few years still fall short of the losses that had cumulated over previous years. Consolidation within the industry has meant that the largest insurers now have a size and diversity of business that enable them to better protect their balance sheets from major insurance events. APRA's main supervisory focus has been to ensure that pressures on insurers to maintain shareholder returns do not erode the improved disciplines in premium setting and risk management or tempt insurers into unwise growth strategies.

Risk management

Risk management capabilities in the general insurance industry have improved since the 2002 reforms. The emergence in some issuers of a Chief Risk Officer role, the establishment of risk management as a separate discipline with its own resources and the greater focus on risk-based measures of success are all positive signs from APRA's perspective. However, further attention to improving risk management is still required.

In some insurers, the high-level principles set out in the insurer's Risk Management Strategy are not consistently reflected in the more detailed policies and procedures used by staff at operational levels. In other insurers, new product development processes are either inadequate or non-existent and there are quite often no guidelines covering when a product enhancement should be subject to these processes. A targeted review of business continuity management undertaken during 2004/05 by the Approved Auditors of many general insurers has identified this as another area where work is needed.

The industry also has some way to go in asset/liability management (ALM). Insurers are becoming increasingly aware of ALM issues and some have strong controls in place. Others, however, continue to assume that investing in fixed-interest securities removes investment risk and allows boards and management to concentrate solely on what they then perceive as the 'more volatile' insurance risks.

Reinsurance management

The Reinsurance Management Strategy (REMS) requires an insurer's board to set and document the insurance risk appetite for the institution and to satisfy itself that there are sound systems for selecting, implementing and monitoring reinsurance programs. Though industry practices are improving, APRA continues to find inadequacies in the processes and documentation of reinsurance management. Documentation that is incomplete and provides insufficient detail of an institution's level of retained risk and its chosen reinsurance structure, can lead to inappropriate and possibly inadequate purchase of reinsurance. APRA has proposed a strengthening of the role of REMS and of the documentation of reinsurance arrangements as part of its second round reforms of the prudential framework for general insurance.

Underwriting and claims processes

Although the underwriting results of general insurers have improved considerably in recent years, APRA continues to observe controls and processes that fall short of 'good practice' in these areas. In the underwriting process, examples include poorly documented pricing levels, inadequate communication and acknowledgment of authority levels and underwriting manuals and guidelines that are thin on detail and not regularly updated. In claims processing, weaknesses have been identified in the valuation of the Outstanding Claims Provision, in the claims estimation process and in claims processing guidelines and referral procedures. Inadequate underwriting and claims processes can lead to inferior risks being written or 'leakages' occurring in claims handling that may impact on pricing.

IT systems

IT systems remain a challenge for the general insurance industry. The problems of system age coupled with product complexity mean that the IT infrastructure of many insurers is struggling to meet the demands of business units in capturing appropriate data, even after multiple system upgrades. This can undermine the insurer's ability to appropriately model exposures – for example, to aggregate risk exposures for the purchase of catastrophic reinsurance protection. 'Work-arounds' commonly put in place to meet the information needs of boards and senior management are inherently prone to human error and should not be maintained as long-term solutions.

Financial reinsurance

Like regulators in a number of other jurisdictions, APRA has intensified its scrutiny of certain so-called 'financial reinsurance' arrangements – complex financial arrangements that can be disguised as traditional reinsurance to facilitate profit smoothing or deceptive accounting. When booking a transaction as reinsurance, APRA-regulated insurers are required to comply with Australian accounting standards and with APRA guidelines. Taken together, these require a material transfer of risk from the reinsured to the reinsurer and the booking of premium expense in the reinsured's books in line with the time pattern of recoveries.

In May 2004, APRA appointed an inspector under the *Insurance Act 1973* to investigate two financial reinsurance transactions which were undertaken in 2000 between Zurich Australia Insurance Limited (ZAIL) and General & Cologne Re Group Australia. APRA's investigation identified deliberate misrepresentations concerning the nature and accounting treatment of the transactions. These resulted in ZAIL's profits in 2000 being overstated by $61 million, with the effect that ZAIL appeared to meet its regulatory solvency requirement in that year when it did not.

APRA accepted Enforceable Undertakings from ZAIL and Zurich Financial Services Australia Limited (ZFSA) in May 2005. The Enforceable Undertakings acknowledged that information was withheld and misstatements were made to the regulator, auditor and actuary and that a number of people had knowingly misled APRA about the true nature of the reinsurance transactions. ZAIL and ZFSA undertook to improve their corporate governance, to regulate the way in which they deal with reinsurance issues in the future and to ensure ZAIL's capital strength is maintained. In addition to monitoring compliance by the Zurich Group entities in Australia, APRA is now considering what action, if any, it needs to take in relation to individuals who were involved in the reinsurance transactions. The Australian Securities and Investments Commission (ASIC) is also investigating these transactions.

In May 2005, APRA appointed an inspector under the *Insurance Act 1973* to investigate certain reinsurance practices involving the general insurance business of General Reinsurance Australia Limited (General Re), previously operating as General & Cologne Re Group Australia. The investigation covers General Re's complex financial products in relation to financial and finite reinsurance and the marketing and promotion of those products.

APRA is cooperating with overseas regulators conducting similar inquiries into financial reinsurance arrangements in their jurisdictions.

National Claims and Policies Database (NCPD)

During 2004/05, following extensive consultation with the insurance industry and other stakeholders, APRA launched a new, comprehensive database to collect detailed claim and policy data for public and product liability and professional indemnity insurance. The NCPD is an initiative of the Government and will provide insurers, the community and the Government with a better understanding of these types of insurance and enable them to monitor trends in premiums and claims costs. It will give insurers detailed information to help them assess risks and determine appropriate premiums and develop or enhance the products available to policyholders.

All APRA-regulated general insurers providing these types of insurance policies to businesses and professionals are required to contribute claim and policy data to the NCPD. Other organisations, such as state and territory insurers, also submit data to the NCPD. APRA will consider expanding the NCPD collection over time.

The first reports from the NCPD were released in August 2005 and covered the years 2003 and 2004. The NCPD and its associated reports will increase in value over time as the database becomes populated with more years of data.

LIFE INSURANCE AND FRIENDLY SOCIETIES

The life insurance industry is increasingly an industry dominated by wealth management (particularly superannuation). Superannuation assets now account for 90 per cent of industry assets, notwithstanding strong growth in risk protection business (life, disability and income protection). Buoyed by the strength of domestic and global equity markets, Australia's framework of compulsory superannuation and growth in premiums from risk insurance, the industry enjoyed strong profitability and solvency over 2004/05. Looking ahead, the loss of transitional tax relief from 1 July 2005 and increased pricing competition – in both wealth management and risk insurance – is likely to place some pressure on the ability of the industry to continue its strong profit performance. The friendly society industry has also undergone significant rationalisation and restructuring of operations, which has seen a number of friendly societies diversify away from traditional lines of business. In addition to some on-going prudential issues, such as unit pricing and legacy systems, APRA's supervision of life insurers and friendly societies over 2004/05 has focussed on the different strategies being pursued in response to strong competitive pressures in superannuation and wealth management.

Unit pricing

The majority of Australia's superannuation assets are invested in unit-linked products and most providers determine unit prices on a daily basis. The increasing complexity of investment products, the large numbers of units being priced daily, limitations in many older administration systems and the complexity of legal and taxation structures have created an environment in which unit pricing errors can easily occur. Such errors are becoming more commonplace.

During 2004/05, APRA and ASIC undertook a joint review of unit pricing practices in life companies, superannuation providers and fund managers. The joint review and earlier prudential reviews identified a number of issues, including calculation errors; over-reliance on external funds managers; inadequate business continuity planning; lack of knowledge of the product (particularly with legacy products) and inadequate valuation processes. However, a poor risk management and control framework was identified as the most significant factor in the emergence of unit pricing errors. In APRA's view, building a strong control framework that identifies these errors at an early stage is as important as rectification. Following the joint review, APRA and ASIC released a consultation paper in December 2004 seeking industry comment on proposed guidance for good practices in unit pricing. This guidance is expected to be finalised within the first half of 2005/06.

Legacy products and systems

Traditional life insurance products such as whole-of-life and endowment policies have a long time horizon, and constant product changes have resulted in multiple versions of similar products that will need continued support for many years. Industry consolidation has also left a number of life insurers administering a variety of traditional products with their own unique features and system requirements. Administration systems supporting these products are ageing and maintaining product knowledge within institutions is becoming more difficult as experienced staff are lost. As a consequence, legacy products have become a significant source of operational risk for the life insurance (and superannuation) industry. APRA's concern is to ensure that life insurers are able to meet their long-term promises to policyholders and maintain adequate systems and processes for legacy products. APRA has been discussing with industry ways in which the process of product rationalisation could be simplified while still protecting policyholder interests.

Target surplus

Over the last two years, APRA has been encouraging boards of life insurers to determine a target surplus of 'free assets' above regulatory capital requirements. Most life insurers have now established such surpluses but the sophistication of analysis has varied widely. A small number of insurers have developed risk-based capital models based on likelihood of failure but many others have simply applied a percentage margin over regulatory requirements. APRA views the target surplus as a trigger point for action by the board and senior management to avoid a breach of APRA's regulatory capital requirements. APRA expects life insurers to have robust governance of their own capital position, which should include capital management plans to detail how the target surplus can be maintained. APRA is continuing to work with the life insurance industry to raise the level of sophistication of target surplus models.

SUPERANNUATION

The strong performance of investment markets over 2004/05 provided a supportive environment for the superannuation industry as it implemented a number of major reforms, including the Government's superannuation safety reforms, changes to portability of benefits and the new choice of fund regime. APRA's priority has been the orderly introduction of the superannuation licensing regime – the centre-piece of the superannuation safety reforms – which came into effect from 1 July 2004. These reforms, and APRA's normal supervisory activities, also drew attention to some prudential issues on which APRA has clarified its requirements.

Superannuation licensing

The superannuation licensing regime requires trustees of all APRA-regulated superannuation entities to be licensed and all entities for which they are trustees to be registered. Trustees will have to meet specific licence requirements covering matters such as risk management, as well as operating standards on fitness and propriety, adequacy of resources and outsourcing. The reforms provide for a two-year transition period, ending 30 June 2006, during which existing trustees who wish to continue their trustee operations must apply for a licence. Trustees that choose not to be licensed or that fail to meet the licensing criteria must transfer any funds they operate to a licensed trustee by the end of the transition period. All new trustees must be licensed prior to commencing operations.

APRA has been working closely with trustees and the industry to assist them with the licensing and registration process. Since the transition period began, it has conducted over 250 workshops and presentations, reviewed draft applications from around 150 trustees and discussed its requirements with trustees on more than 700 occasions. APRA has also established a dedicated website which is regularly updated with frequently asked questions.

A little over 400 trustees have indicated their intention to apply for a licence but, as at early September 2005, only 15 licences have been issued and around 90 formal applications were being processed. APRA has discretion to refuse to consider any further licence applications in the last six months of the transition period and it may be necessary to exercise this discretion to ensure that applications can be processed in an orderly fashion. There are substantial penalties on trustees operating a superannuation fund without a licence after the transition period. APRA is working with trustees intending to exit the industry to ensure that they complete their exit before 1 July 2006.

Revision of superannuation circulars and other guidance

APRA's superannuation circulars provide guidance to trustees and others on issues arising out of the legislative and prudential framework for superannuation. APRA has been progressively reviewing and updating these circulars in light of the changes to this framework and the operating environment in the industry. APRA has reissued the superannuation circular relating to the audit of superannuation funds, which includes audit requirements for entity risk management plans and trustee risk management strategies. Revised circulars on investment management, contributions and payment standards are being developed. In addition to its guidance on licensing, APRA has also issued frequently asked questions to assist trustees complete the new annual and quarterly prudential returns.

Supervision of sub-funds

As part of the consolidation of the superannuation industry, many corporate funds have decided to transfer to master fund or trust arrangements, giving rise to an increasing number of sub-funds within superannuation funds. Sub-funds are funds with separately identifiable assets and beneficiaries. *The Superannuation Industry (Supervision) Act 1993* (the SIS Act) treats the master trust as a single entity but does contain a number of provisions which refer to sub-funds. APRA considers that the presence of sub-funds exposes superannuation funds to additional risks, which trustees must identify and address. This is particularly the case for sub-funds covering defined benefit schemes, which at a given point in time may not be fully funded. APRA's supervisory approach now involves closer scrutiny of sub-fund activity to minimise the exposure of fund members to potential problems.

Insurance and self-insurance

APRA is undertaking a limited survey on the availability of professional indemnity insurance in the marketplace and the level of coverage bought by trustees. The survey will help APRA to assess the adequacy of professional indemnity insurance cover for trustees of public offer superannuation funds, which APRA has regard to as part of the superannuation licensing process, and to provide guidance to funds.

APRA discourages funds from self-insuring death and disability benefits because of the potential risks from inadequate and unsegregated reserves and the lack of comparative pricing. APRA's view is that death and disability benefits are best provided to fund members by prudentially regulated life insurance companies. As part of the superannuation licensing process, APRA will maintain its current policy that public offer superannuation funds are precluded from self-insuring death and disability benefits (subject to certain limited exceptions). Non-public offer funds which self-insure will need to address the risks of self-insurance in their risk management plans.

APRA visits, consultations and tripartite meetings

Entity	2003/04	2004/05
ADIs	207	208
General insurers	96	81
Life insurers and friendly societies	39	39
Approved trustees	45	58
Superannuation funds	683	406
Conglomerates	29	23
Total	1099	815

The number of visits to superannuation funds has decreased in response to the reduction in the number of superannuation funds but visits are longer and of increased intensity and as a consequence of the new APRA Supervisory Framework.

ENFORCEMENT ACTIVITIES

APRA is not primarily a law enforcement agency. Its focus is on ensuring that regulated entities and the responsible persons associated with these entities operate in a prudent and well-controlled manner. APRA's approach to supervision is aimed at early intervention, rather than action after the event. APRA does, however, take enforcement action from time to time when more direct, pre-emptive action is required. APRA devotes around eight per cent of its staffing resources to enforcement activity.

APRA's enforcement activity aims to minimise financial losses to beneficiaries by preventing failures where possible and, where losses are inevitable, by limiting the immediate damage caused by a troubled entity (the 'containment effect') and by sending a public message that industry generally can observe and absorb (the 'deterrent effect'). The containment aspect is generally the more immediate priority, and may require keeping enforcement action confidential for a time so as not to compromise any rescue measures. The deterrent aspect, on the other hand, is generally less urgent but requires wide publicity to have maximum impact.

During 2004/05, APRA undertook 741 enforcement actions, almost double the previous year's level. The increase was largely attributable to the issue of infringement notices to a number of superannuation funds that failed to disclose their status under the SIS Act (following a major review by APRA) or failed to lodge their APRA annual return on time.

APRA's key enforcement powers are the ability to conduct a forensic investigation, to direct corrective action and to disqualify individuals from positions of responsibility in APRA-regulated industries. APRA initiates formal investigations of regulated entities suspected of breaching their statutory obligations under the relevant legislation – e.g. the *Insurance Act 1973* or the SIS Act – by appointing an in-house or external inspector for the task. Investigations conducted by APRA inspectors are fact-finding and evidence-gathering exercises that involve demands for information from the entity concerned, interviews of relevant personnel and analysis of the circumstances that are revealed. The findings of an investigation, with supporting evidence, form the basis for subsequent enforcement action.

In 2004/05, 18 APRA investigations were in progress. Some of these were a continuation of investigations commenced in previous years and which culminated in formal enforcement action. APRA investigations into certain financial reinsurance transactions involving Zurich Australia Insurance Limited and General & Cologne Re Group Australia are described earlier in this Report.

During the year, APRA continued its investigation into the AXA Australia Staff Superannuation Plan. The investigation focussed on a decision made by the trustee to change the method of calculating the interest rate on members' benefits, and on an offer by the employer to buy out future pension entitlements. APRA liaised closely with ASIC, which investigated the disclosure aspects of the two matters. In May 2005, APRA and ASIC each accepted an Enforceable Undertaking from the trustee, under which the trustee will reinstate for two financial years the previous crediting rate formula, giving an aggregate increase in benefits of some $10 million; offer certain former members the opportunity to re-enter the fund on actuarially-determined terms; and provide disclosure to members of both of these decisions. APRA's investigation is continuing.

In May 2005, APRA announced that its investigation into the Wall & Ceiling Superannuation Fund resulted in five former trustees of and advisers to the Fund being charged in the Melbourne Magistrates Court with a total of 34 criminal charges under the SIS Act and the *Crimes Act 1914*. The Fund had around 130 members employed in the building supplies industry with assets invested through unit trusts in commercial property that was leased back to employer-sponsors. The trustee had no direct control over the underlying assets. The SIS Act charges relate to an alleged contravention of the 'sole purpose' test, an alleged scheme to avoid the 'in-house asset' rules and alleged false record-keeping with the intention of deceiving APRA. The criminal charges follow the earlier successful prosecution of an adviser to the fund and APRA's disqualification in 2004, under the SIS Act, of a number of individuals associated with the Fund, including those now facing criminal charges. The Commonwealth Director of Public Prosecutions is prosecuting the matters.

APRA's other key enforcement power is disqualification. APRA may disqualify key personnel in the superannuation and general insurance industries who have proved to be unsuitable (being for example, incompetent or dishonest or compromised by conflicts of interest). APRA has comparable powers in the ADI sector. It also has power to disqualify auditors and actuaries under the *Life Insurance Act 1995*. A broadening of these powers that would harmonise them with the other regulated industries is under consideration.

A decision by APRA to disqualify an individual is only made after he or she is provided with details and documentation supporting APRA's preliminary view that they be disqualified. The individual is invited to make submissions about why he or she should not be disqualified. All of APRA's material together with the individual's submission is then considered by a person delegated by APRA to make a disqualification decision. A disqualified individual is able to seek an internal review of the decision by APRA and subsequently appeal to the Administrative Appeals Tribunal (AAT). The individual may also take Federal Court action at any time.

APRA disqualified 40 individuals in 2004/05, including the first disqualifications of individuals assessed as not fit and proper under the amended *Insurance Act 1973*. Of this total, 23 individuals were judged as unsuitable to hold positions as directors or senior managers of APRA-regulated general insurers, all but one associated with the failure of HIH. Individuals who were convicted of criminal charges arising out of the failure of HIH are automatically disqualified. Another 17 individuals judged unsuitable to hold senior positions in the superannuation industry were disqualified under the SIS Act. Following an internal review, five of the 40 disqualifications were revoked and a further 17 individuals have sought an AAT review of the decision. Three individuals have also challenged APRA's powers and processes in the Federal Court.

Enforcement actions undertaken during the year

	ADIs		Super-annuation		General insurance		Life insurance		Friendly societies		Other[1]		TOTAL	
	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**
AAT/Federal Court review			6	**7**	1	**10**			1				8	**17**
Amendment of IOA[2]			2		2								4	**0**
Appointment of Acting Trustee			3	**3**									3	**3**
Appointment of liquidator/Inspector			11	**2**	1	**1**							12	**3**
Civil Litigation			1	**13**									1	**13**
Directions	6		89	**403**	5	**33**	2			**2**	25	**15**	127	**453**
Disqualification of auditors/directors			34	**17**		**23**							34	**40**
Enforceable Undertaking			19	**2**	8	**1**							27	**3**
Follow-up delayed contributions			1										1	**0**
Investigation action			21	**36**		**23**							21	**59**
Other action		**1**	6	**7**	1				2	**1**	3	**3**	12	**12**
Prosecution				**7**									0	**7**
Refer to other agency/police	4		30	**36**	9	**12**			4		30	**9**	77	**57**
Removal of trustee/withdrawal of IOA/revocation				**0**									0	**0**
Show cause letter	2	**1**	54	**26**	7	**46**	1			**1**			64	**74**
Total	**12**	**2**	**277**	**559**	**34**	**149**	**3**	**0**	**7**	**4**	**58**	**27**	**391**	**741**

Notes:

[1] Includes institutions not regulated by APRA suspected of conducting unauthorised financial activity.

[2] Instrument of Approval.

3

THE PRUDENTIAL SUPERVISION FRAMEWORK

Over 2004/05, two global regulatory initiatives – the new Basel Capital Framework and the introduction of International Financial Reporting Standards (IFRS) – had a major bearing on APRA's priorities for strengthening the prudential supervision framework. In other initiatives, APRA began to finalise its second round reforms to the prudential framework for general insurance and it tightened the capital adequacy framework for housing lending by ADIs and for the provision of lenders mortgage insurance.

In pursuing its reform agenda, APRA is committed to introducing, where it can, prudential standards that are harmonised across APRA-regulated industries. Harmonised standards offer the benefits of consistent treatment of risk issues across these industries and the ability to quickly migrate best prudential practice from one to all of these industries. During the year, APRA released harmonised draft prudential standards for governance, fit and proper persons, and outsourcing, and finalised a prudential standard for business continuity management.

How Australia's prudential supervision framework compares internationally is currently being assessed as part of the International Monetary Fund (IMF)/World Bank Financial Sector Assessment Program.

Harmonised prudential standards

Governance

APRA's initial governance proposals were included in its November 2003 discussion paper, *Prudential Supervision of General Insurance – Stage 2 Reforms*, as part of a proposed second round of general insurance reforms. At the time, APRA indicated its intention to develop similar governance arrangements for all APRA-regulated industries.

The initial proposals were the subject of extensive public and industry consultation. Flowing from that, APRA released a discussion paper in May 2005 setting out revised governance proposals and draft prudential standards covering ADIs, general insurers, life companies and friendly societies and authorised non-operating holding companies (NOHCs). The draft standards establish a number of key principles to which regulated institutions should have regard when developing and implementing governance requirements, as well as minimum requirements on board size and composition, board and senior management performance, board renewal and auditor independence. The aim is to ensure that APRA-regulated institutions are managed prudently, that board members have access to appropriate independent expertise and that board composition reflects the need for both appropriate independent oversight and industry experience. A governance standard will complement APRA's other prudential standards in setting high benchmarks of financial strength and risk management for prudentially regulated institutions.

Subject to consultation, the final governance prudential standards are expected to be released in early 2006 and be effective from the end of an institution's then current financial year.

Fit and proper

In March 2004, APRA released a consultation paper and draft prudential standards on the fitness and propriety of 'responsible persons' of ADIs, general insurers and life insurers. (Fit and proper standards in superannuation are addressed separately in the Government's superannuation safety reforms.) The draft standards apply to directors, senior managers, auditors and (where relevant) actuaries of these institutions, and are intended to ensure that these persons have the competence and integrity necessary to perform their roles.

The various submissions received (around 40) were broadly supportive of APRA's objectives but raised a number of issues about how the standards would be applied in practice. In response, APRA released revised fit and proper proposals in June 2005 that provide a higher-level view of APRA's expectations of the fit and proper policies of regulated institutions. APRA's approach is in line with the new fit and proper operating standard in superannuation and eschews detailed minimum criteria to which institutions must have regard. The onus for ensuring that responsible persons have the appropriate skills, experience and knowledge, and act with honesty and integrity, remains squarely with each APRA-regulated institution. APRA will only become involved when it has specific concerns about a responsible person which the employer cannot or will not take action to address.

APRA intends to finalise the fit and proper prudential standards by early 2006, after consultations are completed.

Outsourcing

As part of its second round of general insurance reforms, APRA released a draft outsourcing prudential standard and guidance note for general insurers in May 2005. APRA's proposals are designed to strengthen the management of outsourced arrangements and include a requirement for prior APRA approval of agreements to outsource material business activities to a provider outside Australia ('offshoring'). The prudential standard is expected to be finalised early in 2006.

The outsourcing proposals are based on but take further the existing prudential framework for ADIs and followed release, in June 2004, of a guidance note on outsourcing in superannuation. In view of changing industry practices, APRA is reviewing the prudential framework for ADIs and life insurers. In the first half of 2005/06 it expects to release revised draft prudential standards for these industries that will be harmonised with general insurance.

Business continuity management

In April 2005, after public consultation, APRA finalised prudential standards on business continuity management for ADIs and general insurers. The new standards aim to ensure that regulated institutions are able to adequately manage business disruptions arising from internal and external events, taking a 'whole of business' approach appropriate to the nature and scale of their individual operations. The standards came into effect immediately but ADIs and general insurers have a 12-month period in which to identify areas of non-compliance and establish rectification plans.

APRA expects to release a similar standard on business continuity management for life companies in the second half of 2005/06.

General insurance reform

APRA's proposed second round of general insurance reforms, set out in its November 2003 discussion paper, was largely a response to the HIH Royal Commission, which concluded that the prudential framework for general insurers introduced in July 2002 could be strengthened. The discussion paper outlined proposals to revise the existing prudential standards and guidance notes in light of experience and market developments, and to increase disclosure about the activities of general insurers in order to promote market discipline.

APRA received almost 80 submissions in response to these proposals and, following extensive consultation, it has decided to progress the main elements of the reforms in different 'streams':

- consultation in respect of governance is proceeding separately on a harmonised, cross-industry basis;
- proposals relating to capital and other issues will be the subject of consultation over coming months, particularly following release of APRA's discussion paper on the implications of IFRS for regulatory capital;

- disclosure requirements for insurers are being reviewed separately, in the context of international developments; and
- discussion papers on risk and financial management issues raised in the original proposals, and on the supervision of conglomerates involving general insurers, were released in May 2005 for public consultation.

In June 2005, APRA co-hosted a seminar with the Insurance Council of Australia to present APRA's latest thinking on its reform proposals and to hear the views of industry first hand. A similar gathering was held a year earlier.

Risk and financial management

APRA's proposals on risk and financial management deal with issues related to risk management, reinsurance, audit and actuarial arrangements and outsourcing. Amongst other things, the proposals aim to improve the quality of risk and reinsurance management documentation required to be provided to APRA; ensure insurers adequately document reinsurance contracts; introduce strict requirements (including prior approval by APRA) for the use of limited risk transfer arrangements (often referred to as 'financial reinsurance'); and require Approved Actuaries to complete an annual Financial Condition Report on each insurer and have a peer review undertaken of actuarial valuations of insurance liabilities.

Prudential standards and guidance notes on risk and financial management are expected to be released early in 2006 and will apply from the beginning of the insurer's next financial year after release.

Conglomerates

APRA's proposals for the supervision of conglomerate groups involving general insurers, which represent its initial views at this point, are a further response to the recommendations of the HIH Royal Commission. Their focus is contagion risk – the risk that adverse developments in activities conducted by other group members could impact on the soundness of the regulated insurer (or insurers) in the group. The proposed consolidated approach addresses group structures and management, group capital adequacy, reinsurance and risk concentrations at group level, and intra-group exposures. The proposals, which mirror many of the current practices of major general insurers in Australia, aim to achieve a reasonable balance between protecting policyholder interests in the individual insurer and not unduly constraining efficient commercial business practices within the group. The approach builds on APRA's existing framework for the supervision of conglomerate groups involving ADIs.

Subject to consultation, APRA intends to introduce new prudential and reporting standards reflecting the consolidated approach in 2007, with transitional arrangements where necessary.

New Basel Capital Framework

The Basel Committee on Banking Supervision (the Basel Committee) released its updated capital adequacy framework for deposit-taking institutions, known as the Basel II Framework, in June 2004. The Basel II Framework seeks to harness best practices in risk management into the regulatory process and provides more risk-sensitive capital requirements. The Framework has three key elements:

– new and considerably more sophisticated minimum capital requirements, including specific capital charges for operational risk (Pillar 1);

– institutions' own assessment of their capital adequacy and enhanced supervision of capital management (Pillar 2); and

– materially increased disclosure requirements (Pillar 3).

The Basel II Framework will be implemented in Australia from 1 January 2008 through APRA's prudential standards. All ADIs in Australia will be required to adopt the Framework.

The vast majority of Australian banks, building societies and credit unions will use the Basel II standardised approaches in determining their regulatory capital charge. In April 2005, APRA released its draft Basel II prudential standards covering the standardised approach to credit risk and released those relating to operational risk in July 2005. For many ADIs, these two proposed prudential standards are the only Basel II capital adequacy requirements that will apply to them. ADIs will also have to make a number of changes to their risk management and reporting systems but the changes should not be onerous.

ADIs wishing to adopt the more sophisticated approaches available under Basel II will require approval from APRA. Those Australian-owned ADIs wishing to be accredited for these approaches from 2008 will have to apply to APRA by 30 September 2005. Subsidiaries of foreign-owned banks are on a different timetable and, in any event, APRA will delay its decision until the position of the parent is determined. APRA's proposed prudential standard for the internal ratings-based (IRB) approach to credit risk was released in July 2005 and a proposed prudential standard for the advanced measurement approaches (AMA) to operational risk will be released later in 2005. APRA has written to the Australian-owned ADIs wishing to be accredited for the more sophisticated approaches setting out its expectations about how the use of risk-based capital and associated risk-adjusted performance measurement should permeate the management of the ADI's business.

The adoption of the more sophisticated approaches will be challenging for ADIs and for prudential regulators. The use of AMA for operational risk illustrates these challenges. Analytical approaches for operational risk are still evolving and the Basel II Framework does not specify an approach or distributional assumptions to be used to generate the measure of operational risk for regulatory capital purposes. APRA is working closely with those Australian-owned ADIs proposing to adopt the AMA to ensure that suitable methodologies are put in place. It is also working closely with other prudential regulators to ensure that the quantum of capital allocated by parent banks to their Australian subsidiaries for operational risk is appropriate.

In its 2004 Report, APRA confirmed that it will adopt a cautious approach to agreeing to reductions in regulatory capital associated with the more sophisticated Basel II approaches. One particular reason is that, in more accurately calculating credit risk, ADIs' Pillar 1 calculations will not provide capital as a buffer against the myriad of other risks to which they are exposed, as the existing Capital Accord does. These include liquidity, residual securitisation risks and business and strategic risks. As a consequence, APRA is increasing its focus on Pillar 2, the supervisory review process, which requires ADIs to set aside capital for their overall risks and to address those risks not fully captured under Pillar 1. APRA will address these issues in its Pillar 2 draft prudential standard.

APRA is committed to using the mechanisms available in the Basel II Framework to ensure that ADIs have a capital strategy that takes into consideration the potential fluctuations of capital through the economic cycle and that builds up additional buffers of capital, through the 'good' part of the cycle, against those fluctuations. APRA's work in this area will extend beyond the release of its Pillar 2 draft prudential standard.

The application of the Basel II Framework to internationally operating banks will require close cooperation and coordination between home and host supervisors, in part because both supervisors will have to provide a Pillar 1 and Pillar 2 assessment. To this end, home and host supervisors have been establishing 'supervisory colleges' to undertake case studies of individual institutions. APRA is participating in these colleges as both a host supervisor (for the Australian subsidiaries of foreign banks) and as a home supervisor (for Australian-owned banks with subsidiaries in other countries). The need for close cooperation and coordination is particularly relevant for APRA and the Reserve Bank of New Zealand (RBNZ), since the four largest banks in New Zealand are now owned by Australian banks. Under a Terms of Engagement signed in March 2005, APRA and the RBNZ have agreed on high-level principles for the cross-border implementation of Basel II in Australia and New Zealand. The aim is to ensure that the approaches to regulatory capital adequacy requirements in each jurisdiction are harmonised and mutually consistent to the extent possible. In this context, APRA and RBNZ are implementing a program of regular staff secondments for their respective institutions to improve their respective supervisory capabilities.

International Financial Reporting Standards (IFRS)

Australia has adopted the Australian equivalents of IFRS from 1 January 2005, a reform which impacts in a number of ways on APRA's prudential and reporting standards for its regulated industries, other than superannuation. APRA has made clear its objective to align its standards with Australian accounting standards and principles to the extent practicable, but there will inevitably be points of departure. APRA's prudential framework and supervisory approach is forward looking and primarily risk-based, while accounting standards primarily focus on verification and reporting of past transactions and events.

In November 2004, APRA released an overview paper on the prudential implications of IFRS, which are likely to be most significant for ADIs. This paper was followed by two discussion papers. The first, in February 2005, dealt with a number of specific IFRS-related changes to Australian accounting standards; the second, in August 2005, outlined APRA's proposal to 'de-couple' its prudential framework from Australian accounting standards in the areas of regulatory capital and securitisation. This paper also proposed refinements to APRA's approach to the treatment of instruments qualifying as regulatory capital. Consultations on both papers are continuing and APRA does not expect to make any changes to prudential and reporting standards consequent on IFRS before 1 January 2006.

APRA is liaising with the Financial Reporting Council, the Australian Accounting Standards Board, the Australian Auditing and Assurance Standards Board, professional accounting bodies and overseas regulators on a range of accounting and auditing matters to do with IFRS. APRA has also been invited to participate in the Basel Committee's Accounting Task Force, which is assessing the implications of IFRS for prudential regulation.

Home loan risk-weighting

In September 2004, APRA released revised criteria for ADIs governing the eligibility of residential mortgage lending for concessional risk-weighting for capital adequacy purposes. In APRA's view, the existing prudential standard did not address recent product innovations in mortgage lending, such as 'low doc' loans and loans originated via mortgage brokers and other third-party channels.

The revised criteria, introduced after consultations with industry, ensure that the concessional 50 per cent risk-weight applies only to residential mortgage lending by ADIs which have adequate procedures to gauge the ability of the borrower to meet repayment obligations and to assess independently critical information on the borrower. Mortgage lending where ADIs do not verify the borrower's servicing ability require a higher equity contribution by the borrower, or need to be fully mortgage insured with an acceptable lenders mortgage insurer (LMI), before such loans qualify for the concessional risk-weight.

The revised prudential standards came into effect from 1 October 2004.

Lenders mortgage insurance

APRA's housing loan stress test in 2003 confirmed that a significant proportion of ADI counterparty default risk for housing loans is transferred to LMIs. Subsequent stress testing of LMIs and a broader review of LMIs – covering reinsurance arrangements, parental support, reporting requirements and relationships with ADIs – highlighted a number of deficiencies in these areas. These included inadequacies in regulatory capital requirements and reporting to APRA, inconsistencies in prudential supervision of LMIs and ADIs and possibly ineffective risk transfer arrangements.

APRA released a discussion paper in August 2004 proposing an improved capital framework for LMIs. The core elements of the framework were a new, more risk-sensitive regulatory capital model and a significant increase in minimum regulatory capital requirements. APRA also proposed a tightening of the prudential rules governing the concessional 50 per cent risk-weighting available to ADIs on mortgage-insured loans. After submissions from industry on these matters, APRA released a second discussion paper in February 2005 which refined its intended prudential approach. The revised proposals sought to make LMI capital requirements more appropriately aligned to risk and to reduce inconsistencies in the prudential regulation of LMIs and ADIs, ensuring that similar risks are treated in a similar manner.

Consultations on APRA's LMI proposals have been completed and revised prudential and reporting standards will come into effect from 1 January 2006.

Purchased payment facilities

In May 2005, APRA released a draft prudential standard and authorisation guidelines for providers of purchased payment facilities or PPFs, a new class of ADI. PPFs are new forms of payment instruments such as stored-value cards and internet-based payment systems ('electronic purses'). APRA's proposed approach seeks to balance the need to protect the customers of PPFs with the objective of supporting the development of a competitive and innovative financial system. The draft proposals require PPFs to obtain an authorisation limited to providing PPF business; meet ADI prudential standards on governance, fitness and propriety, outsourcing, business continuity management and auditing requirements; and meet a simplified capital adequacy framework if the PPF also has stored value at risk. The proposals will be finalised in the second half of 2005.

Financial Sector Assessment Program

In April 2005, the Treasurer announced that the IMF and World Bank will conduct a Financial Sector Assessment Program (FSAP) in relation to Australia. APRA is participating in the program, which will be carried out during 2005/06.

Resilient, well-regulated financial systems are essential for the maintenance of macroeconomic and financial stability in a world of increased capital flows. The FSAP is an assessment by international experts of the stability of financial systems in individual countries. It provides a rigorous and comprehensive analysis of a country's financial soundness, governance and regulatory infrastructure. To date, FSAP assessments have been undertaken in over 100 countries.

The program involves an assessment of Australia's observance of various financial sector codes and standards, and consideration of issues such as any risks to macroeconomic stability stemming from the financial sector and the capacity of the sector to absorb macroeconomic shocks. APRA will be involved in the assessment of Australia's supervision of the banking and insurance industries, which will be conducted, respectively, against the Basel Committee's *Core Principles for Effective Banking Supervision* (for banks) and the International Association of Insurance Supervisors (IAIS) *Insurance Core Principles* (for life and general insurance companies). APRA will also be involved in a stress testing exercise to be coordinated by the Reserve Bank of Australia (RBA). This will seek to test the capacity of Australian financial institutions to absorb significant macroeconomic shocks. It will do so by harnessing the modelling capabilities of APRA, the RBA and the Treasury as well as the internal models used by the major financial institutions.

A mission team of international experts is expected to visit Australia late in 2005 to undertake a review of Australia's governance and regulatory framework and to return early in 2006 to finalise work on the stress-testing exercise.

The Australian financial system is strong and compares well internationally. The FSAP can be expected to highlight the strengths of this system, but any recommendations which would strengthen and improve it will receive close attention by the Government.

APRA-regulated institutions

	Number			Assets ($ billion)[1]		
	30 Jun 04	**30 Jun 05**	% Change	30 Jun 04	**30 Jun 05**	% Change
ADIs[2]	247	**236**	-4.5	1,290.9	**1,426.8**	10.5
Banks	52	**51**	-1.9	1,240.9	**1,368.5**	10.3
Building societies	14	**14**	0.0	14.8	**16.3**	10.4
Credit unions	177	**164**	-7.3	31.1	**33.1**	6.4
Other ADIs, including SCCIs	4	**7**	75.0	4.1	**8.8**	115.8
Representative offices of foreign banks	20	**14**	-30.0			
General insurers	142	**133**	-6.3	78.6	**80.0**	1.8
Life insurers	37	**37**	0.0	191.8[3]	**206.2[3]**	7.5
Friendly societies	32	**29**	-9.4	6.0	**6.3**	5.0
Licensed trustees		**6**				
Approved trustees	150	**140**	-6.7			
Superannuation entities	9,980[4]	**8,732[4]**	-12.5	400.6	**467.4**	16.7
Public offer funds	296	**266**	-10.1	257.9	**308.6**	19.7
Non-public offer funds	1,425	**995**	-30.2	134.6	**149.8**	11.3
Small APRA funds	7,843	**7,104**	-9.4	3.1	**3.5**	12.9
Approved deposit funds	258	**222**	-14.0	0.7	**0.6**	-14.3
Eligible rollover funds	15	**15**	0.0	4.3	**4.9**	13.7
Pooled superannuation trusts[5]	143	**130**	-9.1	40.2	**46.7**	16.2
Non-operating holding companies	11	**10**	-9.1			
Total	**10,619**	**9,337**	**-12.1**	**1,967.9**	**2,160.0**	**10.0**

Notes:

1 Asset figures for end June 2005 are based on the most recent returns. Asset figures for end June 2004 have been revised slightly from APRA *Annual Report* 2004 in line with the audited returns received during the year.

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

3 Total life office statutory fund assets backing Australian policyholder liabilities.

4 Does not include uncontactable funds that are in the process of being formally wound-up or transferred to the Australian Taxation Office. As at the end of June 2005, there were 161 such funds, down from 504 funds as at the end June 2004.

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

4

APRA'S SUPERVISORY CAPABILITIES

APRA's initiatives over recent years to build its strength and effectiveness as a prudential regulator have centred on:

- introducing a robust supervisory methodology for identifying and assessing weaknesses in a regulated institution;
- reviewing its supervisory processes to improve the rigour and consistency of its approach;
- building-up its team of experienced and qualified supervisory staff dealing with large and complex financial institutions; and
- enhancing its statistical and research capabilities.

Supervisory methodology

In October 2002, APRA introduced a more sophisticated system for risk-rating regulated institutions and determining the appropriate supervisory response. The risk assessment and supervisory response tools are known as the Probability and Impact Rating System (PAIRS) and the Supervisory Oversight and Response System (SOARS). Under PAIRS, regulated institutions are classified according to the probability that an institution may be unable to honour its financial promises to beneficiaries. APRA assesses the likelihood that an institution could fail over the medium term based on the inherent risk of the institution, balanced by its management and controls and the capital support available. For example, for institutions assessed as having a high-medium risk of failure APRA would expect fewer than 1 in 100 would actually fail in the next 12 months. This assessment is then combined with an assessment of the potential impact of the institution's failure on the financial system, to complete the PAIRS rating.

Under the SOARS system, the risk ratings and impact of an institution help APRA to determine its supervisory response. There are four supervisory stances involving increasing intensity in APRA's involvement, from routine supervision for 'Normal' entities through to vigorous supervisory intervention for entities in the 'Restructure' stance.

SOARS supervisory stance

	Pairs probability rating				
	Low	Medium		High	Extreme
PAIRS impact rating		Low	High		
Extreme	Normal	Oversight	Mandated Improvement	Restructure	Restructure
High	Normal	Oversight	Oversight	Mandated Improvement	Restructure
Medium	Normal	Normal	Oversight	Mandated Improvement	Restructure
Low	Normal	Normal	Oversight	Mandated Improvement	Restructure

By June 2005, around 1,550 entities, accounting for over 99 per cent of APRA-regulated assets, had been PAIRS rated; almost half of these entities have been rated more than once. Of the institutions rated, some 68 per cent were in the 'Normal' stance, 29 per cent were in 'Oversight', two per cent in 'Mandated Improvement' and one per cent in 'Restructure'. This distribution has remained fairly stable over the past two years.

As experience with the PAIRS risk model accumulates, APRA has been assessing its diagnostic value by tracking the 'migration' of institutions between the different supervisory stances. Over the past two years, for example, a much higher proportion of institutions in the 'Mandated Improvement' stance were upgraded rather than downgraded to 'Restructure'; a significant number also exited the industry in an orderly fashion. This provides some confirmation that the PAIRS/SOARS framework has helped to improve the timeliness and effectiveness of APRA's intervention.

APRA Supervision Framework

APRA has undertaken a comprehensive review of its supervisory practices and procedures and has introduced a new framework – the APRA Supervision Framework – to promote greater rigour and consistency in front-line supervision. Although all front-line supervisors base their activities around assessing compliance with APRA's prudential standards and other legal and regulatory requirements, there had previously been no detailed APRA-wide supervisory approach to performing and documenting on-site and off-site activities. The new Framework aims to ensure that APRA supervisors take a consistent and agreed approach irrespective of the size, nature and complexity of the institution supervised.

The major components of the Framework were implemented during 2004/05. The Framework takes a modular approach for each of the regulated industries, as well as for conglomerate groups. The modules for each industry cover the full scope of supervisory assessment, including risk identification and management, capital adequacy and governance. Supervisors of institutions of differing size and complexity have flexibility in applying all or some modules at appropriate times, according to the supervisory visit and assessment cycles relevant to that institution.

The Framework includes procedures, work instructions and resource materials for supervisory activities. Existing supervisory procedures were brought together and adapted under the Framework, but the bulk of the material was written anew.

While providing greater structure around the conduct of supervision, the Framework is not designed to stifle or restrict supervisory judgement and innovation, or the ability to adapt supervision activities to particular cases. Indeed, having recruited staff with many years of industry experience into APRA, it is important that this experience is put to best use to provide practical, rigorous and insightful supervisory assessments tailored to the individual circumstances of the institution concerned.

The Framework has been designed to complement the PAIRS/SOARS risk assessment and supervisory response tools. APRA expects that implementation of the Framework will improve the quality and consistency of the inputs that are used to generate PAIRS ratings.

Other initiatives to improve APRA's supervisory capabilities include a new system for tracking supervisory activity and issues; more robust systems for issuing of statutory instruments; enhanced decision-making procedures which formally involve relevant experts in APRA in certain types of decisions; and, over the coming year, a new electronic document management system.

APRA's staffing

APRA continues to build up its supervisory resources and skills, particularly those required for the supervision of large and complex financial institutions. APRA's supervision of such institutions was exposed by the failure of HIH Insurance Group, and by subsequent international benchmarking, as being under resourced and in the hands of relatively inexperienced supervisory teams.

Rebuilding efforts stepped up in intensity during 2004/05 and, by year end, APRA's staff numbers had risen from a little below 400 when HIH collapsed to around 580 (excluding fixed-term staff for superannuation licensing).

During 2004/05, APRA also changed its organisation structure. Senior management of front-line supervisory divisions were freed-up to concentrate fully on day-to-day supervision and the various specialised risk, industry, technical and enforcement areas which support front-line divisions were brought together in a new division – Supervisory Support Division.

The recruiting program led to an increase of 22 staff in Diversified Institutions Division, which supervises large and complex institutions, and 28 staff in Supervisory Support Division. Staff numbers in Specialised Institutions Division, which supervises all other entities, remained largely unchanged. Although the number of entities they supervise has been reducing, high-calibre staff with extensive experience in the Australian and international financial services sector have joined the core group of seasoned supervisors on which APRA has been built over the past seven years; together, they provide an excellent blend of regulatory knowledge and commercial acumen.

A snapshot of APRA's current staffing shows:

- 20 per cent have come from a predecessor agency;
- the average length of time supervisors have spent in prudential supervision activities (including time with predecessor agencies) is 5.9 years;
- the average years of relevant industry experience of new recruits is 9.2 years, but stretches to over 30 years in individual cases;
- around 95 per cent of supervisory staff have at least one professional qualification and about half of these have additional post-graduate qualifications; and
- the main professional training of APRA staff is accounting, finance and economics, but APRA also has some 26 lawyers, 34 actuaries or actuarial students, and a number of statisticians, mathematicians, risk analysts and finance academics.

APRA staff who resigned during 2004/05 had an average of 3.3 years of prudential supervision experience.

APRA's statistical capabilities

APRA is the central repository of financial sector information in Australia and it collects financial statistics from a wide range of financial institutions, regulated and unregulated. Data on individual regulated institutions are a vital input into risk assessments by APRA supervisors. The data provide early warning of emerging risks, not only within an individual institution but also across industries, which in turn drives supervisory action plans.

APRA also collects extensive data on behalf of the Reserve Bank of Australia and the Australian Bureau of Statistics. The published statistics inform many decision-makers in the Australian financial system – including policymakers, market analysts, researchers and senior management of financial institutions – and ultimately contribute to a more stable, competitive and efficient financial system.

Against that background, APRA has been pursuing a continuous improvement program for the data it collects and the statistics it provides. In 2004/05, APRA introduced a completely new data collection for the superannuation sector, which significantly strengthens APRA's ability to supervise superannuation entities. The previous collection provided information which was limited in coverage and not consistent across entities, and on an annual basis only. APRA therefore had to rely heavily on other information sources to support its supervisory activities. The new collection is more comprehensive – it includes both financial and risk-specific data – and is collected and stored electronically, improving accessibility and comparability of the data across the industry. In addition, APRA now collects information from larger superannuation entities quarterly, as well as annually. APRA has also revamped its superannuation publications: it now provides a quarterly update on the financial performance of larger funds and an annual bulletin covering the overall industry's performance in detail.

APRA has also upgraded its data collections for ADIs, general insurers and registered financial corporations and the associated statistical publications for banking and general insurance. A new general insurance publication provides a regular update on the financial performance of direct insurers and reinsurers.

The improvement program has also considerably enhanced the timeliness and accuracy of data collected across all industries, which are core to astute and timely risk assessments of regulated entities. Over 90 per cent of returns from regulated entities are now consistently submitted by the statutory due dates, with the remainder usually submitted within the following week. Only a few years ago, compliance with lodgment dates ranged from as little as 20 per cent up to no more than 80 per cent across the regulated sectors.

Two other major priorities for APRA's statistics unit over 2004/05 were the introduction of the National Claims and Policies Database (NCPD) on public liability and professional indemnity insurance, and the adoption of International Financial Reporting Standards (IFRS). These two developments have been discussed earlier in this Report. APRA is working with regulated institutions to ensure a smooth transition to the new prudential reporting requirements that will flow from IFRS.

APRA's research capabilities

APRA has a small but highly qualified applied research team whose aim is to identify medium- to long-term risk issues that have the potential to impact upon policymaking, risk assessment and prudential supervision. The work of the team is typically industry-wide, rather than entity-focused, and involves in-depth analysis of a particular risk issue or theme.

In the prudential policy area, research that was undertaken in 2003 as part of a stress test of the resilience of ADI balance sheets to a housing market correction formed the basis for policy development in the area of lenders mortgage insurance. It also influenced the design of proposed housing loan risk-weights under the standardised approach to credit risk in the Basel II Framework.

In the context of the new choice of fund regime in superannuation, the team, working with the Retirement Incomes Modelling Unit of the Treasury, conducted a pilot survey of superannuation fund trustees in 2004/05. The pilot survey examined the investment performance and trustee behaviour of large superannuation funds. With the knowledge gained from the pilot survey, an improved and extended survey is planned for the second half of 2005/06.

Over 2004/05, on-going research has examined, among other things, market discipline in Australian banking, on-balance-sheet interest rate risk in ADIs, measures of risk in general insurance and statistically based early warning models in general insurance and banking. In addition, three papers have been accepted for publication in peer-reviewed journals and a working paper, summarising the stress testing project, was presented at the Basel Committee's 2005 Workshop on Applied Banking Research in Austria.

5

COOPERATION AND LIAISON

Cooperation and liaison

APRA has extensive links with other regulatory agencies, domestic and international, and with industry groups and other bodies with an interest in prudential matters. Domestically, these links help to ensure that APRA's consultations with relevant stakeholders on the evolution of the prudential framework are as comprehensive as possible. Internationally, as globalisation of financial systems continues apace, cooperation and liaison are important in promoting harmonisation of international regulatory regimes, in identifying and addressing new areas of risk and in supplementing APRA's prudential oversight of internationally active financial institutions.

Australia

APRA is one of three independent statutory agencies which, together, administer the regulation of the financial sector in Australia. The other two agencies are the Reserve Bank of Australia (RBA), which has responsibility for monetary policy, stability of the financial system and payments system regulation, and the Australian Securities and Investments Commission (ASIC), which has responsibility for administration of the Corporations Law, disclosure and market conduct of Australian companies and financial services providers, and direct consumer protection in the financial system.

Cooperation between these three agencies takes place, at the highest level, through the Council of Financial Regulators, which now includes the Treasury as a member. The Council operates as a forum for discussing regulatory issues and sharing information and views. Its main focus is to ensure that there are appropriate arrangements between the members for coordinating their activities in response to pressures, and to advise the Government on the adequacy of Australia's financial system regulatory architecture in light of ongoing developments. Over the past year, matters considered by the Council have included developments in the housing market, failure and crisis management and the role of financial claims compensation schemes, Trans-Tasman banking regulation, resilience of the payments system and financial fraud.

APRA also meets regularly with the individual Council members under the terms of relevant Memoranda of Understanding (MOU). Over the year, meetings of the RBA/APRA Coordination Committee considered general credit conditions, lending standards, statistical issues and issues raised in various international fora. High-level meetings between APRA and ASIC discuss a wide range of matters relating to financial institutions regulated by both agencies; there are separate meetings to cover operational matters and enforcement issues. A particular focus of cooperative effort in 2004/05 was the review of unit pricing practices in life companies, superannuation providers and funds managers, which culminated in the release of a consultation paper on proposed guidance for good practice in unit pricing. Other topics on which the two agencies worked together or shared information were transfer of business guidelines, the adoption of international financial reporting standards and the new choice of fund regime in superannuation.

APRA and the Treasury work closely on development of the financial regulation framework and on associated legislative changes. Issues which received specific attention during 2004/05 included Discretionary Mutual Funds and Direct Offshore Foreign Insurers, Trans-Tasman banking regulation and Australia's participation in the IMF/World Bank's Financial Sector Assessment Program (see page 13).

APRA also meets regularly with various official and industry organisations. The former include the Financial Reporting Council, the Australian Accounting Standards Board and the Australian Auditing and Assurance Standards Board. International financial reporting standards continued to be a major item for discussions with these bodies. APRA formalised an MOU with the Financial Reporting Council during the year. APRA also liaises with the Private Health Insurance Administration Commission (PHIAC) and with State regulatory bodies for compulsory third-party (CTP) insurance. Industry organisations include the Australian Bankers' Association, Credit Union Services Corporation (Australia) Limited, the National Credit Union Association, the Australian Association of Permanent

Building Societies, the International Banks and Securities Association, the Australian Finance Conference, the Insurance Council of Australia, the Investment and Financial Services Association, the Corporate Superannuation Association and the Association of Superannuation Funds of Australia. APRA also liaises with professional associations and institutes such as those for accountants, actuaries, auditors, directors, financial planners, managers, trustees and custodians. APRA's regional offices have wide-ranging liaison programs with regional offices of ASIC, industry bodies and professional associations.

International liaison

The globalisation of financial activity, the spread of internationally active financial services firms and the risks of financial disturbances being transmitted across national boundaries have added impetus to efforts by prudential regulators and others to strengthen the international financial architecture and improve information-sharing with their peers on developments in risk analysis and management. Against this background, APRA has been active in developing arrangements for the effective exchange of information with overseas regulators. Over 2004/05, APRA signed MOUs with the Hong Kong Monetary Authority, the China Banking Regulatory Commission and the German integrated regulator BaFin; in August 2005, it also signed an MOU with the Office of Thrift Supervision in the United States. Discussions on MOUs continue with a number of other prudential regulators.

APRA is also actively involved in a range of international groups and fora which are pursuing reforms to international regulatory frameworks. These include:

- International Association of Insurance Supervisors (IAIS). This group is mainly responsible for establishing an international framework for insurance supervision, including core principles, standards and guidance papers. A current focus is developing a risk-based solvency framework for insurers, drawing in important ways on the approaches already adopted in Australia. The IAIS is also working with the International Accounting Standards Board (IASB) on insurance liability valuation, and reviewing the supervision of reinsurance business. An APRA executive is chair of the IAIS Technical Committee, which has overall responsibility for the development of IAIS principles, standards and guidance papers; its work over the year covered disclosure, finite reinsurance (often referred to as 'financial reinsurance'), credit risk transfer, supervision of financial conglomerates and insurance fraud. APRA is also active in IAIS sub-committees, most notably Solvency and Actuarial Issues (dealing mainly with the development of an internationally agreed solvency framework as well as standards on suitable forms of capital, internal models and asset/liability management) and Insurance Contracts (dealing with the measurement of life and general insurance liabilities under international financial reporting standards and the integration of accounting and prudential approaches).
- Basel Committee on Banking Supervision. Australia is not a member of this Committee but APRA is represented on a number of groups established under its auspices. These include the Core Principles Liaison Group (CPLG) and its Working Group on Capital, which are major vehicles for consultation between the Basel Committee and non-member countries. The Basel II Framework continued to be the main topic for these groups during 2004/05; the CPLG also contributed to a redrafting of the Core Principles for Effective Banking Supervision. The Overall Capital/Quantitative Impact Study Working Group assesses the practical impacts of the Basel II Framework and aims to ensure that these impacts are well understood. It is currently preparing for a fifth quantitative impact study to be undertaken during 2005/06. The Basel Committee has established the Accord Implementation Group to address implementation issues. APRA is a member of the Validation and Operational Risk subgroups, which are examining issues relating to the validation of banks' credit and operational risk estimates that will be used as inputs under Basel II; the Validation subgroup has also issued high-level principles on validation.

During the year, APRA was invited to participate as observer on the Basel Committee's Accounting Task Force, which is assessing the impact of key international financial reporting standards on prudential regulation.

- Joint Forum. APRA and ASIC represent Australia on the Joint Forum, which brings together the IAIS, the Basel Committee and the International Organisation of Securities Commissions (IOSCO) to deal with issues of common interest across banking, securities and insurance sectors. Recent work of the Joint Forum includes a detailed review of credit risk transfer activity and a report on outsourcing standards and practice (this subgroup was chaired by Australia), while current projects include a study of regulatory and market differences across sectors, liquidity risk management across geographies and sectors, and crisis management/business continuity planning. During the year, APRA and ASIC hosted a meeting of the Joint Forum in Sydney.
- International Organisation of Pension Supervisors (IOPS). This body, representing supervisors of private pension systems, was formed in July 2004 with assistance from the OECD, and with expectations that it will become a global standards setter for the pensions industry. APRA is on the foundation board of IOPS and a member of the Technical Committee, and intends to play an active part in areas such as licensing of pension funds, risk rating and the development of supervision methodologies. APRA is also committed to supporting the Asia-Pacific regional activities of IOPS.
- International Actuarial Association (IAA). The IAA's responsibilities include the setting of minimum requirements for national actuarial bodies to be recognised internationally and the development of technical guidance relating to common areas of individual actuarial practice. Senior APRA staff have representative roles on IAA committees on behalf of the Institute of Actuaries of Australia (IAAust). One staff member is the Chair of the Professionalism Committee, which has been considering the Morris Review of the actuarial profession in the United Kingdom and developments in peer review. Staff are also involved in the Insurance Regulation Committee (providing input to the work of the IAIS on an insurance solvency framework) and the Accreditation Committee (reviewing applications by associations to become members of the IAA and the adherence of existing associations to the IAA's requirements, including education requirements).

APRA meets annually with integrated supervisory agencies from a number of countries to discuss issues arising out of the integrated supervisory model. At the seventh such conference, in June 2005, the subjects considered included regulatory powers; external scrutiny, accountability and direction; performance measurement; identifying, managing and resolving conflicts of interest; and financial sector education.

APRA undertakes a range of activities in the Asia-Pacific region targeted at development of financial sector regulatory architecture and capacity building for domestic prudential supervisors. Recently, much of this assistance has been provided as part of Australian Government initiatives to improve governance in the region, with funding by AusAid. Under the Pacific Governance Support Program, APRA staff have been providing assistance and training to Papua New Guinea in on-site supervision of pension funds. Other Pacific countries (Fiji, Samoa, the Solomon Islands and Vanuatu) are also participating. As part of the Program, APRA is also providing a series of tailored inward secondments for regional supervisors, involving five staff over 2005 – three from Papua New Guinea and one each from Fiji and Vanuatu, extending earlier secondment programs agreed bilaterally. Under the Government Partnership Fund with Indonesia, APRA is looking to provide on-site assistance to develop a risk-based supervisory framework in Indonesia and to accept a number of staff secondments from the Directorate

General of Financial Institutions. APRA also hosted a staff secondment from the China Banking Regulatory Commission and secondments from other regional supervisors are in the pipeline. During 2004/05, APRA also provided expert assistance to Fiji (credit risk assessment of banks and pension arrangements) and to Mexico (supervision of rapidly growing non-banks), assistance funded in both cases by the IMF.

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), which brings together central banks and monetary authorities within the region. The Working Group provides a forum to discuss regional financial and prudential developments, including implementation of the Basel II Framework, and facilitates a number of training initiatives. APRA represents Australia as an observer to the Association of Financial Supervisors of Pacific Countries (AFSPC), formed through an initiative of the Pacific Central Bank Governors in late 2002. Among other things, this Association facilitates cooperation and information sharing, promotes capacity building and adoption of international standards and practices, and gives an international voice to Pacific supervisors. APRA is also a member of the South-East Asia New Zealand Australia (SEANZA) Forum of Banking Supervisors, the South-East Asian Central Banks (SEACEN) Conference of Directors of Supervision and it attends various APEC policy dialogues and symposia. It has continued to provide expert presenters to programs arranged by the Australian APEC Study Centre attached to Monash University and programs organised by the SEACEN Institute and the Financial Stability Institute.

During the year, APRA hosted visits from around 100 international delegations, 60 per cent above the number the previous year. For visitors from OECD and regional regulatory agencies, the main topics of interest were APRA's functions and operations (especially its approach to risk-based supervision), prudential policy developments and the operations of active cross-border financial institutions. Government and government agencies, private sector organisations and multilateral institutions were also regular visitors. Around half of the visits were from emerging market economies, particularly China.

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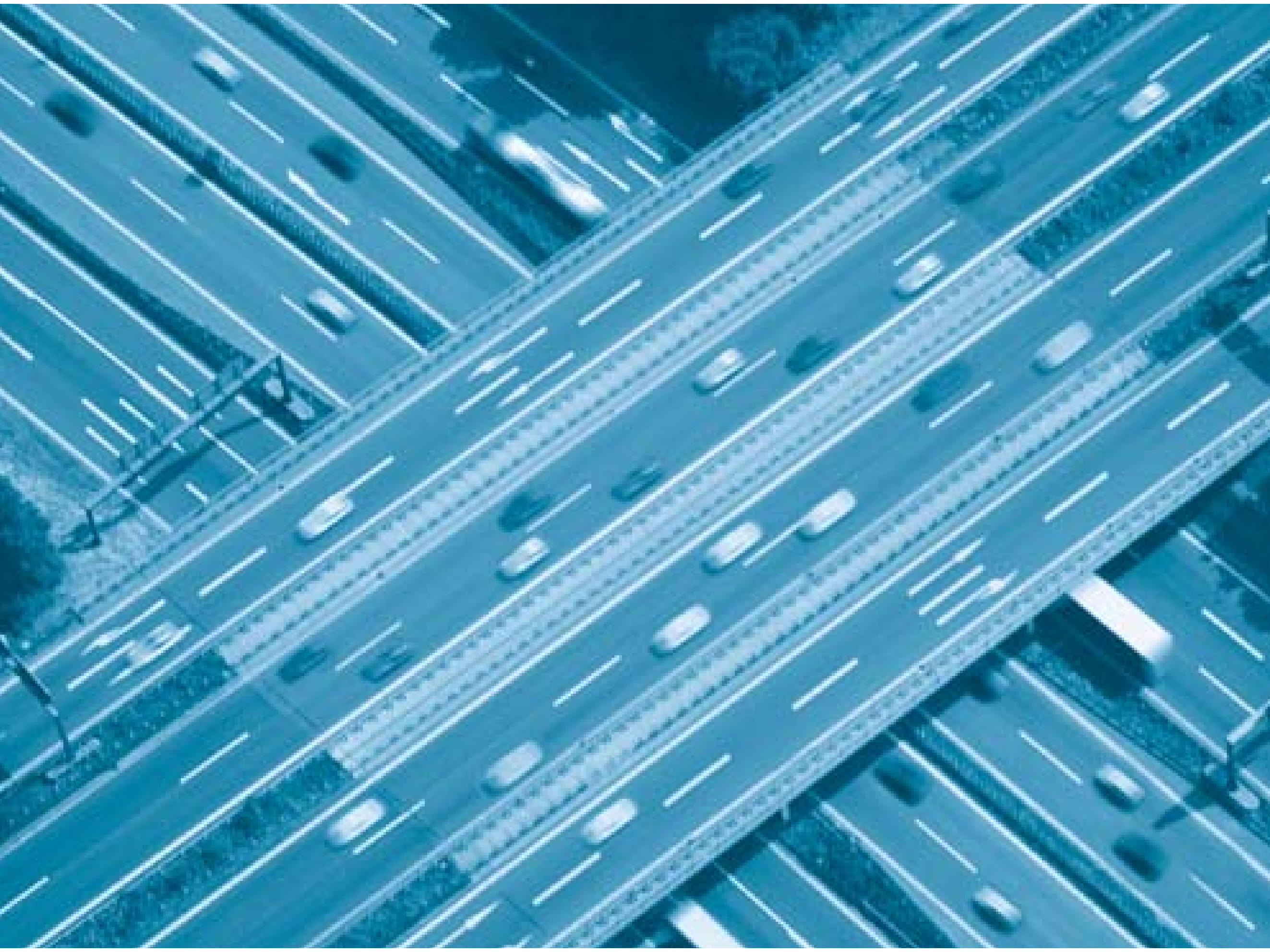

APRA'S COSTS AND PERFORMANCE

APRA's expenditure is devoted, directly or indirectly, to enhancing and implementing the prudential framework in Australia and to its ongoing prudential supervision and enforcement activities. Its income comes mostly from annual levies on supervised entities.

FINANCIAL PERFORMANCE

APRA's expenditure

APRA's total operating expenditure in 2004/05 was $82.0 million. This included costs of $2.7 million in relation to the HIH Royal Commission, for which separate appropriations were received in 2001/02 and 2004/05, and costs of $1.1 million which are covered by additional revenue sources. Excluding these amounts, operating expenditure was $78.2 million, compared with the budget of $81.6 million.

The table shows the trend in net operating expenditure on prudential regulation and in APRA staff levels over the past five years. The numbers have been adjusted for items that do not form part of APRA's normal activities.

Operating expenditure and staff trends

	$ million	Average staffing level[2]
2000/01	52.5	396
2001/02	55.8	407
2002/03	62.7	457
2003/04	71.5	496
2004/05	78.2	532
2005/06 (budgeted)	92.1	589

The running costs of APRA have risen from 2001/02 onwards as a consequence of more intensive supervision activities, a rebuilding of APRA's supervisory staff levels and an active program to upgrade the prudential framework. This trend will continue in 2005/06.

[1] APRA received an annual appropriation of $4 million in 2001/02 specifically for the costs of the HIH Royal Commission. In addition, $2 million was appropriated in 2004 for further work on following up the recommendations of the Royal Commission. The appropriations have been spent over a number of years and will continue into 2005/2007.

[2] For 2000/01 the figures are full-time equivalent staff at 30 June. Figures for subsequent years are average headcount over the year.

APRA's income

APRA is funded primarily from levies collected from supervised financial institutions, with a contribution from interest on funds invested, fees for services and miscellaneous cost offsets. Included within revenue in 2004/05 is the separate appropriation of $2.0 million from the Government in relation to the HIH Royal Commission and $0.5 million of fees received from applications for a superannuation licence.

Levies are raised according to the *Financial Institutions Supervisory Levies Collection Act 1998* and six other Acts applying to the main industry sectors. Prior to the beginning of each financial year, the Minister announces the levy determinations for each industry sector with a rate to be applied on assets, subject to a minimum and maximum amount per institution, except for non-operating holding companies that are levied at a flat rate. The levies collected by APRA also cover some costs of the Australian Securities and Investments Commission and the Australian Taxation Office. The process includes detailed consultation with the main industry groups and with Treasury. Levies are based on industry sectors. The total levies collected by APRA for all three agencies in 2004/05 were $97.1 million, compared with the plan of $96.9 million.

APRA's total revenue from ordinary activities in 2004/05 was $86.1 million. After adjusting for HIH Royal Commission funding and additional revenue to cover specific costs, net revenue was $83.0 million, compared with the original budget of $80.7 million.

Reserves

APRA had an operating surplus from ordinary activities of $4.1 million in 2004/05. This has increased accumulated reserves to $9.5 million. During the year, APRA returned an amount of $2.1 million from a 2001/02 annual appropriation, in accordance with the conditions under which it was appropriated. The repayment reduced contributed equity by that amount.

BUSINESS PLANNING AND PERFORMANCE

The primary business outcome of APRA is to protect beneficiaries and to enhance public confidence in Australia's financial institutions through a framework of prudential regulation, which balances the objectives of financial safety and efficiency, competition, contestability and competitive neutrality. Key strategies have been identified that will achieve this business outcome in a cost-effective manner.

The business plan is organised into six Key Result Areas (KRAs). They are:

- supervision, enforcement and rehabilitation;
- policies, standards and guidelines for prudential supervision;
- prudential advice, covering relations with Government, Parliament and other interested parties;
- resources;
- infrastructure to support operations; and
- accountability.

Three of the KRAs align with the APRA outputs of surveillance, policy development and prudential advice, which are described in the budget papers. Operating expenditure under the remaining three KRAs – resources, infrastructure and accountability – is allocated to these outputs. The estimated percentage distribution of APRA's operating expenditure across its main outputs in 2004/05 is shown below. The allocation of outputs is shown in Note 25 to the *Financial Statements*.

– supervision, rehabilitation and enforcement	80 per cent
– development of prudential policies and standards	16 per cent
– prudential advice	4 per cent

APRA publishes two measures that provide a general quantitative indicator of its supervisory performance:

- the Performing Entity Ratio (PER), which is the number of APRA-regulated institutions which 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.

No prudential regulator can guarantee against failures of financial institutions. Rather, APRA strives to ensure that prudential failures are rare, small in terms of dollar losses and identified early enough so that appropriate wind-up or other exit strategies can be set in train. Since APRA's inception in 1998, the PER has averaged 99.94 per cent annually and the MPR, which is dominated by the losses associated with HIH, has averaged 99.92 per cent annually.

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	877,172	99.91	99.99
2000	3	308	4,406	993,949	99.93	99.97
2001	4	5,338[4]	4,350	1,043,111	99.91	99.49
2002	1	0	3,803	1,009,533	99.97	100.00
2003	4	6	3,252	1,066,993	99.88	99.99
2004	0	0	2,745	1,209,032	100.00	100.00
2005	0	0	2,099	1,350,532	100.00	100.00

[1] Failures exclude failures due to employer sponsors in superannuation funds. Failures also exclude unresolved cases. If the unresolved cases later become failures, the prior year measurements are changed accordingly.

[2] The number of institutions excludes Small APRA Funds and representative offices of foreign banks.

[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 $2,160 billion at end June 2004.

[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.

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GOVERNANCE

Governance structure

APRA's governance structure comprises a full-time Executive Group of at least three and no more than five members. The Executive Group is responsible and accountable for the operation and performance of APRA.

APRA has the dual role of regulating bodies in the financial sector and developing the administrative practices and procedures to be applied in performing that regulatory role. 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.

APRA's responsibilities include the development of regulatory and supervisory policies relating to the performance of its role as prudential regulator, including the making of prudential standards under relevant legislation.

The Executive Group 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. It also holds management group meetings with APRA's senior management at least weekly for high-level information sharing and decisions on more routine supervisory and organisational matters.

Members' attendance at Executive Group meetings from 1 July 2004 to 30 June 2005

	Meetings	Attended
John Laker	15	15
Ross Jones	15	15
Steve Somogyi	15	15

Risk Management and Audit Committee

APRA has a Risk Management and Audit Committee that provides independent assurance and assistance to APRA's Executive Group on APRA's risk management and compliance framework and its external accountability responsibilities.

The Committee comprises an external chair (with casting vote), one external member, one member of APRA's Executive Group and one Executive General Manager (on a one-year rotation). In addition, regular attendees at committee meetings are the General Manager – Risk Assessment and Internal Audit, the Chief Financial Officer and a representative of the Australian National Audit Office. The Chairman of APRA may attend by invitation.

During 2004/05, the members of the Committee were:

Ms Elizabeth Alexander AM
Chair
BCom (Melb), FCA, FCPA, FAICD

Ms Alexander, who has been appointed as Chair of the Committee for a five-year period, is a non-executive director of Amcor, Boral, CSL and DB RREEF and an advisor to Blake Dawson Waldron. Ms Alexander is a former National President of the Australian Institute of Company Directors and of CPA Australia. She is a member of the Takeovers Panel and the Financial Reporting Council. A former partner of PricewaterhouseCoopers, she specialised in risk management and corporate governance issues.

Mr Norbury Rogers AO
External member
BCom (Qld), AAUQ, FCA, FAICD

Mr Rogers, who has been appointed for a five-year term, is a Chartered Accountant and Company Director and is a Senior Consultant to Ernst and Young, having spent many years as its Managing Partner and Senior Partner. Mr Rogers has a portfolio of directorships including Chairman of Golden Casket Lottery Corporation Limited and UniQuest Pty Limited. He is a non-executive director of Magellan Petroleum Australia Ltd.

Mr Steve Somogyi
APRA member

Mr Charles Littrell (from June 2004 to November 2004)
Executive General Manager – Policy, Research and Statistics

Mr Brandon Khoo (from November 2004)
Executive General Manager – Specialised Institutions

Attendance at Risk Management and Audit Committee meetings from 1 July 2004 to 30 June 2005

	Meetings	Attended
Elizabeth Alexander	4	4
Norbury Rogers	4	4
Steve Somogyi	4	4
Charles Littrell	2	2
Brandon Khoo	2	2

Risk Assessment and Internal Audit

The Risk Assessment and Internal Audit unit plays an important role in APRA's corporate governance, assurance and compliance framework. Previously provided on an outsourced basis, the unit has operated as an in-house function since June 2004.

The unit assists APRA members and senior management to identify and address risks facing APRA by providing them and APRA's Risk Management and Audit Committee with summaries of high and significant risks at organisational and divisional levels. Risk management strategies to mitigate these risks are also developed and documented as part of the organisation's risk profile. Risks and strategies are re-assessed on a regular and planned basis.

Risk assessment and internal audit staff utilise an ongoing process consistent with the Australia/New Zealand standard on risk management (AS/NZS 4360:1999). Regular risk profile and audit reports to senior management and the Risk Management and Audit Committee provide risk identification and analysis and associated risk management strategies and action plans. During the reporting period, a program of independent internal audits approved by the Executive Group and endorsed by the Risk Management and Audit Committee was conducted, providing ongoing assurance regarding the organisation's key areas of internal control. The program covered specific aspects of APRA's supervisory and operational processes and its financial systems, and included reviews of both internal and external compliance.

Fraud risk management is an ongoing focus within APRA with fraud control reviews and training undertaken as part of the unit's 2004/05 work program, as was the revision of APRA's Fraud Control Plan. There were no incidents of fraud reported for the year.

APRA members

Dr John Laker
Chairman and Member
BEc (Hons 1) (Syd), MSc PhD (London)

Dr Laker was appointed as a Member and Chairman of APRA for a five-year term, commencing 1 July 2003.

Dr Laker worked in the Commonwealth Treasury and International Monetary Fund before joining the Reserve Bank of Australia (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. On his return to Australia, Dr Laker took up the position of Assistant Governor (Corporate Services) and, in 1998, was appointed Assistant Governor (Financial System) and Deputy Chair of the RBA's Payments System Board. Dr Laker is APRA's representative on the Payments System Board and on the Council of Financial Regulators.

Mr (Kerry) Ross Jones
Deputy Chairman and Member
BA, MCom (Newcastle)

Mr Jones was appointed as a Member and Deputy Chairman of APRA for a five-year term, commencing 1 July 2003.

Mr Jones held the position of Commissioner at the Australian Competition and Consumer Commission (ACCC) with responsibilities for mergers and acquisitions and telecommunications. Mr Jones has worked as an economic consultant to the private and public sector and undertaken extensive work with the ACCC, the Trade Practices Commission and the Prices Surveillance Authority, as well as with a number of competition authorities overseas. Mr Jones is an Associate Professor in the School of Finance and Economics at the University of Technology Sydney (UTS). He was also the Chairman of the International Air Services Commission until the end of his term in August 2003.

Mr Steve Somogyi
Member
MSc (Melb), SM (MIT), FIAA,
FIA (UK), ASA (USA), FAICD

Mr Somogyi was appointed as a Member of APRA for a three-year term, and took up his position in September 2003.

Mr Somogyi has over 30 years experience in the financial services and health care industries, including 27 years with National Mutual in the roles of Chief Manager for New Zealand, Associate Director – Operations and Chief Finance Executive. Since 1998, he has held a number of positions including Chief Financial Officer of Mayne Nickless Limited and Chief Executive Officer of CPI Group Limited.

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Statement by Members

In our opinion, the attached financial statements for the year ended 30 June 2005 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 *Commonwealth Authorities and Companies Act 1997*.

In our opinion, at the date of this statement, there are reasonable grounds to believe that the Authority will be able to pay its debts as and when they become due and payable.

Dr John F. Laker
Chairman
19 August 2005

Mr K. Ross Jones
Deputy Chairman
19 August 2005

Mr Steve Somogyi
Member
19 August 2005

FINANCIAL STATEMENTS

Statement of Financial Performance for the year ended 30 June 2005

	Note	2005 $'000	2004 $'000
Revenue			
Revenues from ordinary activities			
Revenue from Government	6A	**79,188**	70,309
Goods and services	6B	**2,913**	2,345
Interest	6C	**2,216**	1,731
Revenue from sale of assets	6D	**–**	9
Revaluation decrement reversal	6E	**274**	–
Rental recoveries		**492**	970
License fees and other charges	6F	**959**	411
Insurance recoveries and other revenue	6G	**59**	523
Revenues from ordinary activities		**86,101**	76,298
Expenses			
Expenses from ordinary activities			
Employees	7A	**53,051**	46,918
Suppliers	7B	**25,061**	23,054
Depreciation and amortisation	7C	**3,869**	3,956
Write-down of assets	7D	**45**	275
Value of assets sold	7E	**21**	28
Expenses from ordinary activities		**82,047**	74,231
Operating surplus from ordinary activities	12	**4,054**	2,067
Net credit to asset revaluation reserve	12	**741**	(105)
Total revenues, expenses and valuation adjustments recognised directly in equity		**741**	(105)
Total changes in equity other than those resulting from transactions with the Australian Government as owner		**4,795**	1,962

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

Statement of Financial Position as at 30 June 2005

	Note	2005 $'000	2004 $'000
Assets			
Financial assets			
Cash	8A, 20B	**15,024**	18,633
Receivables	8B, 20B	**2,991**	3,079
Investments (section 18 CAC Act)	8C, 20B	**9,919**	–
Total financial assets		**27,934**	21,712
Non-financial assets			
Infrastructure, plant and equipment	9A,C	**5,107**	4,073
Intangibles	9B,C	**4,869**	5,392
Other non-financial assets	9D	**519**	581
Total non-financial assets		**10,495**	10,046
Total assets		**38,429**	31,758
Liabilities			
Payables			
Suppliers	10A, 20B	**3,569**	4,600
Other payables	10B, 20B	**214**	65
Revenue in advance	10C, 20B	**148**	1,061
Total payables		**3,931**	5,726
Provisions			
Employees	11A	**15,392**	13,072
Property	11B	**2,358**	1,907
Total provisions		**17,750**	14,979
Total liabilities		**21,681**	20,705
Net Assets		**16,748**	11,053
Equity			
Contributed equity	12	**6,155**	5,255
Reserves	12	**1,123**	382
Accumulated surpluses	12	**9,470**	5,416
Total equity	12	**16,748**	11,053
Current assets		**28,453**	22,293
Non-current assets		**9,976**	9,465
Current liabilities		**13,098**	13,420
Non-current liabilities		**8,583**	7,285

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

Statement of Cash Flows for the year ended 30 June 2005

	Note	2005 $'000	2004 $'000
Operating activities			
Cash received			
Revenue from Government		**79,885**	70,630
Goods and services		**1,417**	2,169
Interest		**2,203**	1,699
Rental recoveries		**492**	746
License fees and other charges		**959**	411
Insurance recoveries and other revenue		**59**	523
GST recovered from ATO		**2,064**	1,626
Total cash received		**87,079**	77,804
Cash used			
Employees		**(50,731)**	(44,499)
Suppliers		**(27,507)**	(23,855)
Total cash used		**(78,238)**	(68,354)
Net cash from operating activities	13	**8,841**	9,450
Investing activities			
Cash received			
Proceeds from sale of plant and equipment		**–**	9
Total cash received		**–**	9
Cash used			
Purchase of plant and equipment		**(1,504)**	(749)
Purchase of intangibles		**(1,927)**	(892)
Purchase of government securities		**(9,919)**	–
Total cash used		**(13,350)**	(1,641)
Net cash used by investing activities		**(13,350)**	(1,632)
Financing activities			
Cash received			
Appropriations – contributed equity		**3,000**	–
Total cash received		**3,000**	–
Cash used			
Return unused 2001/02 appropriation to Official Public Account		**(2,100)**	–
Total cash used		**(2,100)**	–
Net cash from financing activities		**900**	–
Net increase/(decrease) in cash held		**(3,609)**	7,818
Cash at the beginning of the reporting period		**18,633**	10,815
Cash at the end of the reporting period	8A	**15,024**	18,633

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

Schedule of Commitments as at 30 June 2005

	2005 $'000	2004 $'000
By type[1,2]		
Commitments payable		
Operating leases	**21,349**	18,060
Total commitments payable	**21,349**	18,060
Commitments receivable		
Operating subleases	**(1,053)**	(1,559)
Total commitments receivable	**(1,053)**	(1,559)
Net commitments	**20,296**	16,501
By maturity		
Commitments payable		
One year or less	**6,082**	5,644
From one to five years	**13,576**	12,416
Over five years	**1,691**	–
Total commitments payable	**21,349**	18,060
Commitments receivable		
One year or less	**(505)**	(506)
From one to five years	**(548)**	(1,053)
Total commitments receivable	**(1,053)**	(1,559)
Net commitments	**20,296**	16,501

Operating leases are non-cancellable and comprise:

Nature of lease	General description of leasing arrangement
Leases for office accommodation	Lease payments are subject to annual review to prevailing market rates. Office leases, with current expiry dates shown in brackets, are current for space in Sydney (various levels 2007 to 2008), Canberra (2007), Melbourne (2012), Adelaide (2009), Brisbane (2008) and Perth (2009).
Leases of office equipment – photocopiers	Lease payments are set for the period of the lease. APRA does not have the option to purchase the asset at the conclusion of the lease period.

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

1 Commitments are GST inclusive where relevant.
2 APRA has no capital commitments.
3 Operating subleases commitments receivable comprise amounts receivable from other bodies for subleasing of office accommodation.

Schedule of Contingencies as at 30 June 2005

	Note	Claims for damages/costs 2005	2004	Total 2005	2004
Contingent liabilities	14(a)				
Balance from previous period		**(800)**	–	**(800)**	–
New		**(190)**	(800)	**(190)**	(800)
Re-measurement		**50**	–	**50**	–
Liabilities crystallised		**–**	–	**–**	–
Obligations expired		**–**	–	**–**	–
Total contingent liabilities		**(940)**	(800)	**(940)**	(800)
Contingent assets	14(b)				
Balance from previous period		**26**	–	**26**	–
New		**–**	26	**–**	26
Re-measurement		**–**	–	**–**	–
Assets crystallised		**–**	–	**–**	–
Expired		**–**	–	**–**	–
Total contingent assets		**26**	26	**26**	26
Net contingent assets/(liabilities)		**(914)**	(774)	**(914)**	(774)

Details of each class of contingent liabilities and assets, including those not disclosed above because they cannot be quantified or are considered remote are shown in Note 14: *Contingent liabilities and assets*.

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

Schedule of Administered Items

	Note	2005 $'000	2004 $'000
Revenues administered on behalf of the Government			
for the year ended 30 June 2005			
Taxation revenue			
Financial Institutions Supervisory Levies	21A	**97,110**	58,676
Financial Assistance Levy	21A	**32,736**	7,616
Total taxation revenue		**129,846**	66,292
Non-taxation revenue			
Enforcement penalty	21A	**–**	1,000
Total revenues administered on behalf of Government		**129,846**	67,292
Expenses administered on behalf of the Government			
for the year ended 30 June 2005			
Supervisory Levy waivers and write-offs	21B	**829**	780
Financial Assistance Levy write-offs	21B	**4**	6
Total expenses administered on behalf of Government		**833**	786
Assets administered on behalf of the Government			
as at 30 June 2005			
Financial assets			
Cash	21C	**246**	–
Receivables – supervisory levies	21C	**27**	90
– Financial Assistance Levy	21C	**3,947**	14
Accrued revenue	21C	**–**	–
Total assets administered on behalf of Government		**4,220**	104
Liabilities administered on behalf of the Government			
As at 30 June 2005			
Total liabilities administered on behalf of Government		**–**	–

Schedule of Administered Items (continued)

	Note	2005 $'000	2004 $'000
Administered cash flows			
for the year ended 30 June 2005			
Operating activities			
Cash received			
Financial Institutions Supervisory Levies		**97,321**	58,860
Financial Assistance Levy		**28,799**	7,596
Enforcement penalty collected		**–**	1,000
Cash received from Official Public Account for refunds		**976**	825
Total cash received		**127,096**	68,281
Cash used			
Refunds of overpayments of levies		**(976)**	(825)
Total cash used		**(976)**	(825)
Net cash from (used in) operating activities		**126,120**	67,456
Investing activities		**–**	–
Financing activities		**–**	–
Net increase (decrease) in cash held		**126,120**	67,456
Cash at the beginning of the reporting period		**–**	1,930
		126,120	69,386
Cash to Official Public Account		**(125,874)**	(69,386)
Cash at the end of the reporting period		**246**	–

APRA administers the collection of Financial Institutions Supervisory Levies and Financial Assistance Levy on behalf of the Government. While the revenues from supervisory levies are in part used to fund the operations of APRA, they are not directly available to be used by APRA for its own purposes. All administered collections are remitted to the Government's Official Public Account (see Note 1.21). Transactions and balances relating to levies are reported in Note 21 as Administered items.

Administered reconciliation table

For the year ended 30 June 2005

	2005 $'000	2004 $'000
Opening administered assets less administered liabilities	**104**	2,159
Plus administered revenues	**129,846**	67,292
Minus administered expenses	**(833)**	(786)
Administered transfers to/from Australian Government:		
Net transfers to Official Public Account	**(124,897)**	(68,561)
Closing administered assets less administered liabilities	**4,220**	104

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

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

Note 1. Summary of significant accounting policies

1.1 Basis of accounting

(a) General

These financial statements are required by clause 1(b) of Schedule 1 to the *Commonwealth Authorities and Companies Act 1997* and are a general purpose financial report.

The statements have been prepared in accordance with:

- Finance Minister's Orders (FMOs) being the *Commonwealth Authorities and Companies (Financial Statements for reporting periods ending on or after 30 June 2005) Orders*;
- Australian Accounting Standards and Accounting Interpretations issued by the Australian Accounting Standards Board; and
- Urgent Issues Group abstracts.

(b) Authority items

APRA's Statement of Financial Performance and Statement of Financial Position have been prepared on an accrual basis and are in accordance with the historical cost convention, except for certain assets which, as noted, are at valuation. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

Assets and liabilities are recognised in APRA's *Statement of Financial Position* when and only when it is probable that future economic benefits will flow and the amounts of the assets or liabilities can be reliably measured. Assets and liabilities arising under agreements equally proportionately unperformed are, however, not recognised unless required by an accounting standard. Liabilities and assets that are unrecognised are reported in the *Schedule of Commitments* and the *Schedule of Contingencies* (other than unquantifiable or remote contingencies, which are reported at Note 14(c)).

Revenues and expenses are recognised in APRA's *Statement of Financial Performance* when and only when the flow or consumption or loss of economic benefits has occurred and can be reliably measured.

(c) Administered items

Administered revenues, expenses, assets, liabilities and cash flows reported in the *Schedule of Administered Items* and related Notes are accounted for on the same basis and using the same policies as for Authority items, except where stated in Note 1.21.

1.2 Changes in accounting policy

The accounting policies used in the preparation of these financial statements are consistent with those used in 2003/04, except as indicated below.

In 2002/03, the Finance Minister's Orders introduced an impairment test for non-current assets, which were carried at cost and not subject to *AAS10 Recoverable Amount of Non-Current Assets*. In 2004/05, $nil (2003/04: $nil) software was written down under this policy.

In 2003/04, the impairment test provisions of the FMOs have been extended to cover non-current assets carried at deprival value. There were no assets in this category at 30 June 2005.

1.3 Revenue

(a) Revenues from Government – appropriations

APRA is funded primarily through levies imposed on the industries it supervises. While 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 for Revenue in an annual determination made under subsection 50(1) of the *Australian Prudential Regulation Authority Act 1998* (APRA Act), is payable to APRA 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 providing market integrity and consumer protection functions for prudentially regulated institutions, functions that are conducted by other Australian Government entities. The calculation of the Special Appropriation is shown at Note 5.

The full amount of appropriations for departmental (Authority) outputs for the year is recognised as revenue except in relation to the annual appropriation for the HIH Royal Commission, which is recognised at a rate corresponding to the rate of expenses incurred.

(b) Revenue from other sources

Revenue, if any, from the sale of goods is recognised upon the delivery of goods to customers.

Revenue from the rendering of a service is recognised by reference to the stage of completion of contracts or other agreements to provide services. The stage of completion is determined according to the proportion that costs incurred to date bear to the estimated total costs of the transaction.

Revenue from the issue of licenses to financial institutions and superannuation trustees, and license fees for local representative offices of foreign banks, is recognised on receipt of the application and license fee from the applicant.

Revenue from sub-lease rentals is recognised on issue of an invoice to the lessee.

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the relevant assets.

Revenue from disposal of non-current assets is recognised when control of the asset has passed to the buyer.

(c) Resources received free of charge

Services received free of charge are recognised as revenue 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.

Contributions of assets at no cost of acquisition or for nominal consideration are recognised at their fair value when the asset qualifies for recognition.

There were no resources received free of charge in 2004/05 (2003/04: $nil).

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

Note 1. Summary of significant accounting policies continued

1.4 Transactions by the Government as owner

Appropriations to APRA designated as equity injections are recognised as 'contributed equity' in accordance with the FMOs. APRA received a cash injection of $3 million in 2004/05 (2003/04: $nil) to fund superannuation licensing activities (see Note 12). This temporary funding is to be returned to the Government in 2005/06.

A surplus appropriation of $2.1 million, received in 2001/02, was returned to the Official Public Account following approval from the Minister for Finance, in accordance with the FMOs (see Note 12).

1.5 Employee benefits

(a) Benefits

Liabilities for services rendered by employees are recognised at the reporting date to the extent that they have not been settled.

Liabilities for salaries (including non-monetary benefits) and annual leave are measured at their nominal amounts. Other employee benefits expected to be settled within twelve months of their reporting date are also 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 employee benefit liabilities 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.

(b) 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 leave liabilities are calculated on the basis of employees' remuneration, including the Authority's employer superannuation contribution, to the extent that the leave is likely to be taken during service rather than paid out on termination.

The liability for long service leave is 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. In determining the present value of the liability, APRA has taken into account attrition rates and pay increases through promotion and inflation.

(c) Separation and redundancy

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

(d) Superannuation

Certain employees of APRA are members of the Commonwealth Superannuation Scheme and the Public Sector Superannuation Scheme. The liability for these defined benefit superannuation schemes is recognised in the financial statements of the Australian Government and is settled by the Government in due course. APRA makes employer contributions to the Australian Government at rates determined by an actuary to be sufficient to meet the cost to the Government of the superannuation entitlements of APRA's employees.

APRA also makes employer contributions to the Reserve Bank Officers' Superannuation Fund for former employees of the Reserve Bank of Australia now employed by APRA.

For all other employees, employer contributions are made to other superannuation funds, as nominated by the employee (see Note 7A).

No liability for superannuation benefits is recognised as at 30 June (2003/04: $nil) as the employer contributions fully extinguish the accruing liability that is assumed by the Commonwealth, or by the other funds, as appropriate.

1.6 Leases

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets, and operating leases under which the lessor effectively retains all such risks and benefits.

Where a non-current asset is acquired by means of a finance lease, the asset is capitalised at the present value of minimum lease payments at the inception of the lease and a liability recognised for the same amount. Leased assets are amortised over the period of the lease. Lease payments are allocated between the principal component and the interest expense. As at 30 June 2005, there were no finance leases current (2003/04: $nil).

Operating lease payments are expensed on a basis which is representative of the pattern of benefits derived from the leased assets. The net present value of future net outlays in respect of surplus space under non-cancellable lease agreements is expensed in the period in which the space becomes surplus. Lease incentives taking the form of 'free' leasehold improvements and rent holidays are recognised as liabilities. These liabilities are reduced by allocating lease payments between rental expense and the reduction of the liability.

1.7 Borrowing costs

All borrowing costs are expensed as incurred except to the extent that they are directly attributable to qualifying assets, in which case they are capitalised. The amount capitalised in a reporting period does not exceed the amounts of costs incurred in that period.

APRA has no qualifying assets for which funds were borrowed specifically in 2004/05 (2003/04: $nil).

1.8 Cash

Cash means notes and coins held and any deposits held at call with a bank or financial institution. Cash is recognised at its nominal amount. Interest is credited to revenue as it accrues.

1.9 Appropriations receivable

These receivables are recognised at the amounts due as calculated under section 50 of the APRA Act (refer Note 1.3(a)) less any provision made for doubtful levy debts.

1.10 Financial instruments

Accounting policies in relation to financial instruments are stated at Note 20.

1.11 Financial liabilities

Trade creditors and accruals are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).

1.12 Unrecognised financial liabilities

Where applicable, other guarantees, not recognised in the Statement of Financial Performance (refer Note 11b), of the Authority are disclosed in the Schedule of Contingencies. At the time of completion of the financial statements, there were no such guarantees in place.

Indemnities are disclosed in the Schedule of Contingencies at the maximum payable under the indemnities given. At the time of completion of the financial statements, there were no such indemnities in existence.

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

Note 1. Summary of significant accounting policies continued

1.13 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.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and revenues 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. In 2004/05 assets with a fair value of $nil (2003/04: $nil) were acquired for nominal consideration.

1.14 Infrastructure, plant and equipment

(a) Asset recognition threshold

Purchases of infrastructure, plant and equipment are recognised initially at cost, except for purchases costing less than $3,000 and all desk top computers, which are expensed in the year of acquisition. All laptop computers are recognised as assets regardless of acquisition cost.

(b) Revaluations

Infrastructure, plant and equipment are carried at valuation. Revaluations undertaken up to 30 June 2001 were done on a deprival basis; revaluations since that date are at fair value, the first of these revaluations being as at 30 June 2004. This change in accounting policy is required by Australian Accounting Standard *AASB1041 Revaluation of Non-Current Assets*. Valuations undertaken in any year are as at 30 June.

Fair and deprival values for each class of assets are determined as shown below.

Asset class	Fair value measured at:	Deprival value measured at:
Leasehold improvements	Depreciated replacement cost	Depreciated replacement cost
Computer hardware and office equipment	Market selling price	Depreciated replacement cost

Under both deprival and fair value, assets which are surplus to requirements are measured at their net realisable value. At 30 June 2005, APRA held no surplus assets (30 June 2004: $nil).

The financial effect of this change in policy relates to those assets recognised at fair value for the first time in the current period where the measurement basis for fair value is different to that previously used for deprival value. The financial effect of the change is given by the difference between the fair values obtained for these assets in the current period and the deprival-based values recognised at the end of the previous period. The financial effect by class is as follows:

Asset class	Increment/(decrement) to asset class ($'000)	Contra account
Leasehold improvements	2005: $ 274 2004: $(275)	Current year result
Leasehold improvements	2005: $ 1,030 2004: $(22)	Revaluation reserve
Computer hardware and office equipment	2005: $ – 2004: $(1)	Current year result
Computer hardware and office equipment	2005: $(289) 2004: $(83)	Revaluation reserve

The total financial effect was to increase the carrying amount of infrastructure, plant and equipment by $1,015,000 (2004: $380,000 decrease), increase asset revaluation reserves by $741,000 (2004: $105,000 decrease) and increase current year results by $274,000 (2004: $275,000 decrease).

(c) Frequency

Commencing with 2003/04 all infrastructure, plant and equipment and leasehold improvements assets were revalued to fair value.

The FMOs require that all infrastructure, plant and equipment assets be measured at up-to-date fair values from 30 June 2005 onwards. It is proposed to maintain annual revaluations on all fixed assets.

(d) Conduct

All valuations to date have been conducted by an independent qualified valuer.

(e) Depreciation and amortisation

Depreciable computer hardware and office equipment assets are written down 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 amortised on a straight-line basis over the lesser of the estimated useful life of the improvements or the unexpired period of the lease.

Depreciation/amortisation rates (useful lives) and methods are reviewed at each balance date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate. Residual values are re-estimated for a change in prices only when assets are revalued.

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

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

	2005	2004
Computer hardware and office equipment	**3 to 12 years**	3 to 12 years
Leasehold improvements	**Lower of 10 years or lease term**	Lower of 10 years or lease term

The aggregate amount of depreciation allocated for each class of asset during the reporting period is disclosed in Note 7C.

1.15 Impairment of non-current assets

Non-current assets carried at up-to-date fair value at the reporting date are not subject to impairment testing.

The non-current assets carried at cost, which are not held to generate net cash inflows, have been assessed for indications of impairment. Where indications of impairment exist, the asset is written down to the higher of its net selling price and, if the entity intended to replace the asset's service potential, its depreciated replacement cost.

1.16 Intangibles

APRA's intangibles comprise internally developed software and purchased software for internal use. The assets are carried at cost. Items costing less than $3,000 are expensed in the year of acquisition.

Internally developed and purchased software assets are amortised on a straight-line basis over their anticipated useful lives. The useful lives of APRA software are the lesser of five years or assessed useful life (2004: Lesser of five years or assessed useful life).

All software assets were assessed for indications of impairment as at 30 June 2005 and none was found to be impaired.

1.17 Taxation

APRA is exempt from all forms of taxation except fringe benefits tax and the 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; and

– except for receivables and payables.

1.18 Foreign currency

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Foreign currency receivables and payables are translated at the exchange rates current as at balance date. Associated currency gains and losses are not material.

1.19 Comparative figures

Comparative figures have been adjusted to conform to changes in presentation in these financial statements where required.

1.20 Rounding

Amounts have been rounded to the nearest $1,000, except in relation to the following:

– *Remuneration of APRA Members* (Note 15) and *Remuneration of officers* (Note 17); and

– *Remuneration of auditors* (Note 18).

1.21 Reporting of administered activities

(a) General

APRA undertakes the collection of certain levies on behalf of the Government (administered activities). These comprise Financial Institutions Supervisory Levies, superannuation Financial Assistance Levy and levy late payment penalties collected under the *Financial Institutions Supervisory Levies Collection Act 1998*. In addition, APRA still collects some late lodgement penalties in relation to certain superannuation returns that were due by 31 October 1999. These administered items are distinguished from Authority items, throughout these financial statements, by background shading.

As indicated in Note 1.1, administered revenues, expenses, assets, liabilities and cash flows are disclosed in the *Schedule of Administered Items* and related Notes.

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

(b) Administered cash transfers to and from Official Public Account

Levy revenue collections are initially paid into an administered receipts account maintained by the Authority and then transferred to the Official Public Account (OPA) maintained by the Department of Finance and Administration. In turn, where levy amounts are overpaid, the Department transfers money from the OPA into an administered payments account maintained by the Authority for the issue of refunds to the relevant entities that have made overpayments. These transfers to and from the OPA are adjustments to the administered cash held by the Authority on behalf of the Government and reported as such in the *Statement of Cash Flows in the Schedule of Administered Items* and in the administered reconciliation table in Note 21D. Thus the *Schedule of Administered Items* largely reflects the Government's transactions, through the Authority, with parties outside the Government.

(c) Revenue

All administered revenues are revenues relating to the core operating activities performed by the Authority on behalf of the Government.

Administered revenue arising from levies on superannuation entities (including the Financial Assistance Levy) is recognised upon issue of invoice while administered revenue in respect of levies on all other entities is recognised on the date it becomes due and payable to APRA or on the date the payment is received, whichever occurs first. Levies are recognised at the nominal amounts due less any provision for bad or doubtful debts. 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.

(d) Expenses

Administered expenses arising from waiver and write-off of levy debts are recognised at the time of approval by delegated Authority officers.

Waivers of levies under the *Financial Institutions Supervisory Levies Collection Act 1998* are shown at Note 21B, 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.

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

Note 2. Adoption of Australian Equivalents to International Financial Reporting Standards for year ends commencing on or after 1 January 2005.

2.1 Background

The Australian Accounting Standards Board (AASB) has issued replacement Australian Accounting Standards to apply for year ends commencing on or after 1 January 2005. The new standards are the Australian Equivalents to International Financial Reporting Standards (AEIFRS). The International Financial Reporting Standards are issued by the International Accounting Standards Board. The new standards cannot be adopted early. The standards being replaced are to be withdrawn with effect from 2005/06, but continue to apply in the meantime, including reporting periods ending on 30 June 2005.

The purpose of issuing AEIFRS is to enable Australian entities reporting under the *Corporations Act 2001* to access capital markets more readily by preparing their financial reports in accordance with accounting standards that are recognised worldwide.

For-profit entities complying fully with the AEIFRS will be able to make an explicit and unreserved statement of compliance with International Financial Reporting Standards (IFRS) as well as a statement that the financial report has been prepared in accordance with Australian Accounting Standards.

AEIFRS contain certain additional provisions that will apply to not-for-profit entities, including not-for-profit Australian Government Authorities. Some of these provisions are in conflict with IFRSs and therefore APRA will only be able to assert that the financial report has been prepared in accordance with Australian Accounting Standards.

AAS29 Financial Reporting by Government Departments will continue to apply under AEIFRS.

Accounting Standard *AASB 1047 Disclosing the Impact of Adopting Australian Equivalents to IFRSs* requires that the financial report for 2004/05 disclose:

- an explanation of how the transition to AEIFRS is being managed;
- narrative explanations of the key policy differences arising from the adoption of AEIFRS;
- any known or reliably estimable information about the impacts on the financial report had it been prepared using the Australian equivalents to IFRS; and
- if the impacts of the above are not known or reliably estimable, a statement to that effect.

Where an entity is not able to make a reliable estimate, or where quantitative information is not known, the entity should update the narrative disclosures of the key differences in accounting policies that are expected to arise from the adoption of AEIFRS.

The purpose of this Note is to make these disclosures.

2.2 Management of the transition to AEIFRS

APRA has taken the following steps in preparation for the implementation of AEIFRS:

- the Authority has developed a staged implementation programme;
- APRA's Risk Management and Audit Committee will oversee the transition to and implementation of AEIFRS. The Chief Financial Officer is formally responsible for the project and reports regularly to the Risk Management and Audit Committee against the implementation plan;
- the plan includes the following key steps:
    - identification of all major accounting policy differences between current AASB standards and the AEIFRS;
    - identification of systems changes necessary to enable reporting under AEIFRS, including the capture of data under both sets of rules for 2004/05, and where necessary the testing and implementation of those changes;

  - a transitional balance sheet as at 1 July 2004 under AEIFRS was completed;
  - an AEIFRS compliant balance sheet was also prepared during the preparation of the 2004/05 statutory financial reports; and
  - the 2004/05 financial statements will be reported to the Department of Finance and Administration in line with its reporting deadlines.
- the risks to successful achievement of the above objectives have been addressed and strategies have been devised to keep implementation on track to meet proposed deadlines; and
- all major accounting and disclosure differences and system changes have been identified and the system changes required are insignificant. These changes were implemented by 15 August 2004.

2.3 Major changes in accounting policy

Changes in accounting policies under AEIFRS are applied retrospectively, i.e. as if the new policy had always applied, except in relation to the exemptions available under *AASB 1 First Time Adoption of Australian Equivalents to International Financial Reporting Standards*. This rule means that an AEIFRS compliant balance sheet had to be prepared as at 1 July 2004. This will enable the 2005/06 financial statements to report comparatives under AEIFRS.

Management's review of the quantitative impacts of AEIFRS represents the best estimate of the impacts of the changes as at reporting date. The actual effects of the impacts of AEIFRS may differ from these estimates due to:

- continuing review of the impacts of AEIFRS on APRA operations;
- potential amendments to the AEIFRS and AEIFRS Interpretations; and
- emerging interpretation as to the accepted practice in the application of AEIFRS and the AEIFRS Interpretations.

Changes to major accounting policies are discussed in the following paragraphs.

(a) Infrastructure, plant and equipment

It is expected that the 2005/06 Finance Minister's Orders will continue to require infrastructure, plant and equipment assets to be valued at fair value in 2005/06. As all APRA infrastructure, plant and equipment assets were revalued to fair value as at 30 June 2004 and again at 30 June 2005, there will be no impact of the adoption of the fair value method of valuation as at 30 June 2005.

Where applicable, borrowing costs related to qualifying assets are currently capitalised. It is expected that the FMOs for 2005/06 will elect to expense all borrowing costs under AEIFRS. Accordingly, any borrowing costs capitalised as at 1 July 2005 will be written off to accumulated results. APRA had no capitalised borrowing costs at 30 June 2005.

(b) Intangible assets

APRA currently recognises internally developed software assets on the cost basis. These assets have always been recognised on this basis.

The AEIFRS standard on intangibles does not permit intangibles to be measured at valuation unless there is an active market for the intangible. APRA's internally developed software is specific to the needs of the Authority and is not traded. Accordingly, as there is no revaluation component in the carrying amount of those assets, there will be no adjustments required on adoption of AEIFRS.

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

Note 2. Adoption of Australian Equivalents to International Financial Reporting Standards for year ends commencing on or after 1 January 2005. (continued)

(c) Impairment of non-current assets

APRA's policy on impairment of non-current assets is reported at Note 1.15.

Under AEIFRS, these assets will be subject to an annual assessment for impairment and, if there are indications of impairment, such impairment must be subjected to measurement (impairment measurement must also be done, irrespective of any indications of impairment, for intangible assets not yet available for use). The impairment test is that the carrying amount of an asset must not exceed the greater of (a) its fair value less cost to sell and (b) its value in use. 'Value in use' is the net present value of net cash inflows for for-profit assets of the Authority and depreciated replacement cost for other assets, which would be replaced if APRA were deprived of them.

An impairment assessment of the Authority's intangible assets indicated that no adjustments will be required.

(d) Employee benefits

The provision for long service leave is measured at the present value of estimated future cash outflows using market yields as at the reporting date on national government bonds.

Under AEIFRS, the same discount rate will be used unless there is a deep market in high quality corporate bonds. The AASB has decided that a deep market in high quality corporate bonds does not exist.

AEIFRS also require that annual leave that is not expected to be taken within twelve months of balance date be discounted. After assessing the staff leave profile, APRA does not expect that any material amounts of the annual leave balance will not be taken in the next twelve months. Consequently, there are no adjustments for non-current annual leave.

(e) Decommissioning, restoration and make good

An assessment of office accommodation leases containing obligations to make good leased premises at the conclusion of the lease has been made together with a determination regarding the reliability of estimates of the value of those obligations.

Make good costs have previously been provided for and expensed; however, under *AASB 116 Property, Plant and Equipment* the make good costs are to be included in the cost of the leasehold improvement asset under Infrastructure, plant and equipment.

An adjustment will therefore be required to Accumulated Surpluses and the asset Infrastructure, plant and equipment under AEIFRS.

(f) Financial instruments

It is expected that the Finance Minister's Orders will require the Authority to designate all financial instruments traded in markets as 'held at fair value through profit and loss'. Such instruments must be measured at fair value, with changes in fair value being recorded as income or expense. Government securities held by the Authority would fall into this category. However, as the face values of government securities approximate their respective fair values, there would be no material financial impact for this class of financial assets in 2004/05.

Receivables and term deposits are expected to continue to be carried at amortised cost. Financial liabilities are also expected to continue to be measured at amortised cost.

Under AEIFRS, the term 'impairment losses' replaces references to provision for doubtful debts. Impairment losses are recognised under AEIFRS only where there is objective evidence that a financial asset or group of assets is impaired. Currently, the Authority records a provision for doubtful debts when collection of the debt or part thereof is judged to be less than more likely. The Authority has reviewed each financial asset in line with the impairment provisions of AASB 139 and has determined that no adjustment to carrying amounts is required.

(g) Administered Items

Assessment of administered assets and liabilities of APRA indicates that there are no adjustments due to the transition to AEIFRS.

	30 June 2005 Opening balance sheet and in year adjustments ($,000)	30 June 2004 Opening balance sheet adjustments ($,000)
Reconciliation of APRA Authority equity		
Total equity under AAS – 30 June 2004	**–**	11,053
Total equity under AEIFRS – 1 July 2004	**11,742**	–
Adjustments to accumulated results	**148**	689
Adjustments to accumulated reserves	**–**	–
Total equity under AEIFRS	**11,890**	11,742
Reconciliation of APRA Authority accumulated results		
Total accumulated results under AAS – 30 June 2004	**–**	5,416
Total accumulated results under AEIFRS – 1 July 2004	**6,105**	–
Adjustments to accumulated results	**148**	689
Total accumulated results under AEIFRS	**6,253**	6,105
Reconciliation of APRA Authority reserves		
Total reserves under AAS – 30 June 2004	**–**	382
Total reserves under AEIFRS – 1 July 2004	**382**	–
Adjustments	**–**	–
Total reserves under AEIFRS	**382**	382
Reconciliation of APRA Authority contributed equity		
Total contributed equity under AAS – 30 June 2004	**–**	5,255
Total contributed equity under AEIFRS – 1 July 2004	**5,255**	–
Adjustments	–	–
Total contributed equity under AEIFRS	**5,255**	5,255
Reconciliation of APRA Authority operating surplus/(deficit)		
Total surplus/(deficit) under AAS – 30 June 2004	**–**	2,067
Total surplus/(deficit) under AEIFRS – 1 July 2004	**2,756**	–
Adjustments:		
Employee provisions	**–**	55
Property provisions	**148**	634
In year transactions	**–**	–
Total surplus/(deficit) under AEIFRS	**2,904**	2,756

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

Note 3. Economic dependency

APRA was established pursuant to the *Australian Prudential Regulation Authority Act 1998* as a separate legal entity of the Commonwealth of Australia. APRA is dependent on Government policy, and on continuing appropriations by Parliament for APRA's administration and programs. These appropriations are primarily derived from levies on the institutions that APRA supervises (see Note 1.3).

Note 4. Events occurring after reporting date

No events occurring after balance date were noted.

Note 5. Calculation of APRA Special Appropriation

The APRA Special Appropriation is calculated in accordance with the provisions of section 50 of the APRA Act as outlined at Note 1.3(a). Details are as follows:

	2005 $'000	2004 $'000
Table 1: Summary		
Current year levies and penalties (see note 21A, Table 1)	**97,110**	86,868
Less: Waivers and write-offs (see Note 21B)	**(829)**	(780)
Net current year levies and penalties (see Table 2 below)	**96,281**	86,088
Less: Amounts retained in the CRF (see Table 3 below)	**(19,069)**	(16,803)
Total APRA Special Appropriation (see Table 4 below)	**77,212**	69,285
Table 2: Net current year levies and penalties by levy type		
Superannuation funds	**39,858**	35,698
Authorised deposit-taking institutions	**30,735**	27,602
Life insurers and friendly societies	**10,294**	9,658
General insurers	**15,290**	13,016
Retirement savings account providers	**104**	114
Total net current year levies and penalties	**96,281**	86,088
Table 3: Amounts retained in the CRF by levy type [4]		
Superannuation funds	**(12,749)**	(10,483)
Authorised deposit-taking institutions	**(2,560)**	(2,560)
Life insurers and friendly societies	**(2,040)**	(2,040)
General insurers	**(1,720)**	(1,720)
Total amount retained in CRF	**(19,069)**	(16,803)
Table 4: Equivalent amounts of levy payable to APRA under the APRA Special Appropriation by levy type		
Superannuation funds	**27,109**	25,215
Authorised deposit-taking institutions	**28,175**	25,042
Life insurers and friendly societies	**8,254**	7,618
General insurers	**13,570**	11,296
Retirement saving account providers	**104**	114
Total APRA Special Appropriation	**77,212**	69,285

[4] As determined by the Treasurer in accordance with subsection 50(1) of the *Australian Prudential Regulation Authority Act 1998*

Note 6. Operating revenues

	2005 $'000	2004 $'000
Note 6A. Revenues from Government		
Special Appropriation (see Note 5)	**77,212**	69,285
Annual Appropriation 2001/02 brought forward	**976**	2,000
Annual Appropriation 2004/05	**1,000**	–
Unearned Annual Appropriation (see Note 10C)	**–**	(976)
Total revenues from Government	**79,188**	70,309
Note 6B. Sales of goods and services		
Goods	**–**	–
Fees for service	**942**	637
Development of capital adequacy model for ADIs (Basel II)	**1,800**	1,500
Miscellaneous other services	**171**	208
Total sales of goods and services	**2,913**	2,345
Rendering of services to:		
Related entities	**684**	550
External entities	**2,229**	1,795
Total rendering of goods and services	**2,913**	2,345
Note 6C. Interest revenue		
Deposits at bank	**720**	686
Commonwealth and State Government securities	**1,496**	1,045
Total interest revenue	**2,216**	1,731
Note 6D. Net gain/(loss) from disposal of assets		
Infrastructure, plant and equipment		
Proceeds from disposal	**–**	9
Net book value of assets disposed	**(21)**	(28)
Net book value of assets written-off	**–**	–
Net gain/(loss) from disposal of assets	**(21)**	(19)
Note 6E. Reversals of previous asset write-downs		
Non-financial assets:		
Infrastructure, plant and equipment revaluation decrement reversal[5]	**274**	–
	274	–

[5] Infrastructure, plant and equipment revaluation decrement expensed in 2003-04 has been reversed in the 2005 revaluation. The balance of the revaluation increment has been taken to revaluation reserve.

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

Note 6. Operating revenues (continued)

	2005 $'000	2004 $'000
Note 6F. License fees and other charges		
License fees finance sector entities	**310**	296
Superannuation trustee applications	**564**	16
Fees from foreign bank representative offices	**85**	99
	959	411
Note 6G. Insurance recoveries and other revenue		
Insurance recoveries from liability insurer for costs associated with the HIH Royal Commission	**–**	456
Other revenue relating to recovery of prior year court costs and prior year compensation matters	**24**	34
Recovery from Reserve Bank of Australia for Scholarship	**25**	25
Recovery from Comcover prior year commissions	**8**	–
Other recoveries	**2**	–
Income from sale of non-capitalised assets	**–**	8
Total insurance recoveries and other revenue	**59**	523

Note 7. Operating expenses

	2005 $'000	2004 $'000
Note 7A. Employee expenses		
Salaries and wages	**45,707**	40,274
Superannuation	**4,770**	3,924
Leave and other benefits	**1,947**	2,050
Separation and redundancy	**32**	115
Other employee expenses (see Note 1.5)	**177**	187
Total employee benefits expenses	**52,633**	46,550
Workers' compensation premiums and on-costs	**418**	368
Total employee expenses	**53,051**	46,918

Superannuation

APRA contributes to the Commonwealth Superannuation (CSS), Public Sector Superannuation (PSS) schemes and Reserve Bank Officer' Superannuation Fund (RBOSF), which provide retirement, death and disability benefits to 14.7 per cent (2004: 18 percent) of its employees, previously employed by APRA's antecedent bodies. Contributions to the schemes are at rates calculated to cover existing and emerging obligations. Current contribution rates are 21.9 per cent of salary (CSS), 14.2 per cent of salary (PSS) and 9 per cent of salary (RBOSF). An additional 3 per cent is contributed for employer productivity benefits. Each of these schemes is closed to new APRA contributors. Employer contributions amounting to $1,239,216 (2003/04: $1,046,506) in relation to these schemes have been expensed in these financial statements. Employer Superannuation Productivity Benefit contributions totalled $213,108 (2003/04: $212,944).

Contributions on behalf of the balance of staff are made to various complying superannuation funds in accordance with the *Superannuation Guarantee (Administration) Act 1992*. Total contributions under these arrangements amount to $3,317,308 (2003/04: $2,664,684).

	2005 $'000	2004 $'000
Note 7B. Supplier expenses		
Goods from related entities	**–**	–
Goods from external entities	**2,119**	2,308
Services from related entities	**3,721**	2,770
Services from external entities	**13,525**	11,753
Operating lease rentals	**5,696**	6,223
Total supplier expenses	**25,061**	23,054
Note 7C. Depreciation and amortisation		
Depreciation of infrastructure, plant and equipment	**1,420**	1,917
Amortisation of intangibles	**2,449**	2,039
Total depreciation and amortisation	**3,869**	3,956
The aggregate amounts of depreciation or amortisation expensed during the reporting period, for each class of depreciable asset, are as follows:		
Computer hardware and office equipment	**594**	957
Leasehold improvements	**826**	960
Intangibles	**2,449**	2,039
Total depreciation and amortisation	**3,869**	3,956
Note 7D. Write-down of assets		
Infrastructure, plant and equipment – revaluation decrement	**45**	275
Infrastructure, plant and equipment – write-off	**–**	–
Total write-down of assets	**45**	275
Note 7E. Value of assets disposed		
Non-financial assets		
Cost of infrastructure, plant and equipment disposed (Note 6D)	**21**	28
Net book value of assets disposed	**21**	28

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

Note 8. Financial assets

	2005 $'000	2004 $'000
Note 8A. Cash		
Cash at bank and on hand	**15,022**	18,632
Deposits at call	**2**	1
Total cash	**15,024**	18,633
Note 8B. Receivables		
Special Appropriation	**130**	1,813
Less: Provision for doubtful debt related to outstanding levy debt	**(25)**	(35)
Net appropriations receivable	**105**	1,778
Goods and services	**2,226**	667
Less: Provision for doubtful debts	**(2)**	(2)
Net goods and services	**2,224**	665
Accrued interest receivable	**90**	77
GST receivable	**572**	559
Total receivables (net)	**2,991**	3,079
All receivables are current assets		
Receivables (gross) are aged as follows:		
Not overdue	**2,981**	2,861
Overdue by:		
– Less than 30 days	**–**	6
– 30 to 60 days	**7**	4
– 60 to 90 days	**6**	26
– more than 90 days	**24**	219
	37	255
Total receivables (gross)	**3,018**	3,116
The provision for doubtful debts is aged as follows:		
Not overdue		–
Overdue by:		
– Less than 30 days	**–**	–
– 30 to 60 days	**–**	–
– 60 to 90 days	**(3)**	(2)
– more than 90 days	**(24)**	(35)
Total provision for doubtful debts	**(27)**	(37)
Total receivables (net)	**2,991**	3,079

	2005 $'000	2004 $'000
Note 8C. Investments (section 18 CAC Act)		
Government securities	**9,919**	–
	9,919	–

Government securities

These securities have terms of up to 90 days. They are guaranteed by the issuing government and are traded in active markets. Effective interest rates average 5.23 percent (2004: 4.90 percent). Interest is paid at maturity.

Note 9. Non-financial assets

	2005 $'000	2004 $'000
Note 9A. Infrastructure, plant and equipment		
Computer hardware and office equipment		
– at fair value	**1,140**	1,457
– accumulated depreciation	**–**	–
Computer hardware under construction	**545**	–
Total computer hardware and office equipment	**1,685**	1,457
Leasehold improvements		
– at fair value	**3,422**	2,616
– accumulated amortisation	**–**	–
Total leasehold improvements	**3,422**	2,616
Total infrastructure, plant and equipment (non-current)	**5,107**	4,073

The revaluations performed in 2003/04 and 2004/05 were in accordance with the revaluation policy stated at Note 1.14 – *Infrastructure, plant and equipment* and were completed by an independent valuer, the Australian Valuation Office.

	2005 $'000	2004 $'000
Movement in asset revaluation reserve		
Increment/(decrement) in computer hardware and office equipment	**(289)**	(83)
Increment/(decrement) in leasehold improvements	**1,030**	(22)
Net movement	**741**	(105)
Note 9B. Intangibles		
Computer software – internally developed – in use – at cost	**6,067**	7,564
Accumulated amortisation	**(3,968)**	(3,602)
	2,099	3,962
Computer software – purchased – at cost	**2,418**	2,186
Accumulated amortisation	**(1,224)**	(974)
	1,194	1,212

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

Note 9. Non-financial assets continued

	2005 $'000	2004 $'000
Note 9B. Intangibles continued		
Computer software – internally developed – in progress – at cost	**1,318**	200
Computer software – purchased – in progress – at cost	**257**	18
	1,575	218
Total intangibles (non-current)	**4,869**	5,392

Note 9C. Analysis of infrastructure, plant, equipment and intangibles

Table A – Reconciliation of the opening and closing balances of infrastructure, plant and equipment and intangibles

	$'000 Computer hardware and office equipment	$'000 Leasehold improvements	$'000 Intangibles	$'000 Total
As at 1 July 2004				
Gross book value	1,457	2,616	9,968	14,041
Accumulated depreciation/amortisation	–	–	(4,576)	(4,576)
Opening net book value	1,457	2,616	5,392	9,465
Additions:				
by purchase	1,176	328	1,927	3,431
Net revaluation increment/(decrement)	(335)	1,304	–	969
Depreciation/amortisation expense	(594)	(826)	(2,448)	(3,868)
Disposals:				
Other disposals by sale and write-off (net book value)	(19)	–	(2)	(21)
As at 30 June 2005				
Gross book value	**1,685**	**3,422**	**11,893**	**17,000**
Accumulated depreciation/amortisation	**–**	**–**	**(7,024)**	**(7,024)**
Closing net book value	**1,685**	**3,422**	**4,869**	**9,976**

As a result of the revaluation of infrastructure, plant and equipment to fair value at 30 June 2004 and again at 30 June 2005, the accumulated depreciation/amortisation for these assets was reduced to nil, having been written back against the gross book value, to comply with AASB 1041.

Intangibles to the value of $nil (2003/04: $2,065,000), having reached the end of their useful life and no longer in use, were retired at 30 June 2005, resulting in a reduction, by that amount, in both gross book value and accumulated amortisation.

Note 9C. Analysis of infrastructure, plant and equipment and intangibles (continued)

Table B

Infrastructure, plant and equipment at valuation

	$'000 Computer hardware and office equipment	$'000 Leasehold improvements	$'000 Total
As at 30 June 2005			
Gross value	**1,685**	**3,422**	**5,107**
Accumulated depreciation/amortisation	**–**	**–**	**–**
Closing net book value	**1,685**	**3,422**	**5,107**
As at 30 June 2004			
Gross value	1,457	2,616	4,073
Accumulated depreciation/amortisation	–	–	–
Closing net book value	1,457	2,616	4,073

Table C

Infrastructure, plant and equipment and intangibles under construction

	$'000 Computer software intangibles	$'000 Computer hardware and office equipment	$'000 Total
As at 30 June 2005			
Gross value	**1,575**	**545**	**2,120**
As at 30 June 2004			
Gross value	218	204	422

	2005 $'000	2004 $'000
Note 9D. Other non-financial assets		
Pre-payments	**519**	581
Total other non-financial assets (current)	**519**	581

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

Note 10. Payables

	2005 $'000	2004 $'000
Note 10A. Supplier payables		
Trade creditors	**3,569**	4,600
Total supplier payables	**3,569**	4,600
All supplier payables are current.		
Note 10B. Other payables		
GST payable to the Australian Taxation Office	**214**	65
Total other payables	**214**	65
All other payables are current.		
Note 10C. Revenue in advance		
Unearned annual appropriation revenue (see Note 6A)	**–**	976
Unearned fees and charges	**148**	85
Total revenue in advance	**148**	1,061
All revenue in advance is current.		

Note 11. Provisions

	2005 $'000	2004 $'000
Note 11A. Employee provisions		
Salaries and wages	**3,446**	2,650
Leave and other benefits	**11,845**	10,321
Other	**101**	101
Aggregate employee benefit liability	**15,392**	13,072
Current	**8,268**	7,023
Non-current	**7,124**	6,049
	15,392	13,072

	2005 $'000	2004 $'000
Note 11B. Other provisions		
Surplus leased space	**170**	170
Make good premises at lease end	**782**	634
Lease incentives	**1,406**	1,103
Total other provisions	**2,358**	1,907
Current	**899**	671
Non-current	**1,459**	1,236
	2,358	1,907
Other provisions balance at 1 July	**1,907**	1,998
Increase/(decrease) in surplus leased space provision	**–**	–
Increase/(decrease) in make good provision	**148**	142
Increase/(decrease) in lease incentives provision	**303**	(233)
Other provisions balance at 30 June	**2,358**	1,907

APRA leases premises in Sydney, Melbourne, Canberra, Brisbane, Adelaide and Perth. There is a small area of surplus leased space in the Canberra office, a portion of which has remained vacant for the whole of 2004/05, despite continued efforts to sub-let the area.

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

Lease incentives in the form of cash, rent-free periods and rental discounts were negotiated in the leases for the Sydney, Perth, Adelaide, Melbourne and Canberra premises and the provisions are being amortised over the term of the respective leases.

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

Note 12. Equity

	2005 $'000	2004 $'000	2005 $'000	2004 $'000	2005 $'000	2004 $'000	2005 $'000	2004 $'000
	Contributed equity (see note 1.4 and below)		Asset revaluation reserve		Accumulated results		Total equity	
Opening Balance as at 1 July	**5,255**	5,255	**382**	487	**5,416**	3,349	**11,053**	9,091
Net surplus/(deficit)	**–**	–	**–**	–	**4,054**	2,067	**4,054**	2,067
Net revaluation increment/(decrement)	**–**	–	**741**	(105)	**–**	–	**741**	(105)
Transactions with owners:								
Distribution to owners:								
Returns of capital	**(2,100)**	–	**–**	–	**–**	–	**(2,100)**	–
Contributions by owners:								
Equity injection	**3,000**	–	**–**	–	**–**	–	**3,000**	–
Closing Balance as at 30 June	**6,155**	5,255	**1,123**	382	**9,470**	5,416	**16,748**	11,053

Note regarding accumulated results:

In 2001/02 an Annual Departmental Appropriation of $2.1 million was made to APRA to increase supervision of superannuation entities. A condition of the appropriation was that an equivalent amount was to be recovered from future supervisory levies and repaid to the Consolidated Revenue Fund (CRF). Under the FMOs, repayments of appropriations of this nature are an adjustment direct to equity and require the approval of the Minister for Finance. The process to return the $2.1 million was completed in 2004/05 and the return is shown above as a reduction to Contributed Equity, as required by the FMOs.

Note 13. Cash flow reconciliation

	2005 $'000	2004 $'000
Note 13A: Reconciliation of operating surplus to net cash from operating activities:		
Operating surplus/(deficit) from ordinary activities	**4,054**	2,067
Non-cash items		
Depreciation and amortisation of infrastructure, plant and equipment	**1,420**	1,917
Amortisation of intangibles	**2,449**	2,039
Revaluation decrement reversal	**(274)**	(105)
Infrastructure, plant and equipment revaluation decrement	**45**	275
Loss on disposal of infrastructure, plant and equipment	**21**	19
Changes in assets and liabilities		
(Increase)/decrease in receivables	**101**	2,083
(Increase)/decrease in other non-financial assets	**62**	(287)
(Increase)/decrease in accrued revenue	**(13)**	–
Increase/(decrease) in revenue in advance	**(913)**	(939)
Increase/(decrease) in employees liabilities	**2,320**	792
Increase/(decrease) in suppliers liabilities	**(882)**	1,680
Increase/(decrease) in other provisions and payables	**451**	(91)
Net cash from operating activities	**8,841**	9,450
Note 13B: Reconciliation of cash		
Cash balance comprises:		
Cash at bank and on hand	**15,022**	18,632
Deposits at call	**2**	1
Total cash	**15,024**	18,633
Balance of cash as at 30 June shown in the Statement of cash flows	**15,024**	18,633

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

Note 14. Contingent liabilities and assets

Note 14(a) Contingent liabilities

At 30 June, the Authority was engaged in a number of legal actions brought against it by various parties relating to disqualification of persons as trustees or to hold positions of responsibility in the general insurance industry, review of decisions by the Administrative Appeals Tribunal and actions brought by APRA against parties in relation to enforcement of the requirements of the legislation administered by APRA. The costs that might be incurred relate mainly to legal counsel and those associated with the legal proceedings. The quantum of the liabilities has been based on estimates provided by the legal practitioners representing the Authority.

Note 14(b) Contingent assets

As stated in Note 14(a), the Authority is engaged in a number of legal cases at 30 June. The contingent asset represents an estimate of the legal costs arising from these actions likely to be recovered by APRA. The estimates have been provided by the legal practitioners representing the Authority or on judgments already entered.

Note 14(c) Unquantifiable contingencies

Of the legal matters unresolved at 30 June 2005, a number of the cases were at a stage where it was not possible to quantify the amounts of any eventual payments that may be required in relation to these claims.

Note 15. 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 2004/05 was Chairman $509,110 (2003/04:$490,000); Deputy Chairman $425,990 (2003/04: $410,000); and Member $405,210 (2003/04: $390,000). Any difference between the Tribunal determination and the remuneration reported below is due to additional reunion allowance payable to the Member, changes in unused annual and long service leave entitlements accumulated in the year, and in respect of 2003/04 only, any unused leave brought across from previous Commonwealth employers.

	2005 $	2004 $
Aggregate amount of superannuation payments in connection with the retirement of APRA Members	**119,026**	114,944
Other remuneration received or due and receivable by APRA Members	**1,277,284**	1,339,142
Total remuneration received or due and receivable by Members	**1,396,310**	1,454,086

The number of APRA Members included in these figures is shown below in the relevant remuneration bands:	**2005 Number**	2004 Number
$320,001 – $330,000	**–**	1
$420,001 – $430,000	**1**	–
$440,001 – $450,000	**1**	–
$470,001 – $480,000	**–**	1
$520,001 – $530,000	**1**	–
$650,001 – $660,000	**–**	1
Total number of APRA Members	**3**	3

Note16. Related party disclosures

APRA Executive Group (APRA Members)

The Members of the APRA Executive Group during the year were:

Dr John Laker (Chairman)
Mr Ross Jones (Deputy Chairman)
Mr Steve Somogyi (Member)

Transactions with APRA Member-related entities

There were no related entity transactions in 2004/05 (2003/04: $nil) in respect of APRA Members.

Loans to APRA Members and Member-related entities

There were no loans made to APRA Members or Member-related entities in 2004/05 (2003/04: $nil).

Note 17. Remuneration of officers [6]

	2005 $	2004 $
The aggregate amount of total remuneration of officers shown is:	**5,865,546**	4,833,012
The number of officers included in these figures is shown below in the relevant income bands:	**Number**	Number
$150,001 – $160,000	**1**	–
$170,001 – $180,000	**1**	1
$180,001 – $190,000	**1**	1
$190,001 – $200,000	**2**	1
$200,001 – $210,000	**2**	5
$210,001 – $220,000	**4**	4
$220,001 – $230,000	**4**	4
$230,001 – $240,000	**3**	1
$240,001 – $250,000	**3**	–
$250,001 – $260,000	**–**	1
$300,001 – $310,000	**–**	1
$330,001 – $340,000	**3**	1
$340,001 – $350,000	**1**	–
$350,001 – $360,000	**–**	1
Total number of officers	**25**	21

The remuneration of officers' table includes all officers concerned with or taking part in the management of APRA during 2004/05, whose total remuneration exceeded $100,000 except the APRA Members. Details in relation to the APRA Members are shown in Note 15 – *Remuneration of APRA Members*.

[6] The remuneration of officers' table has been revised in 2004/05 to include only those officers at the Executive General Manager and General Manager levels. The comparatives for 2004 have been restated. The effect is to reduce the total remuneration of officers from $10,736,573 to $4,833,012 and the total number of officers concerned from 58 to 21. Remuneration includes all components of salary including superannuation and increases in provisions for annual and long service leave.

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

Note 18. Remuneration of auditors

	2005 $	2004 $
Remuneration to Auditor-General for auditing the financial statements for the reporting period.		
The cost of services provided was:	**88,850**	81,025

The Auditor-General provided no other services during the reporting period.

Note 19. Average staffing levels

	Number	Number
The average number of employees for the Authority during the year was:	**532**	496

Note 20. Financial instruments

Note 20A. Terms, conditions and accounting policies

Financial instrument	Note	Accounting policies and methods (including recognition criteria and measurement basis)	Nature of underlying instrument (including significant terms and conditions affecting the amount, timing and certainty of cash flows)
Financial assets		Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured.	
Cash at bank and deposits at call	8A	Deposits are recognised at their nominal amounts. Interest is credited to revenue as it accrues.	Surplus funds are temporarily placed in the operating bank account with APRA's banker. Interest is earned on the daily balance at the prevailing daily rate and is paid on the first day of the following month.
Commonwealth and State Government securities	8A	Commonwealth and State Government securities are recognised at amortised cost (i.e. at original cost adjusted for amortisation to date of any discount or premium when originally issued). Interest is credited to revenue as it accrues.	APRA invests in securities with terms of up to 90 days. They are guaranteed by the issuing government and are traded in active markets. Effective interest rates averaged 5.23 per cent (2003/04: 4.90 per cent). Interest is paid on maturity.
Appropriations receivable	8B	Appropriations receivable are recognised at nominal amounts due less any provision for bad and doubtful debts. Collectability of levies is reviewed at balance date. Provisions are made when collection of the levy debt is judged to be less rather than more likely.	Credit terms for receivables are net 30 days (2003/04: 30 days).
Receivables for goods and services	8B	Receivables are recognised at the nominal amounts due less any provision for bad and doubtful debts. 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.	Credit terms for receivables are net 30 days (2003/04: 30 days).
Receivables for insurance recoveries and other revenue	8B	Receivables are recognised at the nominal amounts claimed from Comcover less any amounts expected to be uncollectible.	Credit terms for receivables are net 30 days (2003/04: 30 days).
Financial liabilities		Financial liabilities are recognised when a present obligation to another party is entered into and the amount of the liability can be reliably measured.	
Revenue in advance	10C	Where revenue is received in advance of the service being provided the balance relating to work yet to be completed is recognised as revenue in advance.	APRA will recognise the revenue in advance as revenue, as the related work is completed.
Trade creditors	10A	Creditors and accruals are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).	Settlement is usually made net 30 days.

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

Note 20. Financial instruments (continued)

Note 20B. Interest rate risk

Financial instrument	Notes	Floating interest rate 2005 $'000	Floating interest rate 2004 $'000	Fixed interest rate 1 year or less 2005 $'000	Fixed interest rate 1 year or less 2004 $'000	Fixed interest rate 1 to 2 years 2005 $'000	Fixed interest rate 1 to 2 years 2004 $'000	Fixed interest rate 2 to 5 years 2005 $'000	Fixed interest rate 2 to 5 years 2004 $'000	Non-interest bearing 2005 $'000	Non-interest bearing 2004 $'000	Total 2005 $'000	Total 2004 $'000	Weighted average effective interest rate 2005 %	Weighted average effective interest rate 2004 %
Financial assets (recognised)															
Cash at bank and deposits at call	8A	**15,022**	18,630	**–**	–	**–**	–	**–**	–	**–**	–	**15,022**	18,630	**4.96**	4.71
Cash on hand	8A	**–**	–	**–**	–	**–**	–	**–**	–	**2**	3	**2**	3	**n/a**	n/a
Commonwealth and State Government securities	8C	**–**	–	**9,919**	–	**–**	–	**–**	–	**–**	–	**9,919**	–	**5.23**	4.90
Appropriations receivable	8B	**–**	–	**–**	–	**–**	–	**–**	–	**105**	1,778	**105**	1,778	**n/a**	n/a
Goods and services receivable	8B	**–**	–	**–**	–	**–**	–	**–**	–	**2,224**	665	**2,224**	665	**n/a**	n/a
Accrued interest	8B	**–**	–	**–**	–	**–**	–	**–**	–	**90**	77	**90**	77	**n/a**	n/a
Other receivables	8B	**–**	–	**–**	–	**–**	–	**–**	–	**572**	559	**572**	559	**n/a**	n/a
Total financial assets (recognised)		**15,022**	18,630	**9,919**	–	**–**	–	**–**	–	**2,993**	3,082	**27,934**	21,712		
Total assets												**38,429**	31,758		
Financial liabilities (recognised)															
Revenue in advance	10C	**–**	–	**–**	–	**–**	–	**–**	–	**148**	1,061	**148**	1,061	**n/a**	n/a
Trade creditors	10A,B	**–**	–	**–**	–	**–**	–	**–**	–	**3,783**	4,665	**3,783**	4,665	**n/a**	n/a
Total financial liabilities (recognised)		**–**	–	**–**	–	**–**	–	**–**	–	**3,931**	5,726	**3,931**	5,726		
Total liabilities												**21,681**	20,705		

Note 20. Financial instruments (continued)

Note 20C. Net fair values of financial assets and liabilities

	Note	2005 $'000 Total carrying amount	2005 $'000 Aggregate net fair value	2004 $'000 Total carrying amount	2004 $'000 Aggregate net fair Value
Financial assets					
Cash at bank and at call	8A	**15,022**	**15,022**	18,630	18,630
Cash on hand	8A	**2**	**2**	3	3
Government securities	8C	**9,919**	**9,919**	–	–
Receivables – appropriations	8B	**105**	**105**	1,778	1,778
Receivables – goods and services	8B	**2,224**	**2,224**	665	665
Receivables – accrued interest	8B	**90**	**90**	77	77
Receivables – other	8B	**572**	**572**	559	559
Total financial assets		**27,934**	**27,934**	21,712	21,712
Financial liabilities (recognised)					
Trade creditors and other payables	10A,B	**3,783**	**3,783**	4,665	4,665
Revenue in advance	10C	**148**	**148**	1,061	1,061
Total financial liabilities (recognised)		**3,931**	**3,931**	5,726	5,726

Financial assets

The net fair values of cash, deposits at call, government securities and non-interest-bearing monetary financial assets approximate their carrying amounts.

Financial liabilities

The net fair values for trade creditors and other payables and revenue in advance are approximated by their carrying amounts.

Note 20D. Credit risk exposures

APRA's maximum exposures to credit risk at reporting date, in relation to each class of recognised financial assets, is the carrying amount of those assets as indicated in the *Statement of Financial Position*.

The economic entity has no significant exposures to any concentrations of credit risk.

All figures for credit risk referred to do not take into account the value of any collateral or other security.

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

Note 21: Administered items

Note 21A – Revenues administered on behalf of Government for the year ended 30 June 2005

	2005 $'000	2004 $'000
Revenues		
Taxation		
Financial Institutions Supervisory Levies		
current year Levies and penalties (see Table 1)[7]	**97,110**	86,868
current year Levies recognised in previous period	**–**	(28,192)
	97,110	58,676
Financial Assistance Levy and penalties (see Table 2)	**32,736**	7,616
Total taxation	**129,846**	66,292
Non-Taxation		
Enforceable Undertaking (superannuation entity)[8]	**–**	1,000
Total revenues administered on behalf of Government	**129,846**	67,292
Table 1: Financial Institutions Supervisory Levies revenue by levy type – Current year Levies and penalties[9]		
Levy:		
Superannuation funds	**39,899**	36,053
Authorised deposit-taking institutions	**30,735**	27,602
Life insurers and friendly societies	**10,513**	9,990
General insurers	**15,713**	13,016
Retirement savings account providers	**104**	114
Total Levies	**96,964**	86,775
Late payment penalties:		
Superannuation funds	**146**	87
Total late payment penalties	**146**	87
Late lodgement penalties:		
Superannuation funds	**–**	6
Total late lodgement penalties	**–**	6
Total current year Levies and penalties	**97,110**	86,868

[7] Current year levies and penalties include amounts for past years' levies and penalties invoiced in the current year.

[8] Payment by a trustee in settlement of any potential civil penalty actions against the trustee or its directors.

[9] Table 1 provides revenue details by levy type for the current and past years' levies (including where applicable current year amounts paid and recognised in the previous year).

	2005 $'000	2004 $'000
Table 2: Financial Assistance Levy and penalties		
Levy No. 2001/02:1 (Superannuation)		
Levy	**–**	7,596
Penalties	**1**	20
	1	7,616
Levy No. 2001/02:2 (Superannuation)		
Levy	**3,547**	–
Penalties	**–**	–
	3,547	–
Levy No. 2002/03:1 (Superannuation)		
Levy	**22,728**	–
Penalties	**–**	–
	22,728	–
Levy No. 2003/04:1 (Superannuation)		
Levy	**6,460**	–
Penalties	**–**	–
	6,460	–
Total Financial Assistance Levy and penalties	**32,736**	7,616

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

Note 21. Administered items (continued)

	2005 $'000	2004 $'000
Note 21B. Expenses administered on behalf of Government for the year ended 30 June 2005		
Expenses:		
Net write-down of assets		
Financial Institutions Supervisory Levies		
Levies and late payment penalties waived (see Table 1)[10]	**(577)**	(767)
Levies and late payment penalties written-off (see Table 2)	**(252)**	(13)
	(829)	(780)
Financial Assistance Levy		
Levies and late payment penalties written-off (see Table 3)	**(4)**	(6)
Total expenses administered on behalf of the Government	**(833)**	(786)
Table 1: Financial Institutions Supervisory Levies – Levies and late payment penalties waived by levy type		
Superannuation funds	**(154)**	(436)
Life insurers	**–**	(331)
General insurers	**(423)**	–
Total levies and late payment penalties waived	**(577)**	(767)
Table 2: Financial Institutions Supervisory Levies – Levies and late payment penalties written-off by levy type		
Superannuation funds	**(34)**	(13)
Life insurers and friendly societies	**(218)**	–
Total levies written-off	**(252)**	(13)
Table 3: Financial Assistance Levy – Levies and late payment penalties written-off		
Financial assistance levy No. 2001/02: 1 (Superannuation)	**(4)**	(6)
Total Financial Assistance Levies written-off	**(4)**	(6)

[10] The number of levies and late payment penalties waived in 2005 was 139 (2004: 127). These waivers were made under section 12 of the *Financial Institutions Supervisory Levies Collection Act 1998*. The total amount of these waivers was $576,930 (2004: $766,844).

Note 21C – Assets administered on behalf of Government as at 30 June 2005

	2005 $'000	2004 $'000
Financial assets		
Cash		
Cash at bank	**246**	–
Receivables		
Financial Institutions Supervisory Levies		
Superannuation levies	**53**	125
Less: Provision for doubtful debts	**(26)**	(35)
Net Financial Institutions Supervisory Levies receivable	**27**	90
Financial Assistance Levy receivable	**3,947**	14
Total receivables	**3,974**	104
Accrued revenue		
Financial Institutions Supervisory Levies		
Superannuation levies	**–**	–
Total accrued revenues	**–**	–
Total financial assets	**4,220**	104
Total assets administered on behalf of Government	**4,220**	104
Receivables which are overdue are aged as follows:		
Not overdue	**13**	8
Overdue by:		
– Less than 30 days	**3,950**	6
– 30 to 60 days	**7**	4
– 60 to 90 days	**6**	24
– more than 90 days	**24**	97
Total levies receivable	**4,000**	139
The provision for doubtful debts is aged as follows:		
Not overdue	**–**	–
Overdue by:		
– Less than 30 days	**–**	–
– 30 to 60 days	**–**	–
– 60 to 90 days	**–**	(2)
– more than 90 days	**(26)**	(33)
Total provision for doubtful debts	**(26)**	(35)
Total receivables (net)	**3,974**	104

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

Note 21. Administered items (continued)

Note 21D – Administered reconciliation table

	2005 $'000	2004 $'000
Opening administered assets less administered liabilities at 1 July	**104**	2,159
Plus administered revenues	**129,846**	66,292
Plus penalty collected	**–**	1,000
Less administered expenses	**(833)**	(786)
Plus transfers from Official Public Account for refunds	**976**	825
Less transfers to Official Public Account	**(125,873)**	(69,386)
Closing administered assets less administered liabilities	**4,220**	104

There were no administered commitments or contingencies for 2004/05 (2003/04: $nil)

Note 21E – Administered financial instruments

(a)Terms, conditions and accounting policies

Financial instrument	Note	Accounting policies and methods (including recognition criteria and measurement basis)	Nature of underlying instrument (including significant terms and conditions affecting the amount, timing and certainty of cash flows)
Financial assets		Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured.	
Receivables for levies	21C	Receivables are recognised at the nominal amounts due less any provision for bad and doubtful debts. 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.	Credit terms for levies comply with the due date for payment of levies, as specified under the *Financial Institutions Supervisory Levies Collection Act 1998*. Administered revenue arising from levies on superannuation entities (including the Financial Assistance Levy) is recognised upon issue of invoice while administered revenue in respect of levies on all other entities is recognised on the date it becomes due and payable to APRA or on the date the payment is received, whichever occurs first. Levies are recognised at the nominal amounts due less any provision for bad or doubtful debts. 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.
Accrued revenues	21C	Accrued revenues are recognised at the nominal amounts as they accrue. The amount recognised relates to superannuation returns which have been lodged but for which the related levies have not been invoiced as at the end of the financial year.	

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

Note 21. Administered items (continued)

Note 21F – Administered financial instruments (continued)

(b) Interest rate risk

	Note	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Financial instrument		**Non-interest bearing**		**Total**	
Financial assets (recognised)					
Cash	21C	**246**	–	**246**	–
Receivables	21C	**3,974**	104	**3,974**	104
Accrued revenue	21C	**–**	–	**–**	–
Total financial assets (recognised)		**4,220**	104	**4,220**	104
Total assets		**4,220**	104	**4,220**	104

(c) Net fair values of financial assets

	Note	2005 $'000	2004 $'000	2005 $'000	2004 $'000
		Total carrying amount	**Aggregate net fair value**	**Total carrying amount**	**Aggregate net fair value**
Financial assets					
Cash	21C	**246**	246	**–**	–
Receivables	21C	**3,974**	3,974	**104**	104
Accrued revenue	21C	**–**	–	**–**	–
Total financial assets		**4,220**	4,220	**104**	104

Financial assets

The net fair values of financial assets approximate their carrying amounts.

(d) Credit risk exposures

The Commonwealth's maximum exposures to credit risk at reporting date, in relation to each class of recognised financial assets, is the carrying amount of those assets as indicated in Note 21C.

The Commonwealth's highest credit risk exposure is levies of $3,999,336 (2004: $124,324) receivable at 30 June 2005 from superannuation funds regulated by APRA, for supervisory and Financial Assistance Levies. The asset has been recognised in Note 21C, net of a provision for doubtful debts.

Note 22. Appropriations

The table in Note 22A and Table 1 in Note 22B report on appropriations made by the Parliament out of the Consolidated Revenue Fund (CRF) in respect of the Authority. When received by the Authority, the payments made are legally the money of the Authority and do not represent any balance remaining in the CRF. Note 22C relates to a Special Appropriation, which is administered on behalf of the Government.

Note 22A. Acquittal of Authority to draw cash from the Consolidated Revenue Fund for Ordinary Annual Services Appropriations

	2005 $'000	2004 $'000	**2005 $'000**	2004 $'000
Particulars	**Departmental outputs**		**Total**	
Appropriation Act No.3 (2001/02)				
Purpose: funding in respect of HIH Royal Commission				
Balance carried forward from previous year	**–**	2,000	**–**	2,000
Available for payment from CRF	**–**	2,000	**–**	2,000
Cash payments made out of CRF	**–**	(2,000)	**–**	(2,000)
Balance carried forward to next year	**–**	–	**–**	–

	2005 $'000	2004 $'000	**2005 $'000**	2004 $'000
Particulars	**Departmental outputs**		**Total**	
Appropriation Act No. 1 (2004/05)				
Purpose: funding of APRA – Outcome 1				
Balance carried forward from previous year	**–**	–	**–**	–
Available for payments from CRF	**1,000**	–	**1,000**	–
Cash payments made out of CRF	**(1,000)**	–	**(1,000)**	–
Balance carried forward to next year	**–**	–	**–**	–

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

Note 22B. Acquittal of Authority to draw cash from the Consolidated Revenue Fund – Special Appropriations (limited amount)

Particulars	Departmental outputs 2005 $'000	Departmental outputs 2004 $'000	Equity 2005 $'000	Equity 2004 $'000	Total 2005 $'000	Total 2004 $'000
***Australian Prudential Regulation Authority Act 1998* – section 50**						
Purpose: funding of APRA						
Amount available carried from previous period	**1,778**	1,126	**–**	–	**1,778**	1,126
Prior year balance adjustment	**(8)**	(3)	**–**	–	**(8)**	(3)
Appropriation for reporting period	**77,212**	69,285	**3,000**	–	**80,212**	69,285
Available for payments	**78,982**	70,408	**3,000**	–	**81,982**	70,408
Cash payments made during the year	**(78,877)**	(68,630)	**(3,000)**	–	**(81,877)**	(68,630)
Amount available carried to the next period	**105**	1,778	**–**	–	**105**	1,778
Represented by:						
Appropriations receivable	**105**	1,778	**–**	–	**105**	1,778

Note 22C. Acquittal of Authority to draw cash from the Consolidate Revenue Fund – Special Appropriations (refund provisions)

Particulars	Administered 2005 $'000	Administered 2004 $'000	Total 2005 $'000	Total 2004 $'000
***Financial Management and Accountability Act 1997* section 28** [11]				
Purpose: to refund overpayments of levies by financial institutions				
Cash payments made during the year	**(976)**	(825)	**(976)**	(825)
Total charged to special appropriation	**(976)**	(825)	**(976)**	(825)
Budget estimate	**–**	–	**–**	–

[11] Department of Finance and Administration is responsible for this Special Appropriation.

Note 23. Assets held in trust

Services for other Governments and non-agency bodies account

This account existed under the predecessor agency the Insurance and Superannuation Commission. Upon transformation of that agency to APRA on 1 July 1998, there was a nil balance in that account and no transactions have occurred since that time. Balance at 30 June 2005 is nil.

Tunstall Bond Superannuation Fund Trust Account

This account was established by APRA following a Deed of Settlement entered into between APRA and the former Trustees of the Tunstall Bond Superannuation Fund, arising from legal proceedings against the former Trustee under the *Superannuation Industry (Supervision) Act 1993*. Under the Deed the former Trustees are required to pay certain amounts to APRA to be held in trust by APRA until ordered by the court to disperse the funds in a manner to be determined. Total receipts include interest earned on the amounts paid by the former Trustee.

	2005 $'000	2004 $'000
Total held at beginning of period	–	–
Total receipts during reporting period	369	–
Total payments during reporting period	–	–
Total held by APRA at the end of the reporting period (cash)	**369**	–

Note 24. Special account

Superannuation Protection Account

This account was established under section 234 of the *Superannuation Industry (Supervision) Act 1993* to facilitate the payment and recovery of financial assistance provided to superannuation fund members suffering adverse outcomes resulting from fraud and misappropriation by fund trustees. There were no transactions to this account in 2004/05 (2003/04: $nil). All financial assistance payments by Treasury and recoveries by APRA made to date have been transacted directly from and to the Consolidated Revenue Fund.

Note 25. Reporting of outcomes

Note 25A – Outcomes of the Authority

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, which balances financial safety and efficiency, competition, contestability and competitive neutrality.

Only one output group is identified for the outcome. The output group consists of three outputs: policy development, surveillance program and prudential advice.

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

Note 25. Reporting of outcomes (continued)

Note 25B – Net cost of outcome delivery

	2005 $'000	2004 $'000
		Outcome 1
Expenses		
Administered	**833**	786
Departmental	**82,047**	74,231
Total Expenses	**82,880**	75,017
Costs recovered		
Administered	**–**	–
Departmental:		
Sale of goods and services	**2,229**	1,795
License fees and charges	**959**	411
Total costs recovered	**3,188**	2,206
Other external revenues		
Administered:		
Financial Institutions Supervisory Levies	**97,110**	58,676
Financial Assistance Levy	**32,736**	7,616
Enforcement penalty	–	1,000
Total Administered	**129,846**	67,292
Departmental:		
Sale of goods and services – to related entities	**684**	550
Interest	**2,216**	1,731
Revenue from sale of assets	**–**	9
Rental recoveries	**492**	970
Insurance recoveries and other revenue	**59**	523
Total departmental (Authority)	**3,451**	3,783
Total other external revenues	**133,297**	71,075
Total revenues	**136,485**	73,281
Net cost/(contribution) of outcome	**(53,605)**	1,736

The output reporting is derived from the APRA internal activity system which captures the time spent by each employee on the three published outputs: policy development, surveillance program and prudential advice. Expenses are tracked for each cost centre and aggregated for each output. Expenses relating to the HIH Royal Commission are treated under prudential advice. Revenue is apportioned based on the weighted average percentages for each output.

The net costs shown include intra-government costs that would be eliminated in calculating the actual budget outcome.

Note 25C – Major Departmental (Authority) revenues and expenses by output groups and outputs

OUTCOME #1	Output 1.1.1 policy development 2005 $'000	2004 $'000	Output 1.1.2 surveillance program 2005 $'000	2004 $'000	Output 1.1.3 prudential advice 2005 $'000	2004 $'000	Total 2005 $'000	2004 $'000
Departmental expenses								
Employees	**8,469**	4,458	**42,014**	38,577	**2,568**	3,883	**53,051**	46,918
Suppliers – normal operations	**4,170**	2,192	**19,891**	18,955	**1,000**	1,907	**25,061**	23,054
Depreciation and amortisation	**318**	376	**3,527**	3,252	**90**	328	**3,935**	3,956
Write-off of assets and value of assets sold	**–**	29	**–**	249	**–**	25	**–**	303
Total departmental expenses	**12,957**	7,055	**65,432**	61,033	**3,658**	6,143	**82,047**	74,231
Funded by:								
Revenues from Government	**10,099**	6,680	**63,736**	57,809	**5,353**	5,820	**79,188**	70,309
Sale of goods and services	**514**	223	**3,245**	1,928	**172**	194	**3,931**	2,345
Rent recoveries	**64**	92	**406**	798	**22**	80	**492**	970
Interest	**290**	165	**1,829**	1,423	**97**	143	**2,216**	1,731
Proceeds from disposal of assets	**–**	1	**–**	7	**–**	1	**–**	9
Revaluation decrement reversal	**36**	–	**226**	–	**12**	–	**274**	–
License fees and other charges	**–**	39	**–**	338	**–**	34	**–**	411
Insurance recoveries and other revenue	**–**	–	**–**	–	**–**	523	**–**	523
Total departmental revenues	**11,003**	7,200	**69,442**	62,303	**5,656**	6,795	**86,101**	76,298

Note 25D –Major classes of administered revenues and expenses by outcome

	2005 $'000	2004 $'000
		Outcome 1
Revenues		
Financial Institution Supervisory Levies	**97,110**	58,676
Financial Assistance Levy	**32,736**	7,616
Enforceable undertaking	**–**	1,000
Total revenues	**129,846**	67,292
Expenses		
Levies waived	**577**	767
Levies written-off	**252**	13
Financial Assistance Levy written-off	**4**	6
Total expenses	**833**	786

The Authority's outcome is described at Note 25A.

INDEPENDENT AUDIT REPORT

To the Minister for Revenue and Assistant Treasurer

<u>Scope</u>

The financial statements and Members' responsibilities

The financial statements comprise:

– Statement by Members;

– Statements of Financial Performance, Financial Position and Cash Flows;

– Schedules of Commitments, Contingencies and Administered Items; and

– Notes to and forming part of the Financial Statements

of the Australian Prudential Regulation Authority for the year ended 30 June 2005.

The Members of the Australian Prudential Regulation Authority (the Authority) are responsible for preparing the financial statements that give a true and fair view of the financial position and performance of the Authority, and that comply with the Finance Minister Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*, accounting standards and other mandatory financial reporting requirements in Australia. The Members are also responsible for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial statements.

Audit approach

I have conducted an independent audit of the financial statements in order to express an opinion on them to you. My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing and Assurance Standards, in order to provide reasonable assurance as to whether the financial statements are free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive, rather than conclusive, evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

While the effectiveness of management's internal controls over financial reporting was considered when determining the nature and extent of audit procedures, the audit was not designed to provide assurance on internal controls.

PO Box A456 Sydney South NSW 1235
130 Elizabeth Street
SYDNEY NSW
Phone (02) 9367 7100 Fax (02) 9367 7102

I have performed procedures to assess whether, in all material respects, the financial statements present fairly, in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*, including accounting standards and other mandatory financial reporting requirements in Australia, a view which is consistent with my understanding of the Authority's financial position, and of its performance as represented by the statements of financial performance and cash flows.

The audit opinion is formed on the basis of these procedures, which included:

– examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial statements; and

– assessing the appropriateness of the accounting policies and disclosures used, and the reasonableness of significant accounting estimates made by the Members.

Independence

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

Audit 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 *Commonwealth Authorities and Companies Act 1997*; and

(b) give a true and fair view of the Australian Prudential Regulation Authority(b) give a true and fair view of the Australian Prudential Regulation Authority's financial position as at 30 June 2005 and of its performance and cash flows for the year then ended, in accordance with:

(i) the matters required by the Finance Minister's Orders; and

(ii) applicable accounting standards and other mandatory financial reporting requirements in Australia.

Australian National Audit Office

P Hinchey
Senior Director
Delegate of the Auditor-General

Sydney
19 August 2005

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STATUTORY REPORT

STATUTORY REPORT

Statutory reporting requirements index

APRA has reported in accordance with the following Commonwealth legislation:

- *Australian Prudential Regulation Authority Act 1998;*
- *Commonwealth Authorities and Companies Act 1997;*
- *Environmental Protection and Biodiversity Conservation Act 1999;*
- *Equal Employment Opportunity (Commonwealth Authorities) Act 1987;*
- *Freedom of Information Act 1992;*
- *Occupational Health and Safety (Commonwealth Employment) Act 1991; and*
- *Commonwealth Fraud Control Guidelines and the Department of the Prime Minister and Cabinet Guidelines.*

Australian Prudential Regulation Authority Act 1998 (APRA Act)

Report under section 59

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; 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 2004/2005. There were no continuing appointments during the year.

APRA exercised its powers under Part 15 of the RSA Act and under Part 29 of the SIS Act as set out below:

Exemption number	Date	Provision of SIS Act / regulations exempted
142	30/06/04	Regulations 9.29 and 9.30
143	04/08/04	Sub-regulation 9.04D(1)
144	04/08/04	Sub-regulation 9.04D(1)
145	27/08/04	Regulations 9.29 and 9.30
146	18/08/04	Sub-regulation 9.04D(1)
147	16/09/04	Regulations 9.08, 9.09, 9.17, 9.23, 9.24, 9.29 and 9.30
148	26/10/04	Regulation 9.29
149	19/10/04	Divisions 9.2A and 9.2B of the SIS regulations
150	25/10/05	Regulation 9.29
151	01/11/04	Sub-section 93(4)
152	01/12/04	Sub-regulation 9.04D(1)
153	18/01/05	Regulation 9.29
154	01/02/05	Sub-regulation 9.04D(1)
155	02/03/05	Sub-section 93(4)
156	17/02/05	Sub-section 93(4)
157	04/05/05	Sub-regulation 6.17(2)
158	16/03/05	Sub-section 93(4)
159	11/04/05	Sub-regulation 6.17(2)
160	05/04/05	Sub-regulations 9.04D(1), (2) and (3)
161	22/04/05	Sub-regulation 9.04D(1)
162	05/04/05	Sub-regulations 6.18(1) and 6.19(1)
163	22/04/05	Sub-regulation 9.04D(1)
165	13/04/05	Sub-regulation 9.04D(1)
166	13/04/05	Sub-regulation 9.04D(1)
167	23/05/05	Paragraph 93(3)(a)
168	08/06/05	Sub-regulation 6.17(2)
170	29/06/05	Regulation 9.29
171	02/05/05	Regulation 9.29

Modification declaration number	Date	Provision of RSA regulations modified
1	02/05/05	Sub-regulations 4.24(1) and 4.24(2)

Modification declaration number	Date	Provision of SIS regulations modified
24	02/05/05	Sub-regulations 6.21(1) and 6.21(1A)

Commonwealth Authorities and Companies Act 1997 (CAC Act)

Auditor-General's activities

During 2004/05, the Australian National Audit Office (ANAO) conducted a follow-up audit to assess the extent to which APRA has implemented recommendations arising out of the ANAO's 2001 performance audit of bank prudential supervision. The ANAO's report was tabled in July 2005. The report noted that APRA had fully implemented a number of recommendations from the 2001 review and made progress in implementing the others. There were no new recommendations arising from the follow-up audit. The ANAO's findings are discussed more fully on page 13 in this Report.

In addition, see page 59 of the *Financial statements* in this Report.

Executive Group attendance

See page 54 of the *Governance* section of this Report.

Executive Group qualifications

See pages 54-55 of the *Governance* section of this Report.

Statement by Members

See page 58 of the *Financial statements* in this Report.

Courts and tribunals

Over 2004/05, there were no significant developments in external scrutiny of APRA, including judicial decisions or comments, or decisions or comments made by an administrative tribunal that had, or may have had, a significant effect on APRA's operations.

APRA's supervisory capabilities section of this Report contains details of court and tribunal decisions relating to enforcement action taken by APRA during the year.

Enabling legislation and information on purpose and functions

APRA's purpose, powers and functions are set out in sections 8, 9, 9A and 11 of the APRA Act.

APRA's purpose is to regulate bodies in the financial sector in accordance with the laws of the Commonwealth that provide for prudential regulation or retirement income standards, and for developing the administrative practices and procedures to be applied in performing that regulatory role. 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.

Financial statements

See page 60 of the *Financial statements* in this Report.

Indemnities and insurance premiums

APRA entered into indemnity agreements with APRA Members and, as required, officers consistent with, and to the extent allowed by, section 27M of the CAC Act.

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

Location

See the inside back cover of this Report.

Organisation chart

See page 126 of this Report.

Parliamentary committees

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

During 2004/05, APRA Members and officers made themselves available for public hearings before, or made written submissions to, the following Committees:

– the Senate Economics Legislation Committee (sitting as Senate Estimates);

– the Senate Economics Legislation Committee: Reference on the *Superannuation Bill 2005*, the *Superannuation (Consequential Amendments) Bill 2005* and the *Superannuation Legislation Amendment (Choice of Superannuation Funds) Bill 2005*;

– the Senate Economics References Committee *(Senate inquiry into possible links between household debt, demand for imported goods and Australia's current account deficit)*; and

– the Joint Committee of Public Accounts and Audit *(JCPAA Report 402 – Review of Auditor General's Reports 2003-2004, First and Second Quarters)*.

In addition, APRA Members and officers held an informal briefing with members of the House of Representatives Standing Committee on Economics, Finance and Public Administration.

Privacy Commission

There were no investigations by the Privacy Commissioner under section 36 of the *Privacy Act 1988* during 2004/05. No reports were served under section 30 of the Act. The Privacy Commission made no determinations under section 52, nor did APRA seek any under section 72.

There were no adverse or favourable comments made by the Privacy Commission in respect of APRA's operations.

Privacy inquiries relating to APRA should be addressed to:

The Privacy Officer
Legal Services
Australian Prudential Regulation Authority
GPO Box 9836
Sydney NSW 2001

Phone: 02 9210 3000
Fax: 02 9210 3424

Responsible ministers

The Hon Peter Costello MP, Treasurer of the Commonwealth of Australia, has portfolio responsibility for APRA.

He is assisted in this by the Hon Mal Brough MP, Minister for Revenue and Assistant Treasurer.

Review of operations and prospects

See the narrative section of this Report, beginning on page 4.

Risk Management and Audit Committee attendance

See page 54 of the *Governance* section of this Report.

Statement on governance

See the *Governance* section of this Report.

Equal Employment Opportunity (Commonwealth Authorities) Act 1987 (EEO Act)

Workplace diversity program report

APRA is continuing to take a proactive and innovative approach in meeting its responsibilities under the EEO Act. This includes the creation of flexible and inclusive employment that values and utilises the contribution of people of different backgrounds, experiences, perspectives and abilities. This strategy retains the essential EEO principles in relation to non-discrimination and equal employment opportunity, and also recognises the broader concept of diversity in ensuring a tolerant workplace free from all forms of harassment.

In 2004/2005, APRA extended the function of the Women's Steering Committee by forming a Workplace Diversity Taskforce, to examine how APRA can support and make best use of its highly diverse workforce. The purpose of the Taskforce is:

- to develop and oversee the implementation of APRA's Workplace Diversity Strategy and further policy initiatives relating to managing workplace diversity, with particular reference to statutorily designated and other relevant groups; and
- to promote awareness of, and commitment to, workplace diversity objectives and strategies and to evaluate the success of APRA's approach.

EEO staff data: Staff diversity as at 30 June 2005

Level	Female	Male	ATSI	NESB1	NESB2	PWD
Level 1	63	22	0	10	7	2
Level 2	78	52	0	24	9	2
Level 3	77	85	0	42	6	0
Level 4	38	93	0	26	3	1
Senior	13	69	1	13	1	1
Executive	0	7	0	2	0	0
Total	**269**	**328**	**1**	**117**	**26**	**6**

NESB1 Non-English-speaking background, first generation

NESB2 Non-English-speaking background, second generation

ATSI Aboriginal and Torres Strait Islander

PWD People with disability

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 2004/05, APRA received 37 applications under the FOI Act, including two applications for internal review.

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

Granted in full	3
Granted in part	14
Access refused	3
Withdrawn	17
Transferred to another agency	0
On hand at 30 June 2005	0
Total	**37**

While charges collected were $1,237.70, the estimated cost of handling FOI requests in 2004/05 was $9,500.

In May 2004, a number of Commonwealth agencies, including APRA, were selected to be the subject of an investigation by the Commonwealth Ombudsman on the quality of agency processes for dealing with FOI requests. APRA has cooperated with the investigation by answering a questionnaire and providing a number of files to the Ombudsman. The Ombudsman has yet to advise the results of this investigation.

Initial contact for requests under FOI Act

Requests under the FOI Act should be made in writing, together with the prescribed fee, to:

The FOI Coordinator
Legal Services
Australian Prudential Regulation Authority
GPO Box 9836
Sydney NSW 2001

Phone: 02 9210 3000
Fax: 02 9210 3424

Access to documents

APRA is increasingly using the internet to make its publications available to the public free of charge from the APRA website. Some publications, however, attract a charge. The website contains applications, regulatory information, prudential statements, circulars and guidelines covering the types of entities that APRA regulates. These may be changed over time with the completion of various projects.

In addition, a list of documents that are used by APRA in making decisions or recommendations for the purposes of legislation administered by APRA, made under section 9 of the FOI Act, has been lodged with the Freedom of Information Controller at National Archives of Australia in Canberra. This list is currently under revision.

Questions about publications should be made to:

Public Affairs
Australian Prudential Regulation Authority
GPO Box 9836
Sydney NSW 2001
AUSTRALIA

Phone: 02 9210 3000
Fax: 02 9210 3170

Categories of documents

APRA maintains the following categories of documents covered by section 8(1) (a)(iii) of the FOI Act:

- documents open to public access as part of a public register in accordance with an enactment where access is subject to a fee or other charge:
  - accounts and auditor certificates relating to general insurers available under the former section 122 of the *Insurance Act 1973*;
- other documents available for purchase by the public in accordance with arrangements made with APRA:
  - life insurance publications (financial diskette containing annual data and market statistics from half-yearly data);
- documents made available to the public free via APRA's website at **www.apra.gov.au**
  - lists of regulated entities and industry bodies;
  - prudential standards and rules made under the *Banking Act 1959*, the *Insurance Act 1973* and the *Life Insurance Act 1995*, and guidance notes;
  - transitional prudential standards made under the *Financial Sector Reform (Amendments and Transitional Provisions) Regulations 1999*;
  - reporting standards made under the *Financial Sector (Collection of Data) Act 2001* together with reporting forms and instructions for the lodgement of returns;
  - transfer rules made under the *Financial Sector (Transfers of Business) Act 1999*;
  - class consent under section 66 of the *Banking Act 1959*;
  - market statistics (including APRA *Insight*) and other research material;

- policy discussion papers;
- media releases;
- seminar papers and copies of speeches given by APRA Members and officers;
- *Points of Presence* (concerning the availability of banking services in rural and regional areas);
- insurance and superannuation bulletins;
- corporate information;
- procedural guidelines;
- enabling legislation; and
- indexed file list for the purposes of Senate Continuing Order No. 6.

Consultative arrangements

In most cases, APRA consults with regulated entities and industry bodies prior to formulating or amending prudential policies or finalising prudential standards.

Executive and consultative committees from 1 July 2004 to 30 June 2005

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.

Leadership Team

The Leadership Team, which comprises APRA Members, Executive General Managers, General Managers and the Head of Statistics Unit, meets twice a year to develop APRA's business plan and to monitor performance against it, and to discuss major operational issues.

Industry groups

There are four groups which cover the following sectors:

- ADIs;
- superannuation;
- general insurance; and
- life insurance.

These groups are the key forum for addressing and seeking an APRA-wide consensus on emerging industry issues. Their main roles are to liaise with industry so as to identify emerging trends and to act as a sounding board for prudential policy issues in the regulated industries, prior to presentation of these issues to the Executive Group.

Cross-Divisional Licensing Committee

The Committee seeks to ensure consistency in licensing practice and application across all APRA-regulated industries. It provides APRA-wide guidance on issues which need to be considered in licensing submissions and, after consideration of an application, recommends to the relevant Executive General Manager the action which should be taken.

Information Technology Governance Committee

This Committee, which replaces the previous IT Operating Committee, has been established to ensure strong IT governance and alignment with APRA's business needs. The level of management representation on the Committee has been raised to reflect the more strategic use of IT within APRA.

Learning and Development Advisory Group

The Group facilitates communication and consultation with staff on the development and implementation of the learning and development strategy.

Occupational Health, Safety and Well-being Committee

The Committee focuses on issues to do with the health, safety and well-being of staff and ensures that these are integrated into broader management systems and practices.

Policy Steering Committee

The Committee's role is to provide advice to relevant Policy, Research and Statistics staff on APRA's preferences for new policy formation. It reviews policy priorities and provides input to the Division's reports to senior management.

Staff Consultative Group

The 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.

Women's Steering Committee

See Workplace Diversity Program Report.

Environment Protection and Biodiversity Conservation Act 1999

Ecologically sustainable development and environmental performance

Under Section 516A of the *Environment Protection and Biodiversity Conservation Act 1999*, APRA is required to report on its contribution to ecologically sustainable development and other environmental matters.

In early 2003, APRA released its Environmental Policy Statement, which reinforced its commitment to managing environmental matters and to the implementation of an Environmental Management System.

In the *Energy Use in Commonwealth Operations – Report for 2002-2003*, the Department of Industry Science and Resources showed that overall energy consumption per person in APRA offices was 8,701 MJ, which was well below the target of 10,000 MJ/person.

APRA continues to take practical steps to reduce energy consumption in its main tenancies, with zone-controlled lighting systems for after-hours use and recycling of printer cartridges, paper and cardboard. In addition, APRA has contracted to utilise above the recommended level of green power when renewing energy contracts.

Commonwealth Fraud Control Guidelines

Fraud control

The Chairman of APRA certifies that he is satisfied that:

- fraud risk assessments and fraud control plans have been prepared that comply with the *Commonwealth Fraud Control Guidelines*;
- appropriate fraud prevention, detection, investigation and reporting procedures and processes are in place; and
- annual fraud data has been collected and reported that complies with the *Commonwealth Fraud Control Guidelines*.

Occupational Health and Safety (Commonwealth Employment) Act 1991 (OHS Act)

Details of investigations and other matters as prescribed

The following information is presented in accordance with section 74 of the OHS Act.

In compliance with reporting obligations under the OHS Act, there were:

- no investigations conducted during the year that related to undertakings carried out 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.

Measures taken to ensure health, safety and welfare of employees and contractors

Responsibilities imposed by the OHS Act were identified and allocated to individual staff members. This includes the identification and training of health and safety staff representatives at all work locations.

Procedures for dealing with health and safety issues are published on APRA's intranet site and are included in induction programs.

APRA's policy and procedures are maintained with the assistance of a consultant occupational therapist to identify, assess and control hazards associated with work processes, particularly computer-based work.

First-aid services for the treatment of work-related injury or illness, including appropriately trained first-aid officers, are situated at all work locations. Rehabilitation services and support are provided to injured employees with ongoing consultation for affected employees.

OHS policies including agreement with employees, establishment of committees and selection of health and safety representatives

APRA has arrangements for consultation on all OHS issues, including maintenance of the OHS committee with four staff representatives and four management representatives.

The OHS committee satisfies all the requirements of the legislation, including meeting at least every three months and providing all staff with access to minutes of the meetings.

Statistics requiring the giving of notice under section 68

During the year, 29 incidents were notified to APRA, none of which required a report to Comcare in accordance with section 68 of the OHS Act. The incidents were in the following locations:

Location	Number
On APRA premises	11
Home to work/work to home	5
Other	13
Total	**29**

Prime Minister and Cabinet Guidelines

Commonwealth Disability Strategy

APRA is developing a disability action plan to ensure adherence to the Commonwealth's Disability Strategy as a provider, principally of information and, to a more limited extent, services to the public.

APRA continues to ensure that there are no obstacles to those with disabilities contained in its employment practices and procedures or to public access to information through APRA's distribution channel, the internet. For those services that are not provided electronically (particularly early release of superannuation benefits), there is ongoing assessment to ensure that particular groups are not excluded either by virtue of financial circumstance or physical or intellectual disability.

Consultancies

APRA's policy on procurement includes specific provisions on consultants and contractors. Considerations prior to engagement include whether in-house resources are available; the cost-effectiveness of the operation and whether the project is essential; availability of funds; a selection and evaluation process resulting in fair competition, effective services and value for money; project definition and outcomes; and superannuation implications.

The main purposes for which consultants were engaged were audit services; training; financial and accounting services; IT consultancies; legal advice; litigation services; recruitment selection, administration and outplacement and counselling; and professional services.

In 2004/05, the total number of consultants engaged was 73 and the total amount paid was $6.9 million.

Performance pay

APRA has a performance bonus system, designed in consultation with staff and management and covering all employees. For 2004/05, the aggregate bonus pool was just over $2.65 million. Bonuses were paid in late July 2005.

Staff statistics

Staff by location and full-time/part-time as at 30 June 2005

Location	Full-time	Part-time	Total
Adelaide	5	0	5
Brisbane	18	4	22
Canberra	26	25	51
Melbourne	67	4	71
Perth	8	0	8
Sydney	421	19	440
Total	**545**	**52**	**597 ***

Staff by division and full-time/part-time as at 30 June 2005

Division	Full-time	Part-time	Total
Corporate	111	29	140
Diversified Institutions	93	2	95
Policy, Research and Statistics	67	6	73
Specialised Institutions	142	11	153
Supervisory Support	132	4	136
Total	**545**	**52**	**597 ***

* Including 17 fixed term positions for superannuation licensing.

Organisation Chart

- Executive General Manager
  Diversified Institutions
  Wayne Byres
  - General Manager
    Branch 1
    Mark Baxter
  - General Manager
    Branch 2
    Graham Johnson
  - General Manager
    Branch 3
    Denis Wilkinson
  - General Manager
    Branch 4
    Keith Chapman
- Executive General Manager
  Specialised Institutions
  Brandon Khoo
  - General Manager
    Central Region
    Senthamangalam Venkatramani
  - General Manager
    Northern Region
    Puay Sim
  - General Manager
    South West Region
    Stephen Glenfield
  - General Manager
    Superannuation Licensing
    Tony Randle

Executive Group

Dr John Laker (Chairman)
Mr Ross Jones (Deputy Chairman)
Mr Steve Somogyi (Member)

Risk Management and Audit Committee

- Executive General Manager, Supervisory Support — Tom Karp
  - General Manager, Industry Technical Services — Heidi Richards
  - General Manager, Actuarial Services — David Rush
  - General Manager, Specialist Risk Services — Helen Martin
  - General Counsel, Legal Services — Patrick Meaney
  - General Manager, Enforcement — Darryl Roberts
  - General Manager, FSAP — David Lewis
- Executive General Manager, Policy, Research and Statistics — Charles Littrell
  - General Manager, Policy Development — Greg Brunner
  - Program Director, Basel II — Bernie Egan
- Secretary — Thea Rosenbaum
- Chief Financial Officer — Jim Flaye
- General Manager, Human Resources — Peter Vodicka
- Chief Information Officer — Colin Cayless
- General Manager, Risk Assessment and Internal Audit — Paul Thompson
- General Manager, Business Improvement Unit — John Doble
- Head of Public Affairs — Ardele Blignault

Info line: 1300 13 1060

Website: www.apra.gov.au

Email: APRAinfo@apra.gov.au

HEAD OFFICE

New South Wales

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