APRA

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ANNUAL REPORT

AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY

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

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

APRA currently supervises institutions holding $4.5 trillion in assets for Australian depositors, policyholders and superannuation fund members.

ANNUAL REPORT 2013

AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY

Australian Prudential Regulation Authority

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John F. Laker AO
CHAIRMAN

14 October 2013

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

Dear Treasurer,

In accordance with Section 59 of the *Australian Prudential Regulation Authority Act 1998*, I am pleased to submit the Australian Prudential Regulation Authority Annual Report and Financial Statements for the year ended 30 June 2013.

Yours sincerely,

John Laker

APRA VISION, MISSION AND VALUES

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

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

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

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

- Integrity
- Collaboration
- Professionalism
- Foresight
- Accountability

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

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1

THE SHADOWS LIFT

The long shadows cast by the global financial crisis began to lift, albeit slowly, in 2012/13. Exceptional monetary policy actions in a number of major economies played a pivotal role.

The low interest rates and ample liquidity generated by these actions underpinned a continued moderate expansion in the US economy and a strong pick-up in Japan. A recovery, finally, also appeared to gain a foothold in Europe, although that foothold may be tenuous while repairs to public finances, and to private and bank balance sheets, remain incomplete. However, slower growth in key emerging economies, particularly China, kept global growth a little below average over the year.

Investment markets were buoyed by the easing of global financial conditions. Global equity markets reached record highs during the year and long-term yields fell to record lows. Concerns about the integrity of the euro receded. In this climate, the re-emergence of euro-area banking strains in Cyprus in March 2013 had little lasting market impact. However, volatility resurfaced around year-end, and markets retreated for a time, as the prospect of an exit from exceptional monetary policies, particularly in the United States, began to loom larger. In the early months of the current financial year, global equity markets resumed their momentum but long-term yields remained above their earlier lows.

The Australian economy grew at a relatively steady pace over 2012/13. That pace was, however, a little below trend, as the economy began to adjust to the decline in the terms of trade and as record levels of mining investment approached their peak. The high exchange rate, though off its recent peak, and weak domestic demand continued to weigh on business sentiment. Consumers, too, remained wary about adding to debt burdens in the face of somewhat subdued labour market conditions and slowly rising unemployment. Inflation was moderate over the year.

Overall, the more positive global context meant that the operating environment for the industries regulated by APRA was more settled in 2012/13 than in the previous year, even though the economic picture was a touch softer. Compared with most other advanced economies, this environment remained an enviable one.

Authorised deposit-taking institutions (ADIs, including banks, building societies and credit unions) were particular beneficiaries of this environment. Over the year, their asset quality improved further as non-performing loan ratios declined across all significant portfolios and the flow of newly impaired assets eased. Bad debt charges levelled out. This factor, together with stable net interest margins and various initiatives to control costs and enhance productivity, kept ADI profitability strong, and generally above pre-crisis levels. Profit retention, in turn, enabled a further build-up of ADI capital positions. Liquidity and funding positions also improved. The easing of global financial conditions assured Australian banks of reliable access to global term funding markets at spreads that fell to their lowest level since the crisis began.

The general insurance industry also improved its financial performance and capital position over 2012/13. Industry profitability was bolstered by strong underwriting results in the property classes of business, reflecting relatively benign weather conditions and increases in premium rates. In contrast to the previous year, these results were not offset by the revaluation of long-tail insurance liabilities due to falls in interest rates, as the falls in rates in 2012/13 were smaller. For the same reason, investment income (including realised and unrealised gains on fixed-income investments) was lower than the previous year. Following the catastrophic floods of late 2010/early 2011, insurers have increased the availability of riverine flood cover. This poses underwriting and pricing challenges that require careful management by insurers.

In contrast, the profitability of the life insurance industry declined in 2012/13. While the rally in global and domestic equity markets supported income, the contribution to profitability from risk insurance business fell noticeably. A number of life insurers have faced a continuing deterioration in their claims experience, particularly for individual income protection business and group insurance, and increases in voluntary discontinuance ('lapse') rates. As a consequence, a small number of insurers needed to replenish their capital buffers. This response, and other initiatives in anticipation of APRA's enhanced capital requirements, ensured a strengthening in the capital position of the life insurance industry.

The superannuation industry also benefited from the rally in investment markets, with double-digit returns contrasting with the flat result the previous year, and from a pick-up in contributions from members.

THE LOW INTEREST RATE ENVIRONMENT

Though crisis pressures have waxed and waned, the broad environment for APRA-regulated institutions has not changed fundamentally for several years now. It has been 'steady as she goes', with modest volume growth, more realistic pricing for risk and strong competition on both sides of the balance sheet. Adjusting to this environment after the exuberance of the pre-crisis years, and its dramatic puncturing, has posed strategic challenges for boards and management and their responses have been a focus of APRA's supervision. In APRA's judgment, strategic ambitions have been measured and realistic and there have been few signs of adventurism or over-confidence that have needed to be reined in.

The new element in this setting is the low interest rate environment. Official interest rates in Australia are currently at record lows and are expected by markets to stay low for a sustained period, if not fall further. Low interest rates provide a boost to business and consumer confidence and a support to employment and the rebalancing of economic growth. These are positive impacts for APRA-regulated institutions but a sustained period of low interest rates is not unalloyed gold. Low interest rates can pose immediate risks by encouraging a 'search for yield', and risks that build over time by masking the creditworthiness of borrowers or eroding the profitability of products. More generally, low interest rates can test even the most restrained of risk appetites.

For these reasons, negotiating the low interest rate environment has become a major theme of APRA's more intensive engagement with the boards and management of APRA-regulated institutions.

For ADIs, low interest rates are helpful for asset quality in the short term as they reduce interest payments and facilitate faster repayment of principal. Risks will build, however, if low rates come to be seen as the 'new normal' and distort assessments of borrowers' ability to repay. Unless that ability is carefully tested, borrowers who entered the market during an extended period of low interest rates may come under stress when interest rates ultimately rise. In the housing market particularly, sustained low interest rates can lead ADIs to lower their lending standards to gain or retain business in a resurging market, leading to excessive housing credit growth and overheated property prices. The damage still being inflicted on banking systems in countries most affected by the crisis is a telling reminder of the importance of maintaining robust lending standards at all stages in the cycle. There is no excuse for ADI memories that are selective, or short.

Other advanced countries have recently expressed concern over rising household indebtedness and house prices in a low interest rate environment and have taken so-called 'macroprudential' measures, rather than monetary policy action, to guard against the build-up of systemic risk. APRA has similar measures in its armoury and will use them if necessary; it has done so previously. However, as a risk-based supervisor, APRA has a range of options to address any emerging risks in this area before recourse to more blunt-force measures. For some time now, APRA has been warning ADI boards against allowing a deterioration in housing lending standards and it holds boards to the assurances it has received. It has stress tested the resilience of ADI housing loan portfolios. APRA has also enlisted external auditors of ADIs for targeted reviews of housing lending practices: collateral management and foreclosure management in 2010/11 and loan serviceability criteria in 2012/13. And, of course, credit quality is a central element of APRA's ongoing supervision of ADIs. These various activities identify ADIs that are outliers in credit risk management, and lending practices that fall short of prudent norms, for vigorous follow-up on APRA's part.

Sustained low interest rates will have an impact on the majority of general insurers because they have significant long-tail insurance liabilities, the valuation of which is sensitive to movements in interest rates. As a protection, insurers generally employ duration-matching strategies, which means that the impact of recent interest rate falls on the valuation of long-tail liabilities has been offset by unrealised gains on fixed-income investment portfolios backing these liabilities. Over time, however, insurers will need to reprice business to compensate for lower investment income, giving rise to repricing risk. The price increases needed in some long-tail business, particularly professional indemnity and public and product liability classes, may be difficult to achieve because of competitive pressures. As a consequence, insurers may be led to underwrite new business of poor profitability.

In addition, a low interest rate environment may tempt general insurers to pursue higher returns by increasing their appetite for risk in their investment strategy or assuming more risk in other areas of their operations as they seek to reduce costs, such as by changing their reinsurance arrangements. A 'search for yield' by tilting asset allocations towards lower grade or alternative investments comes at the cost of assuming higher market, liquidity and credit risk. The environment may also tempt some insurers to sustain short-term profitability by inappropriately weakening the reserves held to meet their long-tail insurance liabilities, leaving them exposed to large losses if their claims experience were to deteriorate.

The impact of sustained low interest rates on life insurers (including friendly societies) will depend on their mix of business. For investment-linked business, which accounts for the bulk of life insurance assets, low interest rates may encourage higher levels of policy surrenders, with consequent downstream implications for fee revenue; however, no material prudential risks arise since policyholders bear all investment risk. This is not the case, however, for certain types of business – such as lifetime annuities, traditional whole-of-life and endowment policies, disability income insurance and capital-guaranteed products – that face reserving, reinvestment and repricing risks. While life insurers also employ duration-matching strategies, asset-liability mismatches that erode profitability may still arise. This may be because appropriate assets of matching duration are not available and so proceeds from maturing fixed-income portfolios are reinvested at yields lower than necessary to support pricing or meet promises to or expectations of policyholders. Investment strategy may also be constrained by policy documents, promotional material or expectations created by past insurer practice. Life insurers have some flexibility in the pricing of new risk business but, in a low interest rate environment, sales of rate-sensitive products such as term certain or lifetime annuities may be harder to achieve if policyholders are reluctant to lock in historically low returns for long periods. A low interest rate environment may also tempt life insurers to search for yield, with its attendant risks.

For the superannuation industry, the most significant risk from this environment is that trustees may increase their risk appetite for higher yielding assets in a similar search for yield to meet their return objectives and assumptions. In doing so, trustees may expose superannuation fund members (in defined contribution schemes) and sponsoring employers (for defined benefit fund schemes) to risks that they may not understand, and that may not be managed appropriately. Defined benefit funds, which now account for less than 20 per cent of the assets of the APRA-regulated superannuation industry, may also face funding and solvency impacts given the potential for asset-liability mismatches and lower investment returns, particularly where liabilities are inflation-adjusted. These impacts, in turn, can put pressure on the balance sheets and cash flows of sponsoring employers.

RISK GOVERNANCE AND RISK CULTURE

A low interest rate environment is only one source of potential risks for APRA-regulated institutions in the period ahead. Other types of risk, facing individual institutions or a regulated industry as a whole, are spelled out in the following pages of this *Report*. Managing these risks sensibly and prudently will be a test of the effectiveness of risk governance and risk culture in an institution. Good governance has been one of the silent strengths of the Australian financial system during the crisis, and boards of larger institutions in particular have generally provided clear and effective leadership on risk. However, there is room for improvement in all APRA-regulated industries. The crisis is replete with examples abroad of significant shortcomings in governance and risk management of financial institutions, and in their underlying culture and ethics, that led to substantial losses and failures.

Risk governance and risk culture has become a second major theme of APRA's more intensive engagement with the boards and management of APRA-regulated institutions.

APRA's supervisory focus, which is shaping its thinking on the prudential framework and its supervisory practices, traverses a number of aspects of this theme. One is the critical role of the board itself, in setting standards and expectations that can have a profound influence on the quality of risk governance and on organisational culture. Beyond monitoring composition and other prudential requirements for boards, APRA is keen to see the collective skills and experience of the board in action, the independence of mind and spirit – not just form – contributed by directors, and the quality of board deliberations. In particular, APRA is interested in the balance of authority between the board and management and the strength of the board's constructive challenge. Improving APRA's understanding will involve more frequent meetings with boards, occasional less formal meetings with chairs of the board and other key committees, analysis of board papers and reviews of boards' self-assessments of performance.

The second aspect is the risk management approach of the institution. A strong, independent risk management function is needed that covers risk across the whole institution and has the stature, skills and authority to ensure risk-taking remains within the board's risk appetite. Over recent years, APRA has stressed the importance of a clearly articulated risk appetite statement that is embedded in the operations of the institution. APRA has outlined its expectations for risk appetite statements and has engaged actively with boards on the topic; it is now seeing a marked improvement in the articulation and use of these statements. APRA's assessment of the risk management function covers the accountability, resourcing and skills of the function and, in particular, the standing and personal strengths of the chief risk officer.

A third and most elusive aspect is risk culture, which can be simply described as 'the way we do risk around here'. Understanding risk culture takes supervisors into challenging territory; it is territory of vital importance to boards as well. For that reason, APRA intends to rely heavily on a board's own assessments of risk culture and it is strongly encouraging boards to firm up their understanding of and leadership on this aspect. APRA will, for example, be probing boards on how they satisfy themselves that the espoused values and culture of the institution are supported by management and staff at all levels, and on how they gain an understanding of the quality and consistency of decision-making throughout the institution and whether this is driving an appropriate risk culture.

APRA's sharper supervisory focus on risk governance and risk culture parallels a thrust by supervisory agencies globally to make the supervision of financial institutions more intense, effective and reliable. This follows the G20 Leaders' recognition from crisis experience that a strong regulatory framework must be complemented with more intense and active prudential oversight and supervision. APRA's supervision in this area will be reinforced by a proposed harmonised and enhanced risk management prudential standard, which *inter alia* will set out APRA's expectations for a board risk committee and chief risk officer. To balance the ledger, APRA will be developing an 'information pamphlet' giving a plain-English view of its expectations of board members in their oversight of prudential matters and will be undertaking a stock-take of the consistency and reasonableness of its prudential requirements for boards, looking to trim where prudent to do so.

THE PRUDENTIAL REGIME

The substantial upgrading of APRA's prudential regime in each of its regulated industries has its end in sight. This upgrading has had a number of driving forces. Globally, a comprehensive and ambitious reform agenda from the G20 Leaders, in the wake of the crisis, has sought to toughen the resilience of the global banking system by raising the quality, quantity and international consistency of bank capital and liquidity. Domestically, the enhancement and harmonisation of capital standards in the general and life insurance industries has been an APRA call. In superannuation, the Stronger Super reforms will put the prudential regime for the industry on the same footing as the other APRA-regulated industries, based on APRA's new prudential standards-making powers in superannuation.

The development phase of these various reform initiatives is now largely complete and major elements came into effect over the course of 2012/13. This phase put considerable pressure on APRA's policy resources, and on industry, in formulating and consulting on prudential standards and associated reporting. Although there is some unfinished business in the global agenda, APRA is over the hump on its reform initiatives and would welcome the opportunity to press the 'pause' button for a time. Bedding-down the reforms, of course, can be no less intensive for APRA's supervisory resources and can involve significant systems, operational and behavioural changes on the part of regulated institutions. APRA's extensive consultation process seeks to ensure that it understands the impact of its reforms, amends prudential standards where it can in response to industry feedback to get the appropriate balance between principle and pragmatism, and provides adequate time for institutions to prepare for change. As a consequence, industry has broadly supported the reforms and their implementation has proceeded smoothly.

Global banking reforms have been the responsibility of the Basel Committee on Banking Supervision. As a member of this Committee, APRA has committed to implementing the new Basel III capital and liquidity framework as globally agreed, except where APRA has strong in principle reasons to take a more conservative approach. ADIs easily passed a major milestone for the Basel III capital reforms when measures to raise the quality and minimum required levels of capital came into effect from 1 January 2013. Two more milestones lie ahead: the introduction of a capital conservation buffer from 1 January 2016 and a 'backstop' leverage ratio (still being finalised by the Basel Committee) from 1 January 2018. On present indications, ADIs will also pass these milestones without difficulty.

Concerns in some quarters that APRA's conservative approach and accelerated timetable for the Basel III capital reforms would disadvantage ADIs have proven unfounded. A number of other jurisdictions also did not avail themselves of phase-in arrangements. More importantly, ADIs had already taken capital management initiatives to build up their capital positions. The reductions over 2012/13 in risk premia for the larger ADIs and investor enthusiasm for their new hybrid capital instruments has been a vote of confidence in the capital strength of the Australian banking system.

The Basel III liquidity reforms seek to promote stronger liquidity buffers and a more sustainable maturity structure of assets and liabilities. Two new global standards have been introduced: a 30-day liquidity coverage ratio to strengthen the short-term resilience of banking institutions and a structural funding ratio (yet to be finalised) to promote longer-term resilience. Recent revisions to the liquidity standard by the Basel Committee gave national authorities discretion to count a wider range of assets as high-quality liquid assets in meeting the standard and provided for a phase-in from 1 January 2015. APRA is proposing not to exercise this discretion – in Australia, the additional assets concerned do not meet the fundamental and tight qualifying criteria – nor to phase-in the ratio. Again, any concerns that this accelerated timetable will disadvantage ADIs are misplaced. A majority of global banks already meet this standard and Australia's unique arrangements for the Basel III liquidity framework, involving the use of a committed liquidity facility provided by the Reserve Bank of Australia (RBA), will enable relevant ADIs to meet the standard from day one. APRA is now in active dialogue with ADIs on how they can maximise their self-reliance in liquidity risk management so that the committed liquidity facility is not seen as a first recourse at times of liquidity stress.

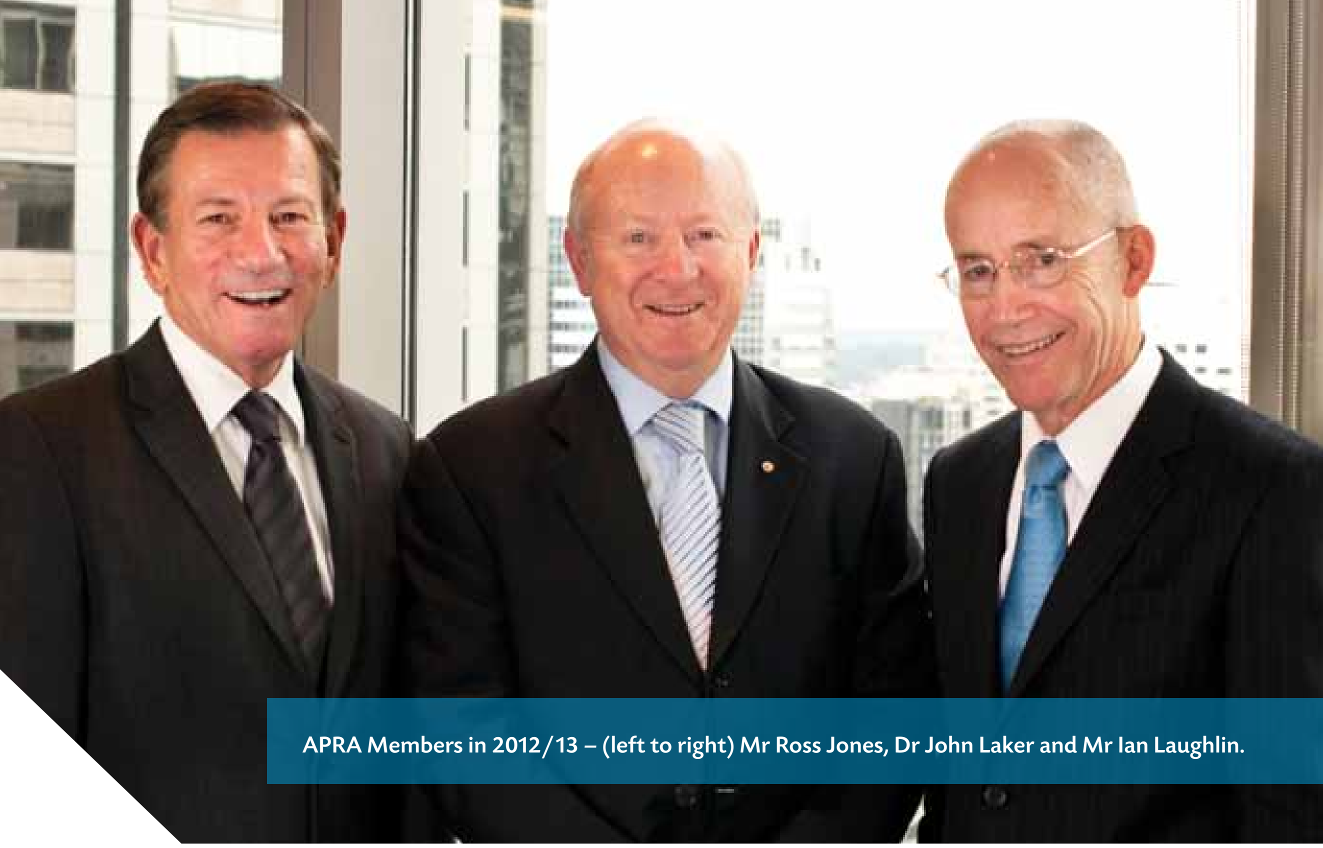
Over coming months, APRA will begin to implement a framework for dealing with domestic systemically important banks (D-SIBs), which has been endorsed by the G20 Leaders and responds to their dictum that no financial firm should be 'too big to fail'. Under this principles-based framework, supervisory authorities must establish a methodology for assessing the degree to which banks are D-SIBs, publish an outline of that methodology and impose 'higher loss absorbency' on D-SIBs, in the form of higher common equity requirements.

APRA's reforms to capital standards for the general and life insurance industries came into effect from 1 January 2013, after a long and comprehensive consultation process. The reforms are intended to make the standards more risk-sensitive and improve their alignment across regulated industries. This latter goal has meant fundamental changes for life insurance through introduction of the concept of a 'capital base', which is aligned with the capital structure for general insurers and ADIs. Preliminary indications suggest that the reforms have led to a modest overall increase in required capital, although the impacts vary widely from insurer to insurer depending on their risk profile. The outcome of the reforms will be more resilient insurance industries and stronger protection for policyholders.

Under the Stronger Super reforms, APRA has for the first time been granted prudential standards-making powers in superannuation, a major step in the harmonisation of the prudential framework in Australia. During 2012/13, APRA finalised a suite of prudential standards for superannuation, aligning some where appropriate with 'behavioural' standards in the ADI and insurance industries but acknowledging the particular circumstances of the superannuation industry in other superannuation-specific standards. These new standards provide the basis for APRA authorisation of the MySuper product, a default option with a standard set of product features, and the authorisation process is well progressed.

APRA has also been consulting on a proposed prudential framework for consolidated groups, aimed at minimising contagion, reputation and operational risks that may arise from an APRA-regulated institution's membership of such a group. The severe contagion problems that required the public rescue of a major global insurance group highlighted the need for supervisors to be able to take a group-wide view and to understand the full range of risks that arise from group membership. Related to this initiative is APRA's proposed harmonisation and enhancement of its requirements for risk management.

During 2012/13, the International Monetary Fund completed its second review of Australia under its Financial Sector Assessment Program, which evaluates the strength and potential vulnerabilities of a country's financial system and regulatory architecture. APRA was actively involved in that review. As with the first review in 2005/06, the latest review provided a strong endorsement of Australia's regulatory framework and of the effectiveness of APRA's prudential supervision. The review noted a number of high-quality initiatives and practices by APRA, including its strong risk analysis and its focus on the responsibilities of boards.



APRA Members in 2012/13 – (left to right) Mr Ross Jones, Dr John Laker and Mr Ian Laughlin.

OUR PEOPLE

APRA has completed the busiest two-year period since its establishment, with intense supervision coinciding with the substantial prudential policy agenda and some large infrastructure projects internally. As the prudential policy agenda winds down, APRA has begun to return some of the staff involved to supervisory roles, at a time when new demands on supervisory resources are emerging. No quiet period seems in sight. Since the crisis began, APRA staff have not flagged in their commitment or endeavours to safeguard the Australian financial system, and the APRA Members are proud to acknowledge their skilled and sustained effort. It is particularly satisfying that the demonstration of integrity and professionalism by APRA staff gained the top two scores in APRA's third stakeholder survey.

APRA has begun an orderly transition to new leadership. On 30 June this year, Ross Jones ended his 10-year term as APRA's Deputy Chairman. For a decade, Ross brought intellectual rigour to APRA from his previous academic and public policy roles and was at the heart of APRA's involvement in substantial reforms of the prudential regime for superannuation, starting with the licensing of superannuation fund trustees in 2005/06 and culminating in the Stronger Super reforms. Ross's leadership and determination won him high regard in the superannuation industry. Ian Laughlin, already an APRA Member, has been appointed as APRA's Deputy Chairman for a two-year period and Helen Rowell has been appointed from APRA's ranks as an APRA Member, for a five-year period.

On 1 July 2014, Wayne Byres will take up his appointment as APRA's Chairman. Wayne is currently on secondment from APRA in the high-profile position of Secretary General of the Basel Committee on Banking Supervision. I have agreed to remain an extra year as APRA's Chairman to assist in the transition. That will complete 11 years at the helm during what has been a very challenging and demanding period in APRA's evolution, but a period of real achievement. It has been an honour to serve, alongside outstanding APRA Members and staff.

John F. Laker
Chairman

SUPERVISORY ACTIVITIES

- APRA'S SUPERVISORY APPROACH
- AUTHORISED DEPOSIT-TAKING INSTITUTIONS
- GENERAL INSURANCE
- LIFE INSURANCE AND FRIENDLY SOCIETIES
- SUPERANNUATION
- ENFORCEMENT ACTIVITIES

2

APRA'S SUPERVISORY APPROACH

The cornerstone of APRA's supervision is its risk-based approach. In brief, this approach seeks to ensure that APRA's supervisory attention and resources are targeted at weaknesses in an APRA-regulated institution's operations, or in its risk management capabilities, that pose the greatest risk to its ability to fulfil its financial obligations to its beneficiaries, or that could present a threat to the stability of the financial system as a whole.

APRA's risk-based approach has evolved over time and has been given a more rigorous structure in recent years, starting before the global financial crisis. The objective has been twofold. One is to ensure that APRA supervisors can form a full picture of the risk profile of an institution, and the industry conditions in which it is operating, through better integration of prudential data, supervisory analysis, market intelligence and other sources of information. The other is to promote a more cohesive approach to risk-based planning and response to risk issues that acknowledges the competing demands on APRA's supervisory resources.

The main elements of this structured approach include:

- a formal risk-rating of APRA-regulated institutions that must be kept current and is subject to peer group analysis to promote consistency in ratings;
- a comprehensive planning and assessment process around the conduct of detailed on-site reviews, which clarifies APRA's expectations about the outcomes of the reviews and prioritises the involvement of specialist risk teams;
- streamlined review and approval processes to ensure that supervisory interventions are both timely and subject to appropriate management oversight and review; and
- identification of emerging risks and issues in each of the APRA-regulated industries through risk registers, with assigned risk 'owners', which provide context and focus for APRA's supervision of individual institutions.

Though now seasoned and tested by the crisis, APRA's supervisory approach must continue to evolve and be responsive to a dynamic financial system. One of the main pillars of the G20 Leaders' global reform agenda is more effective supervision; it is now clear that differences in the ability and willingness of supervisors to act were a significant factor in the different performance of financial systems during the crisis. The search for improved supervisory effectiveness is a constant one. To this end, two particular initiatives during 2012/13 can be highlighted.

Firstly, significant steps were taken in the rebuilding of APRA's systems infrastructure to provide a more robust and efficient IT platform on which to run APRA's supervision processes. Having undertaken the foundation work of designing the systems architecture, selecting an experienced systems integrator and choosing the technology components the previous year, the design, build and testing of a new suite of integrated software was largely completed by the end of 2012/13. Roll-out of the core elements of the new system is scheduled for later in 2013.

Introduction of the new system has three key goals:

- to better support APRA's risk assessment and response processes with improved capabilities to monitor key risks and issues, plan supervisory activities and track those activities and the associated outcomes to completion;
- to improve supervisors' ability to search for and access prior regulatory decisions to facilitate consistency in decision-making; and
- to lay the foundation for a new electronic document and records management system that will support both supervision and other business processes across APRA as well as statutory record-keeping obligations.

APRA has begun planning for the next series of systems releases, which will be delivered in stages over the next few years. Ultimately, the rebuilding program will produce significant efficiency gains and sharper supervision processes from end to end.

Secondly, APRA has strengthened its oversight of the capital management processes of general and life insurers (including friendly societies). This follows the introduction of a requirement that these institutions have an Internal Capital Adequacy Assessment Process (ICAAP), as part of the revised capital framework for the general and life insurance industries (see Chapter 3). The requirement mirrors one that has applied to ADIs since 2008.

An ICAAP summary statement is expected to describe in sufficient detail how the institution determines and monitors its risks and the capital to be held against these risks. It should also describe the institution's capital management strategy including how regulatory capital requirements will be met, capital targets above regulatory minima, capital held against identified risks and the stress tests and scenario analysis that are used to demonstrate the institution's capacity to absorb shocks to its capital. APRA expects that institutions will use the ICAAP to manage their business and when making key strategic decisions.

Whilst the detail of the ICAAP will be developed by senior management with input as appropriate from relevant areas and experts, the ICAAP is fundamentally a board responsibility. The board needs to be actively engaged in the development of the ICAAP and its implementation, and must ultimately approve the ICAAP. While many insurers were already doing much of what would be required in a well-developed ICAAP under their previous capital management processes, others have needed to make more fundamental changes to meet the new requirement.

General and life insurers were requested to provide their initial ICAAP summary statements to APRA early in 2013. APRA has completed an initial high-level review of whether the statements meet the requirements of the prudential standards and will finalise a more qualitative review of the content of the statements in the first half of 2013/14. Findings and assessments from these reviews will be conveyed to industry and individual institutions.

The remainder of this Chapter outlines supervisory issues and APRA's key supervisory priorities in each of its regulated industries. One issue that straddles the ADI and insurance industries is executive remuneration. In recent years, APRA has met with the Board Remuneration Committees of the largest listed ADIs and insurers to assess the involvement of the board in establishing sound remuneration practices, and has followed up with a detailed review of practices in a number of these institutions. APRA's conclusion from these detailed reviews was that the remuneration policy and practices for senior executives in the institutions concerned were generally sound, but there was room for improvement in aligning risk and reward.

The issues raised now form part of APRA's ongoing supervisory activities. APRA's priority is to ensure that executive remuneration arrangements are appropriately structured and meet its prudential requirements on remuneration, which came into force in April 2010. Some particular areas of focus during 2012/13 were the interaction between group-level Board Remuneration Committees for the larger domestically owned groups and senior executives of APRA-regulated institutions within those groups, and interactions between the Australian operations of multinational groups and their head office requirements.

AUTHORISED DEPOSIT-TAKING INSTITUTIONS

Authorised deposit-taking institutions (ADIs) strengthened their financial position over 2012/13, notwithstanding continued subdued growth in demand for credit. The household sector was restrained in taking on new debt commitments and took advantage of low interest rates to repay debt earlier than required. As a consequence, household credit growth remained around record low rates. In contrast to earlier crisis experience, business credit growth was positive over the year but not strongly so; the business sector has been cautious about its gearing levels in the face of uncertainties about the adjustment path of the Australian economy and the exchange rate, as the mining investment boom recedes.

Steady economic growth in 2012/13 nonetheless underpinned improvements in the key barometers of financial health for the ADI industry. Asset quality continued to strengthen, with a decline in non-performing loan ratios, particularly in commercial property exposures, and a slow-down in the rate of newly impaired assets. Profitability was solid, supported by stable net interest margins, a levelling out of bad debt charges and a range of cost savings and productivity enhancing initiatives; these initiatives have pushed cost-to-income ratios for the major banks to low levels by global peer-group standards. For a small number of ADIs, however, the unwinding of impaired commercial property and corporate exposures dented profitability. ADI capital positions also strengthened in quality through the build-up of common equity through profit retention, and a number of ADIs issued non-common equity instruments that meet the stricter eligibility requirements under the Basel III capital framework. Finally, ADIs further strengthened their liquidity and funding positions, taking advantage of strong deposit inflows to reduce the share of wholesale funding.

There was little change in the ADI population or its composition in 2012/13. A further three credit unions converted their status to mutually owned banks, and a fourth since year-end. Nine credit unions and one building society, accounting for around 30 per cent of total credit union and building society assets, have converted their status since 2011.

Subdued credit growth has been the story of the ADI industry for the past several years. The changing dynamic in this story is the low interest rate environment. Low interest rates can be expected to stimulate the demand for credit, and there are already signs of a pick-up in housing loan approvals that will flow through to credit aggregates. This is the normal transmission mechanism of monetary policy at work, and ADIs can expect to benefit through volume growth, lower debt burdens for borrowers and improved asset quality. If these benefits are to prove enduring, however, it is important that ADIs maintain prudent lending standards and resist the temptation to pursue market share with insufficient regard to the debt-servicing capacity of borrowers over time. Low interest rates might also have an impact on profitability by reducing the funding benefit of low or zero-yielding deposits. Hence, it is also important that ADIs do not respond by diversifying strategies away from core business into unfamiliar territory without robust due diligence and appropriate risk management.

The adjustment of ADIs to the low interest rate environment, particularly as it bears on credit quality, has been one of two main areas of APRA supervisory focus during 2012/13. The other area has been the implementation of the new Basel III capital and liquidity frameworks.

Credit quality

The business models and asset composition of ADIs are predominantly centred on traditional lending activities, particularly lending for housing. For this reason, close monitoring and rigorous assessment of credit risk management is, and has long been, a core element of APRA's supervision of the ADI industry. The experience of banks in countries most affected by the crisis has highlighted the dangers of chasing short-term profitability through relaxing risk appetites and weakening lending standards to acquire borrowers that ultimately prove to be high risk. More recently, advanced countries less affected by the crisis have taken 'macroprudential' measures tomanage emerging pressures in domestic lending markets generated by an extended period of low interest rates.

ADI asset quality deteriorated in the first years of the crisis, mainly due to impaired commercial property exposures, but has been on a clear improving trend since then. As noted, that trend continued during 2012/13, although asset quality has yet to regain pre-crisis levels. The non-performing loan ratio in housing lending, already low by historical and international standards, drifted lower again in 2012/13. There was also a further pronounced decline in the share of impaired business and commercial property exposures as ADIs continued to work through legacy problem loans. In contrast, the non-performing loan ratio in personal lending continued to rise. Though personal lending is only a small component of ADI loan portfolios, its performance can serve as a harbinger of household financial stress.

Housing loans represent the single largest asset class on ADI balance sheets and this concentration, taken together with the high debt levels of Australian households relative to income, ensures that the management of risks in housing lending receives APRA's continued close supervisory attention. APRA supervisors and credit risk specialists challenge any shifts in risk appetites and lending strategies that hint of short-sightedness, and assess the robustness of governance, lending standards and risk management controls. In recent years, lending standards have also been the subject of APRA communications to ADI boards and the topic for targeted reviews by the external auditors of ADIs. ADI boards bear ultimate responsibility to ensure that prudent lending standards are upheld when competitive pressures are high, and external auditors play a valuable role as another ' line of defence'.

In 2012/13, a targeted review by external auditors focussed on the loan serviceability policies that ADIs apply to assess whether borrowers can afford the interest and principal repayments on their housing loans. These policies ('income tests') are important in a housing market where, as in Australia, the high proportion of housing loans with a variable mortgage rate makes borrowers very sensitive to changes in interest rates. The policies assume even more importance in a low interest rate environment, when the ability of new borrowers to afford higher repayments when interest rates ultimately return to more normal levels needs to be rigorously assessed. Against this background, the targeted review asked external auditors of a number of ADIs to evaluate various aspects of loan serviceability policies, including the models adopted to evaluate income and expenses, the role of interest rate buffers and floors, and the nature and frequency of policy 'overrides' and 'exceptions' and how these were monitored and managed.

The targeted review findings were released in a recent APRA *Insight* publication. A number of good practices in the application of loan serviceability policies were identified. These included the clear documentation of policies and procedures, effective governance frameworks and board oversight, regular reviews of policies to align risk appetite with the changing external operating environment, use of an 'interest rate buffer' over the current lending rate in evaluations of loan serviceability, and hindsight reviews of housing loan portfolios. At the same time, the review identified a number of areas where policies could be strengthened, through inclusion of an interest rate floor to assess loan serviceability over at least one interest rate cycle, the assessment of a borrower's actual rather than modelled living expenses, stress testing of other debt commitments, and better monitoring and reporting of policy overrides and exceptions.

APRA is following up on identified shortcomings with specific ADIs. In response to the review findings, APRA is also revisiting its expectations for prudent housing lending standards and will outline these expectations in a forthcoming prudential practice guide.

Capital

ADIs have substantially strengthened their capital positions since the global financial crisis began. This strengthening has been a response, in part, to market pressures to demonstrate an enhanced resilience to shocks and, for ADIs that are rated by credit rating agencies, to board commitments to maintain ratings during a period when many international peers were being downgraded. The strengthening was also, in part, in anticipation of the new Basel III capital standards (see Chapter 3) aimed at raising the quality and quantity of regulatory capital. Basel III gives greater weight to common equity as the highest quality component of capital and it is this component that has grown significantly, through new equity issues but mostly through the retention of profits and contributions from dividend reinvestment programs.

Accordingly, ADIs were well placed to meet the new Basel III minimum requirement for common equity (and other tiers of capital) when they were formally implemented by APRA from 1 January 2013, at the early end of the global timetable. ADIs also currently hold more than sufficient common equity to meet the new capital conservation buffer when it comes into effect from 1 January 2016, again at the early end of the global timetable. Following clarification of the eligibility criteria for lesser quality capital instruments under Basel III, ADIs have begun to augment their total capital positions through the issue of non-common equity instruments. Initial industry concerns that these instruments, which are required to convert to common equity or be written-off on a specified 'trigger' event, would be difficult to price and to place have proven unfounded and many issues have been heavily oversubscribed.

More recently, ADIs have taken various initiatives that have started to slow the build-up of common equity capital from profit retention. Given the continuing uncertainties in the global and domestic operating environment, ADIs need to be cautious in signalling that the strengthening of capital positions may have run its course. In its supervision of capital positions, APRA has been emphasising that ADIs must do more than meet minimum regulatory requirements. ADIs must build and maintain adequate buffers that give them the capacity to absorb significant losses without relying on potential mitigating actions that may not be deliverable under duress. The setting of these capital buffers is a fundamental part of an ADI's internal capital management, encapsulated in the ICAAP requirement. APRA supervisors focus on understanding and challenging the calibration of these buffers, seeking to ensure that boards and management target prudent levels of capital that are reflective of the ADI's specific risk profile and informed by effective stress testing.

APRA has itself committed additional resources to enhance its industry-wide stress testing capabilities and its oversight of ADIs' own stress testing. Frontline supervisors and risk specialists have been examining ADI stress testing frameworks and the critical but complex models that underpin results. Given the long history of relatively stable economic conditions in Australian data-sets and mindsets, stress testing that acknowledges the risk of a harsher reality remains a key priority for ADIs and for APRA.

Liquidity

As with capital, ADIs have strengthened their liquidity and funding resilience since the crisis began and that trend continued in 2012/13. ADIs added to their holdings of high-quality liquid assets, further increased their share of funding from deposits and reduced their reliance on short-term wholesale funding. Funding tasks were assisted by the significant improvement in sentiment in global funding markets for all but the latter part of the year, which ensured ready access to funds at considerably reduced spreads. The lower risk aversion on the part of investors enabled ADIs to issue steadily in global term debt markets in unsecured form, in place of the secured form of covered bonds that investors had sought the previous year. ADIs have conserved covered bond capacity within legislative limits in case dislocations in global funding markets were to return.

Positive investor sentiment also gave a boost to the residential mortgage-backed security (RMBS) market, which in the past has provided a significant source of funding for smaller ADIs. New issuance picked up strongly in 2012/13, spreads fell to their lowest level since the crisis began and participation by the Australian Office of Financial Management was not considered necessary to support the market.

Although this strengthening in ADI liquidity and funding positions is welcome, further improvement is necessary. In its recent Financial Sector Assessment Program review of Australia (see page 57), the International Monetary Fund has identified the reliance of the larger ADIs on offshore wholesale funding as one of the 'unique risks' facing the Australian financial system. Improvements to funding structures can come from, amongst other things, increasing the proportion of assets funded by stable retail deposits, reducing short-term wholesale borrowing, increasing the maturity of term debt issues and refining terms and conditions for some products.

Promoting such improvements has been a key priority for APRA. APRA's frontline supervisors, working with liquidity risk specialists, routinely review ADI funding positions and funding strategies, including the assumptions on which they are based, through a combination of offsite analysis and onsite prudential risk reviews. APRA maintains regular contact with ADI treasury teams in scheduled and *ad hoc* meetings to understand and assess market and funding conditions and ADI responses. APRA also routinely benchmarks the larger ADIs against one another and ADIs that are outliers in terms of over-reliance on short-term funding sources, or funding concentration risk, are brought to their board's attention and are subject to targeted supervisory action.

Looking ahead, the main catalyst for promoting improved liquidity and funding structures will be the 'all reasonable steps' test that ADIs must meet if they wish to access a secured committed liquidity facility (CLF) from the Reserve Bank of Australia to meet the new Basel III liquidity standard, the Liquidity Coverage Ratio (LCR) (see page 47). The need for such a facility arises from the relatively short supply of high-quality liquid assets in Australia that ADIs subject to the LCR requirement would otherwise need to hold to survive the 30-day funding stress scenario on which the LCR is premised. Access to the CLF is conditional on ADIs demonstrating that they are not relying on the CLF as a 'first resort' but have sought to meet their LCR requirements to the extent possible through their own balance sheet management.

From 2014 onwards, APRA supervisors will evaluate requests from ADIs to access a CLF through an annual 'all reasonable steps' assessment. This process will involve a number of stages. These include scrutiny of three-year funding plans, reviewing the robustness of ADI liquidity transfer pricing, and evaluating remuneration incentives for executives responsible for funding and liquidity management. Where APRA determines that an ADI is not taking sufficient steps to reduce its liquidity risk, an appropriate supervisory response may include progressively lowering the amount of the CLF that an ADI can count towards meeting its LCR requirement until a more appropriate liquidity risk profile is reached. To prepare for implementation of the new Basel III liquidity framework, a 'dry run' of the assessment process is being undertaken by APRA in 2013.

Operational risk

Globally, a series of high-profile events – including the mis-selling of products, trading incidents and manipulation of benchmark interest rates – has confirmed the potential for severe losses and reputational damage if operational risk is not managed appropriately. The ADI industry has not recently faced these types of events in Australia and operational risk losses were relatively stable in 2012/13. Nonetheless, APRA continues to emphasise the need for ADIs to further develop operational risk management frameworks.

Operational risks arise in an ADI's normal business activities, through inadequate resilience and response plans for high-visibility payment systems for example, and can take new and complex forms, such as cyber threats. Operational risks also arise in the strategic initiatives that ADIs have been pursuing over recent years in response to the low credit growth environment. Some ADIs have focussed on technological innovation and systems enhancements as a means of strategic differentiation and a driver of increased efficiency and improved productivity. Some ADIs have looked to offshoring and outsourcing (including of technology) as a means of finding efficiency gains. These sorts of strategic initiatives can involve heightened operational risk relating to systems complexity, data security, controls over outsourced service providers and the like, that needs to be subject to rigorous management and board governance processes.

ADIs accredited to use the Advanced Measurement Approaches (AMA) to determining operational risk capital have been implementing significant changes to their modelling approaches. These include consideration of structural models to sharpen scenario analysis, and alternative approaches to capture the potential for multiple operational risk events in a single year. These improvements and other enhancements to the overall design and implementation of operational risk management frameworks are welcome. Nonetheless, APRA sees scope for further development and refinement, particularly in addressing potential exposure to low frequency, high impact or 'unexpected' operational risk events. Following a detailed review, APRA raised the operational risk regulatory capital requirements for advanced ADIs from late 2012.

GENERAL INSURANCE

Profitability in the general insurance industry improved in 2012/13 largely due to a strong performance by underwriters of property risk. The key driver was a lower level of gross claims from natural disasters compared to the previous two years, notwithstanding some severe storm events, floods and bushfires in early 2013. Premiums in property classes of business also increased as insurers sought to recoup the higher cost of property reinsurance in the wake of adverse claims experience from earlier natural disasters. The offsetting impact of an increase in the value of long-tail liabilities from interest rate movements was considerably smaller than in the previous year. Investment income was also a good contributor to industry profitability but less so than the previous year.

The aggregate capital ratio of the industry rose to over 1.8 times APRA's prescribed capital requirements. APRA's revised capital framework for general insurers, which came into effect on 1 January 2013, has not had a material impact on capital requirements for the industry overall but the impact on individual insurers has varied. The smooth transition owes in part to an effective consultation process that ensured sufficient time for insurers to undertake any necessary capital initiatives, adjustments to reinsurance programs or other changes ahead of implementation of the new framework.

The general insurance population remained largely unchanged in 2012/13. A small number of insurance groups rationalised some of the multiple insurance licenses they held as a result of acquisition activity in prior years.

As noted earlier in this *Report*, a sustained low interest rate environment poses challenges for the general insurance industry. In particular, low interest rates are likely to put upward pressure on premiums, particularly for the long-tail classes of business (compulsory third party (CTP) motor, workers' compensation, professional indemnity and public and product liability insurance). The premium growth needed to offset lower investment income may prove elusive because of strong levels of competition in some market segments, concerns about the affordability of products and state regulatory limitations that may impact on an insurer's ability to reprice quickly. During 2012/13, APRA supervisors met with a number of insurers to gauge the initial impacts of the low interest rate environment on risk appetite and strategy, and on how governance and risk management practices are being applied to assess and manage any emerging challenges. This work is informing APRA's view on appropriate supervisory responses at a broader industry level.

The number of insurers offering riverine flood cover in their home and contents policies increased in 2012/13. This response followed the reputational damage some insurers suffered in disputes with policyholders over policy coverage and in associated negative press coverage after the major floods in 2010/11. With the broader coverage, the associated increase in underwriting and pricing risk for riverine flood will need to be carefully managed. Improvements in these processes can be expected to occur as more data are made available and as processes are tested in light of future flood claims experience. Management of these risks was an important part of APRA's reviews of insurers during the year.

Strong competition continued in the domestic motor insurance market among the larger insurance groups and a number of smaller insurers that have entered the market in recent years. Price comparison platforms on the internet (known as 'aggregators') still have only a small presence in the home and domestic motor insurance markets but APRA remains watchful of developments. Overseas experience has shown that, because they highlight pricing differences between insurers, aggregators can generate increased customer switching behaviour and this can lead to pressure on insurer profitability.

Catastrophe risk management

The significant natural disasters in Australia and New Zealand in 2010/11 highlighted two issues: the need for general insurers to have robust reinsurance programmes in place and the overarching importance of strong governance and risk management in determining catastrophe reinsurance needs. These governance processes include the board's and senior management's ability to understand and challenge catastrophe model inputs, assumptions, process and outputs.

The adequacy of governance and risk management practices for catastrophe modelling has been an important part of APRA's supervision and was the subject of a thematic review of a sample of insurers in 2012/13. The review found that, for most of these insurers, the level of board engagement in the catastrophe modelling process was either sound or improving. Many used committees of senior management and/or specialists as a forum for challenge when making key decisions in the modelling process, a practice that appeared to work well. The review also found that the level of an insurer's investment in internal modelling expertise heavily influenced its ability to directly engage in the catastrophe modelling process and its outputs, reducing the need to rely on reinsurance brokers or other external experts. Better practice involved insurers taking control of the model assumptions and settings used, with appropriate challenge from business units and/or governance committees. At the same time, the review identified issues with the quality and management of data used in catastrophe modelling and the documentation of assumptions and processes. It was also apparent that, in some cases, undue reliance was placed on model results; there was a lack of appreciation of the weaknesses in the model used and the significant degree of uncertainty in model output.

Stronger governance and management of catastrophe risks is needed to properly address these issues. APRA is intent on driving better industry practice in this critical area.

Reinsurance counterparty risk

The exposure of the general insurance industry to reinsurers is a material source of counterparty risk and that risk is likely to be heightened after major domestic or global catastrophes. In the case of the Christchurch earthquakes, a substantial portion of property claims have yet to be settled because of continuing work on land zoning, land remediation and repair methodologies. For the insurers involved, the reinsurance recoverables associated with these claims, owing from non-APRA-authorised reinsurers, attract a higher capital charge because of the length of time they have been outstanding. This situation will be exacerbated if the insurers involved were to experience further deterioration in these gross claims results. APRA continues to monitor these developments closely.

To enhance its understanding of the industry's exposure to individual reinsurance counterparties, APRA outlined proposals in June 2013 to collect reinsurance counterparty data from general insurers and Level 2 insurance groups on a regular basis. APRA had foreshadowed this collection after an earlier *ad hoc* collection in the wake of the significant natural disasters in 2010/11. The new collection addresses reinsurer downgrade and reinsurer failure. The proposals would enable APRA to determine the impact on an insurer of the downgrade of a reinsurer, based on current reinsurance recoverables. They also require insurers to undertake a forward-looking reinsurance exposure analysis in order to assess the impact of the failure of a material reinsurer. The proposals are intended to be finalised in the latter part of 2013.

General insurers have continued to seek out opportunities to access reinsurance capacity through the capital markets or through alternatives to traditional reinsurance products, which in both cases may rely on collateral arrangements. APRA's focus is on ensuring that any such arrangements adequately address prudential requirements, particularly for collateral, and that the prudential requirements keep pace with industry evolution.

Reserving risk

General insurers (and reinsurers) face the perennial risk of inadequate levels of reserving for their insurance liabilities. This exposes them to the possibility of significant losses if their claims experience, particularly in long-tail insurance business, proves to be worse than estimated. Pressure to sustain short-term profitability in a low interest rate environment may increase the likelihood of unwarranted reserve releases. During 2012/13, APRA undertook a review of the relative reserving strength for particular long-tail classes of business for a peer group of insurers. APRA found that the majority of the insurers had adopted reserving approaches that were not unduly less conservative relative to other insurers in the peer group, but there were some exceptions that APRA has followed up. An outcome of this review has been the development of guidance material and tools to enhance APRA's assessments of insurers' reserving adequacy.

LIFE INSURANCE AND FRIENDLY SOCIETIES

Notwithstanding the strength of investment markets, the profitability of the life insurance industry declined in 2012/13. Gains in global and domestic equity markets boosted profits on shareholder capital and retained earnings, while income from investment-linked business continued as a relatively stable source of profit. However, profits from risk business fell noticeably, for the second consecutive year. A deteriorating claims experience, particularly for individual income protection business and group insurance, and an increase in voluntary discontinuance ('lapse' rates) mainly explain this fall. Despite the decline in profitability, the capital position of the industry improved a little as insurers replenished capital buffers or took other capital initiatives in anticipation of APRA's revised capital framework for life insurers. Although industry had earlier expressed concerns about capital impacts, the implementation of the revised framework has been managed well, with only a small number of special transition arrangements being approved.

Friendly societies as a whole experienced a lift in profitability in 2012/13, due to higher earnings by benefit funds from the strong performance of equity markets. The capital position of friendly societies as a whole also improved moderately.

The structure of the life insurance industry was little changed over 2012/13. The industry has broadly coalesced into a number of large diversified groups (including the life insurance subsidiaries of the four major banks), a few prominent group life and investment specialists and some smaller niche participants. For friendly societies, of which only two have assets greater than $1 billion, consolidation pressures will likely continue, especially amongst the smaller societies. Smaller life companies and friendly societies will remain vulnerable to market conditions due to the struggle to maintain a viable scale, the run-off of legacy products and constraints on access to capital.

In addition to APRA's revised capital requirements, the life insurance industry has been responding to a range of other regulatory developments that have implications for business strategies and operations, capital management and distribution models. These include the Future of Financial Advice reforms, the Stronger Super reforms, the US Foreign Account Tax Compliance Act and the continuing evolution of International Financial Reporting Standards (for insurance contracts). This has been a substantial workload, which has put pressure on boards and management and has increased operational risk. APRA has been working closely with the industry to ensure that the prudential and other implications of these regulatory developments are fully understood and managed.

APRA has also been active in encouraging life insurers and friendly societies to consider the implications of a sustained low interest rate environment and the pre-emptive action that would be needed, if any, to protect policyholder (and shareholder) interests. As noted earlier in this *Report*, such an environment can put pressure on reserves, profitability from a number of sources and policyholder returns. This is particularly so when business models that are reliant on the continuation of relatively stable interest rates are subject to significant shifts in the interest rate level and structure.

From its ongoing supervision, APRA has been well aware of the difficulties facing life insurers in acquiring and retaining skilled resources in the underwriting and claims management areas. Skilled resources have been in limited supply for some time. Apart from enhancing training or seeking support from their reinsurers as they have commonly done, some life insurers have been seeking to recruit from overseas. There are also early signs of the 'offshoring' of certain underwriting/claims processing activities (although not the delegation of decision authorities).

Claims experience

Earlier indications of deterioration in death and disability claims experience were confirmed over 2012/13, although the picture is not consistent across all life insurers. The deterioration has become particularly evident in products offering income protection, where adverse claims incidence and longer claims duration are reducing product profitability. A major influence at work appears to be the significant downsizing that has taken place in some sectors of the Australian economy, impacting on claims in two ways: increased incidence of stress, depression and related claims, and fewer jobs available for claimants to return to. Improved data collections from 2013 will give APRA a more accurate picture of claims experience.

Compounding this problem has been an increase in lapse rates for many life insurers in both death and disability insurance. Contributing factors may be the reduced affordability of premiums and changes in distribution models away from internally sold business to third-party distribution. Directly marketed business has also been prone to high lapse rates in the early years of the product. APRA's particular concern is that life insurers may fail to assume that the lapsing of products is likely to be selective – preferred health risks surrender their policies or take their business elsewhere in search of lower premiums, while poorer risks stay where they are – and possibly underestimate long-term claims costs. This is likely to be exacerbated by any 'churning' of clients by advisers from one insurer to another.

To restore profitability, life insurers are looking at a range of responses, including undertaking reviews of product design and pricing, increasing investment in retention programs, tightening underwriting rules, and encouraging earlier claims intervention and accelerated claims closure. Insurers have also given priority to expense control. A small number of insurers particularly affected by adverse claims experience have needed to rebuild capital buffers while the industry, more generally, is seeking to improve returns by more effective utilisation of risk-based capital under APRA's revised capital framework.

APRA has been a strong supporter of industry-based death and disability experience studies. These studies, which are now updated every year, provide another perspective and new insights into past trends and their future implications. However, significant delays are involved before results and analysis are completed, and detailed results are embargoed for some time; this makes the studies less useful in monitoring trends. APRA encourages life insurers to participate in these studies, and other industry studies into mortality, morbidity and longevity risk, and provide sufficient resources and quality data to support them.

APRA has supported a research project with the University of New South Wales to develop an integrated framework for the economic, actuarial and regulatory aspects of longevity. A further 18 working papers were produced by the project in 2012/13, taking the total to 39 working papers.

Group risk insurance

Group risk insurance, mainly servicing large superannuation funds, has been a source of concern to APRA for some time, which it has highlighted to individual life insurers and at industry fora. The particular concern has been the sustainability of pricing. A weakening of pricing discipline and foresight, and a significant relaxation of underwriting practices, pushed margins in this business down to unsustainable levels, and pricing assumptions consequently proved to be overly optimistic. The forces behind these developments were the increasing buying power of very large superannuation funds and the drive by some life insurers (together with their reinsurers) to grow market share as quickly as possible without proper regard to pricing and risk issues.

The deterioration in claims experience and industry acknowledgement that the bottom of the pricing cycle for group risk insurance had passed saw a strong turnaround in strategies in 2012/13 that made profitability rather than market share the primary strategic driver of this business. Premium rates rose substantially as insurers sought to recover losses and increase prices to a more sustainable basis. APRA welcomes this more realistic approach to pricing.

Growth in group risk insurance business had also been encouraged by changes in benefit designs and structure aimed at better meeting the lifestyle needs of superannuation fund members. This strategy may be nearing exhaustion, and trustees now appear to be redirecting their attention to the impact of insurance premiums on members' retirement benefits.

APRA has also impressed upon insurers and trustees the need to improve the quality of member and claims data, including data made available to insurers during the tender process for group risk insurance business. A number of questionable practices had begun to emerge in this area, including trustees asking insurers to sign data quality waivers. APRA welcomes indications that insurers are asking more questions than previously about data, claims history and future prospects. The introduction of *Prudential Standard SPS 250 Insurance in Superannuation* puts the onus for maintaining data quality on superannuation trustees, and this is expected to strengthen the ability of insurers to challenge and reject questionable data. APRA has also released an associated prudential practice guide that provides general guidance to trustees on data management and claims data for tenders. However, there remains an obligation on insurers to ensure that they manage all aspects of their involvement in the group risk insurance market appropriately.

Directly marketed business

Direct marketing of life insurance to the public (through call centres, the internet and television advertising) continues to grow in popularity. The innovation is not so much in product as in distribution. Product competitiveness appears to play a small role in directly marketed business; the type of direct distribution channel adopted appears to be the main influence on success. To mitigate risks, insurers that are direct selling are attempting to select the best prospects by implicit underwriting and exclusion of certain higher-risk age categories and benefit types. This business carries heightened pricing risk as the largely fixed upfront costs of advertising and promotion need to be covered by sales volumes and ongoing premiums, the latter being prone to high lapse rates. In the case of funeral insurance, in particular, insurers need to fully understand the reputational risks they face from customers subject to substantial premium increases as they age and who may pay more in premiums than they receive in benefits. APRA is closely monitoring the prudential implications of developments in directly marketed business.

SUPERANNUATION

The superannuation industry experienced solid growth over 2012/13, underpinned by a combination of strong overall investment performance and a pick-up in contributions from current members. The rally in global and domestic equity markets, although faltering a little towards year-end, produced double-digit returns on an industry-wide basis. These, in turn, helped restore balances of fund members to pre-crisis levels and improved the financial position of many defined benefit funds. Notwithstanding the pick-up in 2012/13, member contributions were well below pre-crisis rates.

Over the year, structural changes associated with the ageing population and consolidation pressures continued to shape the industry. APRA-regulated superannuation funds faced a further increase in outflows, reflecting the exit of members to the self-managed superannuation fund sector and rising benefit payments as the system matures and the population ages. Ongoing consolidation within the industry saw the number of trustees with Registrable Superannuation Entity (RSE) licences decline by 21 to 193 and the number of registered funds under their trusteeship fall by 328 to 3,366.

APRA's supervisory efforts over 2012/13 were focussed primarily on implementation of the Stronger Super reforms (see Chapter 3). The second half of the year, in particular, was devoted to authorising MySuper products and assessing the preparedness of trustees for the introduction, from 1 July 2013, of APRA's prudential and reporting standards, a central element of the reforms.

In the low interest rate environment, APRA also engaged with those trustees exhibiting an increased investment risk appetite to ensure that they clearly understood and could prudently manage the risks involved. APRA questioned trustees of defined benefit funds on their management of asset-liability mismatch risk and their approaches to revaluing liabilities and adjusting funding plans between triennial valuations.

Preparing for Stronger Super

The authorisation of MySuper products has been a major supervisory priority for APRA. MySuper is a new superannuation product, with a basic set of product features, that will take the place of existing default funds. APRA must authorise a MySuper product where it is satisfied that a range of statutory requirements will be met, relating to product characteristics, a transition plan, the structure of permitted fees and the fulfilment of enhanced trustee obligations. MySuper is the first product of any kind that has needed to be authorised by APRA. From 1 January 2014, employers will only be able to make Superannuation Guarantee (SG) contributions on behalf of employees who have not chosen a fund into an authorised MySuper product.

Most trustees indicated an intention to offer a MySuper product and lodgement of applications to APRA commenced from 1 January 2013. APRA adopted a consultative approach, encouraging engagement with supervisors and draft applications for review and, where appropriate, providing constructive feedback prior to lodgement. The extensive involvement of frontline supervisors has been fundamental. Their institutional knowledge and ongoing dialogue facilitated a more efficient and effective authorisation process and has provided a sound platform for future supervision.

As at 1 July 2013, the date from which trustees authorised to do so could offer a MySuper product, APRA had received 75 applications and 48 MySuper products had been authorised. By end September 2013, a further 27 MySuper products had been authorised. APRA has also authorised two trustees to offer eligible rollover funds after 1 January 2014, under revised Stronger Super arrangements.

APRA consulted extensively with the industry on the implementation of the new prudential regime in superannuation, built on APRA's prudential standards-making power and new reporting obligations. While many trustees had solid foundations on which to build, some needed considerable effort to close the gaps between their current operations and the requirements of the new prudential standards. In the lead-up to, and following the release of, the final prudential standards, APRA worked closely with trustees to ensure that they were reviewing their existing policies, procedures and processes and making necessary changes in readiness for the new regime. These preparations meant that the industry was generally well placed for the implementation of the prudential standards from 1 July 2013, although further work will be needed to ensure that the standards, and the behaviours they are intended to promote, are fully embedded in industry practice.

Similar interaction has taken place on the new reporting obligations. APRA has sought to ensure that trustees were aware of the changes and had considered the adequacy of their systems and processes to meet the obligations. APRA has adopted a phased approach to implementation of the reporting requirements, with some not taking effect until 1 July 2014, and APRA's dialogue with trustees on reporting will continue.

Data integrity

APRA has continued to stress to industry the importance of data integrity and robust data management in meeting obligations to members. In July 2012, APRA wrote to trustees about data integrity issues, noting that funds still have a way to go before the industry can be considered as handling this issue well. Despite a greater level of industry awareness and some progress towards better management of data, there remains significant scope for improvement. Most trustees appear to lack adequate processes for periodic cleansing and testing of data and remain largely reactive in addressing data issues. The Stronger Super reforms, including the mandating of data and e-commerce standards for superannuation transactions under SuperStream, significantly enhance APRA's ability to drive improvement in data quality within the superannuation industry. APRA will look to leverage off these reforms to encourage greater ownership of data by trustees, particularly in this period of significant systems changes and merger activity. APRA has also released a prudential practice guide on the management of data risk that applies across all APRA-regulated industries, including superannuation (see page 54).

Liquidity

The continued growth of contributions to superannuation can mask the need for robust management of liquidity risk. Liquidity can be tested by a number of factors, including investment volatility, larger numbers of members moving into the draw-down phase, account consolidation, migration of large balances to the self-managed superannuation fund sector, frozen investments and illiquid asset allocations. In this environment, APRA has encouraged trustees to assess their liquidity needs on an ongoing basis and develop and implement investment strategies that adequately address these needs. Overall, liquidity risk management across the industry has improved since the global financial crisis began, although many trustees continued to lag in the areas of liquidity monitoring, contingency planning and liquidity stress testing. The new *Prudential Standard SPS 530 Investment Governance* imposes a higher standard of governance in relation to liquidity risk management. Trustees are now required to have a liquidity management plan that incorporates stress testing and actions to be taken in response to adverse liquidity events. APRA will be monitoring how trustees are implementing and embedding the required changes to their liquidity management practices.

Many retail superannuation funds continue to hold investments in 'frozen funds' (mortgage and property managed investment schemes) and have sought renewed portability relief under the *Superannuation Industry (Supervision) Regulation 1994*. Some schemes have been winding up and others re-structuring; however, for many schemes this has been a slow process influenced by underlying impaired assets and valuation concerns. APRA has encouraged trustees to challenge fund managers on the future of these investments and, where appropriate, seek clear timelines for outcomes.

Mergers and acquisitions

Growing expectations on trustees to reduce costs and demonstrate scale efficiencies are a major driver of consolidation within the industry. The extension of capital gains tax rollover relief for merging APRA-regulated funds during 2012/13 has further fuelled such activity. Mergers give rise to operational and governance risks that need to be carefully managed. In particular, mergers may expose significant weaknesses in data quality and give rise to current or potential conflicts of interest. APRA's engagement with trustees planning mergers also covers the adequacy of the strategic alignment between merging funds, the robustness of due diligence, the equivalency of rights for members and the implications for liquidity and insurance offerings. APRA expects trustees to have effective frameworks to identify, manage and mitigate the risks arising in mergers while ensuring that there is adequate resourcing for ongoing business operations. Trustees involved in mergers have generally been very open with APRA about their plans and have kept APRA informed of any emerging issues.

ENFORCEMENT ACTIVITIES

APRA seeks to take a collaborative approach to resolving prudential issues with boards and management of APRA-regulated institutions, and this approach generally achieves the desired results. However, APRA is also empowered by legislation to take enforcement action when necessary. APRA's enforcement powers are an important part of its armoury, providing the ability to step in when needed to protect the interests of APRA's beneficiaries (depositors, policyholders and members of superannuation funds).

Enforcement options available to APRA include instigating formal investigations into the affairs of an APRA-regulated institution, imposing conditions on an institution's licence, issuing directions related to particular matters, appointing a judicial manager or trustee (as appropriate) to manage an institution's affairs, or accepting enforceable undertakings. APRA can, where necessary, initiate criminal actions or seek to disqualify individuals from holding senior roles within APRA-regulated institutions. APRA can also take action to prevent unlicensed entities from conducting business that can only be conducted by an APRA-regulated institution. Further, as part of the Stronger Super reforms, APRA has been granted the ability to issue infringement notices under the *Superannuation Industry (Supervision) Act 1993* (SIS Act) from 1 July 2013.

APRA undertook 250 enforcement and related actions during 2012/13. This was a reduction from the 431 actions reported the previous year, due to a decline in the number of formal investigations. The number of complaints APRA received from employees about the failure of employers to remit post-tax employee contributions to their superannuation fund also fell significantly in 2012/13, from 35 to two.

APRA's investigation in relation to Trio Capital Limited has continued. Prior to its removal in December 2009, Trio was the trustee of four APRA-regulated superannuation funds and two pooled superannuation trusts. In 2012/13, APRA's investigation resulted in two former directors giving enforceable undertakings to remain out of the superannuation industry for a period of years; another five former Trio directors gave enforceable undertakings to APRA in July 2013. This brought the total number of former Trio directors providing enforceable undertakings to APRA since its investigation commenced to 11. In August 2013, APRA announced that it had commenced disqualification proceedings in the Federal Court of Australia against one former Trio director.

In September 2012, the then Minister for Employment and Workplace Relations and Minister for Financial Services and Superannuation announced his decision to grant an additional $16.7 million in financial assistance under Part 23 of the SIS Act in respect of the members of APRA-regulated Trio funds who were affected by loss due to fraud or theft, and to meet further Acting Trustee costs. This brought the total compensation granted to date in respect of the Trio matter to $71.7 million.

In April 2013, the then Minister for Employment and Workplace Relations and Minister for Financial Services and Superannuation released the Government's response to the report of the Parliamentary Joint Committee into the collapse of Trio Capital. The response noted that the report 'indicate(s) no systemic issues in the regulation of the superannuation industry'. In line with recommendations made in the report, APRA has reviewed its internal supervision processes in light of issues raised by the Trio collapse. It has also been developing and strengthening its relationships and information-sharing capabilities with other law enforcement agencies, including the Australian Crime Commission, the Australian Securities and Investments Commission (ASIC) and the Australian Taxation Office (see pages 62-66).

In the general insurance industry, APRA continued its administration of the Financial Claims Scheme (the Policyholder Compensation Facility), which had been triggered in 2009/10 in relation to a small general insurer, Australian Family Assurance Limited, to which a judicial manager (now liquidator) has been appointed. In conjunction with the liquidator, five claims were finalised in 2012/13. Three claims remain open and APRA continues to work with the liquidator to resolve these as quickly as possible. APRA has also continued to work closely with the judicial manager (now liquidator) to finalise the wind-up of a small general insurer, formerly known as Rural and General Insurance. Pending resolution of a small number of outstanding WorkCover claims, the liquidator expects to be able to wind up the insurer by the end of 2013.

In the banking industry, APRA considered 94 matters during 2012/13 relating to the use of restricted words 'bank', 'banker', 'banking', 'credit union' or like names under section 66 of the *Banking Act 1959*. The increase in the number of such matters (from 76 the previous year) was in part due to ASIC taking over responsibility for the registration of all trading and business names. Previously, this responsibility was shared by ASIC with State Government agencies and requests for registration of restricted words were not always referred to APRA.

In November 2011, responsibility for the early release of superannuation benefits was transferred to the Department of Human Services. However, APRA retained responsibility for investigations into three early release of benefit frauds that were in train prior to that date. Two of those matters were resolved in 2011/12. On the third matter, a brief of evidence had been provided to the Commonwealth Director of Public Prosecutions and, during 2012/13, the Court recorded a conviction against the individual concerned. This has finalised APRA's involvement with early release of benefit frauds.

Enforcement and related actions[1]

	ADIs		Superannuation		General insurance		Life insurance		Friendly societies		Other[2]		Total	
	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
Directions and contravention notices[3]	7	9	157	68							25	5	189	82
Enforceable undertaking			6	2									6	2
Follow-up delayed contributions			35	2									35	2
Investigation action			50	36									50	36
Other actions[4]	32	31	10		5						44	52	91	83
Prosecution			3										3	
Refer to other agency/police	6	3	12	28	1	1					4	5	23	37
Removal, withdrawal or revocation of license			2										2	
Show cause letter			2	4									2	4
Determinations under Financial Claims Scheme					30	4							30	4
Total	**45**	**43**	**277**	**140**	**36**	**5**	**0**	**0**	**0**	**0**	**73**	**62**	**431**	**250**

1 Year ending 30 June.
2 Includes institutions not regulated by APRA suspected of conducting unauthorised activity.
3 Includes consents to use restricted words.
4 Includes monitoring of foreign bank representative offices.

THE PRUDENTIAL FRAMEWORK

- AUTHORISED DEPOSIT-TAKING INSTITUTIONS
- GENERAL AND LIFE INSURANCE
- OTHER HARMONISED PRUDENTIAL STANDARDS
- SUPERANNUATION
- FINANCIAL SECTOR ASSESSMENT PROGRAM

3

The prudential framework in Australia, as has been widely acknowledged, has been a critical underpinning of the resilience of the Australian financial system through the global financial crisis and its continuing aftershocks. This has been recognised, most recently, by the International Monetary Fund (IMF) in its 2012 Financial Sector Assessment Program review of Australia (see below). The IMF noted that the robustness of the Australian financial system was '...in part due to the relative concentration of the system on a well-performing domestic economy, but also due to a material contribution from a well-developed regulatory and supervisory structure.'

These underpinnings were largely in place and working effectively before the crisis erupted. Repair was therefore not an APRA priority, but reinforcement has been. The crisis taught that prudential frameworks globally needed to be substantially strengthened to ensure that financial institutions will be better able to withstand future stresses, and to do so without the need for extraordinary government support. Australia must learn from the harsh lessons of others. Accordingly, over recent years APRA has pursued a substantial prudential policy workload, both global and domestic in its origins, that will when complete further 'shock-proof' the Australian financial system. The heaviest phase of that workload, which has covered all APRA-regulated industries, has now passed.

The global reform agenda of the G20 Leaders has largely dictated APRA's prudential policy priorities for the ADI industry. The main objectives of that agenda relevant to APRA are a strong prudential framework for banking systems built on much higher quality and quantity of capital and liquidity buffers; addressing the 'too big to fail' problem by reducing the risks posed by systemically important financial institutions; and more robust recovery and resolution arrangements for financial institutions in distress. The agenda also envisages transparent international assessment and peer review.

The G20 Leaders' broader agenda addresses contagion risks in over-the-counter derivatives markets and risks arising from shadow banking. Policies in these areas are largely the province of other financial regulatory agencies in Australia but, where the policies have implications for APRA-regulated institutions, APRA participates in policy discussions.

Strengthening the prudential framework for ADIs has centred on the Basel Committee on Banking Supervision's program of capital and liquidity reforms (Basel III). The main elements of the capital reforms are now in place in Australia and APRA's implementation of the liquidity reforms has made good progress; however, some elements of both reforms remain to be finalised by the Basel Committee. A framework for dealing with domestic systemically important banks has been endorsed by the G20 Leaders and has been added to APRA's prudential policy agenda.

In line with the global reform mandate, APRA is also now subject to greater external scrutiny of its adherence to global standards and the rigour of its supervisory approach. APRA had a significant involvement in the IMF's Financial Sector Assessment Program review of Australia, which reported in November 2012. During 2013/14, APRA's implementation of the Basel capital framework will be subject to peer review by other Basel Committee jurisdictions as part of the Basel Committee's Regulatory Consistency Assessment Programme, which involves assessment of the content and substance of a jurisdiction's bank capital requirements and their consistency with the requirements of the Basel framework.

APRA's prudential policy agenda that is domestic in its origins has involved three main initiatives. The first, now complete, is the updating and harmonisation of capital requirements for general and life insurers. The second, now largely complete, flows from the Stronger Super reforms and involves a substantial enhancement to the prudential regime for superannuation, based on APRA's new prudential standards-making powers. The third is the development of a prudential framework for conglomerate groups and, related to this, a harmonisation and enhancement of APRA's requirements for risk management. This initiative is well advanced.

AUTHORISED DEPOSIT-TAKING INSTITUTIONS

Strengthening capital requirements

The four key milestones for APRA's implementation of the Basel Committee's capital reforms are:

- enhanced ADI capital requirements against the risks arising in trading activities, securitisations and exposures to off-balance sheet vehicles (so-called Basel 2.5) came into effect from 1 January 2012;
- measures to raise the quality and minimum required levels of capital came into effect from 1 January 2013. Central to these Basel III measures is a new definition of regulatory capital that gives greater weight to common equity, the highest form of capital. The measures also strengthened capital requirements for counterparty credit risk exposures arising from derivatives, repurchase transactions and securities financing activities;
- a capital conservation buffer above the regulatory minimum capital requirement that can, under certain conditions, be drawn down in periods of stress will come into effect from 1 January 2016. From that date, APRA's capital requirements will also allow an additional countercyclical capital buffer to be imposed on all ADIs in circumstances where excessive credit growth and other indicators point to a build-up in systemic risk; and
- a non-risk-based leverage ratio is scheduled to be added to minimum capital requirements from 1 January 2018. This measure is intended as a simple backstop to help contain the growth of leverage in the banking system and to provide additional safeguards against model risk and measurement error. The leverage ratio is currently in parallel run and detailed specifications and associated disclosure requirements are yet to be finalised by the Basel Committee.

APRA's formal consultation process on the Basel III capital reforms, which began in September 2011, has involved a number of discussion and response to submissions papers, release of the prudential standards in draft form, speeches to industry fora and industry-wide public conferences. Consultations (except on the leverage ratio) concluded with the issue of final prudential standards and reporting standards in September and November 2012, relating to capital and counterparty credit risk respectively.

APRA's approach to the Basel III capital reforms was to adopt the Basel III rules text as globally agreed, with only minor exceptions in areas where APRA had for many years taken a more conservative approach. In addition, APRA did not adopt the concessional treatment available for certain items in calculating regulatory capital, for in principle reasons. Finally, APRA's implementation timetable was at the early end of the globally agreed timetable, fully consistent with the Basel Committee's view that, when they can, banks comply with the Basel III reforms as soon as possible. A number of other jurisdictions also adopted an accelerated timetable.

ADIs were able to meet the first two milestones without difficulty. As discussed in Chapter 2, ADIs held sufficient high-quality capital to meet the new minimum requirements for common equity (after regulatory adjustments) and, if current holdings are maintained, ADIs will also meet the capital conservation buffer when it comes into effect. Preliminary indications suggest that ADIs will also be able to meet the new leverage ratio, at least in its current draft form, without difficulty.

During the consultation process, APRA acknowledged that the stricter Basel III eligibility criteria for non-common equity regulatory capital is problematic for mutually owned ADIs (mutual ADIs). The stricter criteria improve the loss-absorbing characteristics of non-common equity instruments by requiring mandatory write-off or conversion to common equity if specific 'triggers' relating to capital levels or the issuer's viability are hit. However, conversion to common equity is not possible under a mutual corporate structure.

Nevertheless, APRA is strongly of the view that mutual ADIs should have access to non-common equity regulatory capital. Furthermore, the Basel III framework recognises that, in applying the Basel III capital requirements, supervisory authorities may take into account the specific constitutional and legal aspects of the mutual corporate structure provided that the substantive quality of regulatory capital is preserved. Accordingly, APRA has been working with the Australian Securities and Investment Commission (ASIC), mutual ADIs and their industry body, the Customer Owned Banking Association (COBA), to develop a solution. A core feature of the solution under discussion is a new instrument, a mutual equity interest instrument, which would only be created by a non-viability conversion and would have prudential characteristics similar to common equity. APRA intends to release this proposed solution for broader consultation in the latter part of 2013.

The Basel III capital reforms also include expanded disclosure requirements, based on a common disclosure template, that are intended to improve the transparency of regulatory capital and to enhance market discipline. This acknowledges the difficulties faced by market participants and supervisors during the crisis in assessing the capital positions of banking institutions and comparing these positions across jurisdictions. In April 2013, APRA began consultations on the implementation of the common disclosure template, as well as on the Basel Committee's separate requirements for ADIs to disclose qualitative and quantitative information about their remuneration practices and aggregate remuneration data for senior managers and material risk-takers. These capital and remuneration disclosure requirements came into effect, with a minimum of local adjustment, from 30 June 2013.

Strengthening liquidity requirements

The Basel III liquidity reforms are intended to promote stronger liquidity buffers and more prudent funding structures that will make banking systems more resilient to liquidity stresses. The reforms introduce, for the first time, two quantitative global standards: the Liquidity Coverage Ratio (LCR), aimed at strengthening the short-term resilience of banks, and the Net Stable Funding Ratio (NSFR), aimed at promoting longer-term resilience by requiring banks to fund their activities with more stable sources of funding. The original proposals envisaged that the LCR would come into effect from 1 January 2015 and the NSFR, from 1 January 2018. The Basel Committee has yet to finalise the specifications of the NSFR. The Basel III liquidity reforms also involve a strengthening of governance and risk management in relation to liquidity risk – the so-called qualitative requirements – consistent with the Basel Committee's revised *Principles for Sound Liquidity Risk Management and Supervision*.

In January 2013, after further calibrations, the Basel Committee released revisions to the LCR. These included discretion for national authorities to include a wider range of liquid assets in the definition of high-quality liquid assets and some refinements to the assumed cash inflow and outflow rates for calculating the 30-day acute stress scenario on which the LCR is built. They also included a revised timetable allowing a phase-in of the LCR from 1 January 2015.

APRA has proposed that all ADIs in Australia meet the enhanced qualitative requirements of the Basel III liquidity framework, in a way that is commensurate with the nature, scale and complexity of the institution. However, only the larger, more complex ADIs will need to meet the two new quantitative requirements. APRA released a consultation package on the Basel III liquidity reforms in November 2011. A second consultation package was released in May 2013, incorporating the Basel Committee's revisions to the LCR and addressing issues raised on those of APRA's earlier proposals that were not affected by those revisions. In this second package, APRA proposed not to exercise discretion to widen the definition of high-quality liquid assets but to adopt the revised assumed cash inflow and outflow rates. APRA also proposed to implement the liquidity reforms on the original agreed global timetable. The majority of large internationally active banks in other jurisdictions are already compliant with the LCR.

APRA is intending to finalise a new prudential standard for liquidity, and associated reporting requirements, by the end of 2013. ADIs will be subject to the qualitative requirements set out in the standard from 1 January 2014.

The unique feature of Australia's arrangements is the secured committed liquidity facility (CLF) that an ADI will be able to establish with the Reserve Bank of Australia (RBA). This type of arrangement is available under the Basel III framework to jurisdictions with insufficient high-quality liquid assets for inclusion in liquidity buffers. The CLF will be sufficient in size to cover any shortfall between the ADI's holdings of high-quality liquid assets and the requirements to hold such assets under the LCR. The availability of the LCR must, however, be balanced against the overriding objective of the Basel III liquidity framework of improving the self-reliance of banking institutions in liquidity management and reducing their recourse to their central bank at early signs of stress. Accordingly, ADIs will need to demonstrate that they have taken 'all reasonable steps' to improve their self-reliance, before recourse to the CLF. Further background on the intended approach of APRA and the RBA to the operation of the CLF was provided in August 2013 and APRA supervisors and liquidity risk specialists have been working closely with ADIs on a trial exercise for CLF applications (see page 26).

Domestic systemically important banks

The Basel Committee's framework for dealing with domestic systemically important banks (D-SIBs) was finalised in October 2012 and subsequently endorsed by the G20 Leaders. This framework, developed in conjunction with the Financial Stability Board, responds to the strongly held view of the G20 Leaders that no financial firm should be 'too big to fail' and that taxpayers should not bear the cost of resolution. The framework builds on, but differs in important respects from, the regime for global systemically important banks (G-SIBs) endorsed by the G20 Leaders in November 2011.

The G20 regime for G-SIBs focusses on large, internationally active banks with significant cross-border activities and it addresses the 'too big to fail' issue through higher capital requirements, strengthened supervisory oversight and robust recovery and resolution plans for G-SIBs. No Australian bank is on the current list of G-SIBs. The D-SIB framework recognises that there are many banks that are not significant at the global level but could, if they were to come under stress, have a critical impact on their domestic financial system and economy.

The D-SIB framework requires that D-SIBs have a greater ability to absorb losses as a going concern, but it differs from the prescriptive approach in the G-SIB regime. Under the principles-based approach, APRA will establish a methodology for assessing the degree to which banks are systemically important in Australia, publicly disclose information that provides an outline of the methodology employed and ensure that any D-SIB has higher loss absorbency, commensurate with its systemic importance and fully met by common equity.

APRA intends to publish the key elements of its D-SIB methodology by the end of 2013. The D-SIB framework comes into effect from 1 January 2016, at the same time as the G-SIB framework.

APRA's crisis management powers

APRA has a relatively robust set of legal powers to enable it to respond effectively to situations of financial distress. These powers were strengthened during the course of the crisis through legislative reforms, which covered various aspects of APRA's preventative directions and failure management powers as well as powers relating to its role in administering the two Financial Claims Schemes (for ADIs and general insurers). As part of an ongoing review of the efficiency and operation of financial sector legislation, APRA has worked closely with Treasury to develop proposals to further strengthen APRA's ability to respond effectively to financial distress. The proposals address some remaining gaps and deficiencies in APRA's crisis resolution powers and seek to align these powers more closely with international principles and practice.

The review culminated in the release in September 2012 of a Government Consultation Paper, *Strengthening APRA's Crisis Management Powers*, which seeks comments on a range of options to enhance APRA's supervision and resolution powers. The options canvassed in the paper aim to:

- strengthen APRA's crisis management powers in relation to all APRA-regulated industries, including extending APRA's power to appoint a statutory manager to an ADI's authorised non-operating holding company (NOHC) and subsidiaries in a range of distress situations and providing APRA with the option to appoint a statutory manager to a general insurer or life insurer (and to its authorised NOHC and subsidiaries) as an alternative to a judicial manager appointed by the Court;
- provide APRA with direction powers to require superannuation entities to take pre-emptive action to address prudential concerns;
- simplify and harmonise APRA' regulatory powers across the various industry Acts it administers; and
- make a number of technical amendments to enhance the effectiveness of these Acts.

No final position on these options has been reached.

Financial Claims Scheme

The Financial Claims Scheme for the ADI industry (also known as the Early Access Facility for Depositors) provides depositors with timely access to, and certainty of repayment of, their deposit funds up to a defined limit, currently $250,000 per depositor per ADI. In its capacity as administrator, APRA has undertaken a number of measures to ensure that the Scheme can be operated effectively in the event of an ADI failure. *Prudential Standard APS 910 Financial Claims Scheme* requires locally incorporated ADIs to generate deposit data and other information on a 'single customer view' basis. This is a fundamental requirement for the effective operation of the Scheme since it enables deposit balances to be aggregated across different protected accounts in the name of a single depositor. It is a prerequisite for accurate and prompt payouts and its importance was highlighted by the IMF in its recent Financial Sector Assessment Program review of Australia.

In November 2012, APRA released a consultation package with proposals to amend the prudential standard to include requirements in relation to payment, reporting and communications. Broadly, the proposals would require ADIs to be pre-positioned for two forms of payment: electronic funds transfer (EFT) and RBA cheque. An industry workshop on the proposals was held in December 2012 and further industry meetings were held in the first half of 2013. Submissions broadly supported the proposals. APRA finalised the amendments to the prudential standard in June 2013 and in August 2013 provided additional technical guidance to assist ADIs in complying with their payment and reporting obligations.

ADIs are required to comply with the prudential standard from 1 January 2014 unless, on a case-by-case basis, APRA grants particular ADIs an additional transition period (which cannot extend beyond 31 December 2015). Extensions have been granted where that would allow ADIs to make the necessary system changes more efficiently. APRA will regularly test the ability of ADIs to comply with all aspects of the prudential standard.

Banking Act exemption orders

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

In response to the high-profile collapse of an RFC, the Government announced in December 2012 that ASIC and APRA would consult on a number of proposals to strengthen the regulation of finance companies that issue debentures to retail clients. The Government endorsed APRA's recommendation to establish a clearer distinction between debentures and deposit products offered by ADIs. Consistent with the announcement, APRA released a consultation package in April 2013 on its proposals to restrict the use of certain terms by RFCs, including the words 'deposit' and 'at-call', and to require all debenture offerings to have a minimum maturity of 31 days.

In that same package, APRA also proposed to remove the exemption order for RCDFs, so that RCDFs wishing to continue to accept retail funding would need to become either an ADI or an RFC or operate a managed investment scheme. After reviewing submissions and gathering further information about RCDF business models, APRA decided to revise this proposal and not require RCDFs wishing to offer products to retail investors to operate under a different regulatory regime. Rather, APRA proposed to apply additional conditions to the exemption order for RCDFs consistent with those proposed for RFCs. This revised approach was set out in a response to submissions paper released in August 2013.

APRA's review of the operation of the Banking Act exemption orders is not yet finalised. APRA has announced that any changes to the exemption orders will not take effect until specified dates in 2014; moreover, transition arrangements will be available to allow RFCs and RCDFs most affected by any changes to adjust their operations accordingly.

GENERAL AND LIFE INSURANCE

General and life insurance capital standards

APRA's reforms to its capital standards for the general and life insurance industries are now complete. The objectives of these reforms were to make the capital standards more risk-sensitive, improve their alignment across regulated industries where appropriate and take account of relevant international developments. New prudential standards reflecting these objectives came into effect from 1 January 2013.

For general insurance, the reforms ensure that APRA's prudential framework adequately captures all known material risks, including asset/liability mismatch, asset concentration, insurance concentration and operational risks. Among other things, the reforms make the general insurance industry more resilient to losses from multiple catastrophes in a single year.

For life insurance, the changes have been more fundamental. The previous dual reporting requirements for solvency and capital adequacy have been simplified and, by introducing the concept of a 'capital base' for life insurers, the capital framework for life insurers has been aligned with that for general insurers and ADIs. This improved alignment of capital requirements across the three industries also simplifies APRA's prudential framework as it applies to conglomerate groups.

The review commenced in 2010 and involved multiple rounds of formal consultation with industry and other stakeholders based on APRA discussion papers, technical papers, response to submissions papers and quantitative impact studies (QIS). In addition, there was extensive informal consultation conducted via industry-wide conferences and meetings with industry bodies and individual institutions. Throughout this multi-year project, industry consistently indicated a broad level of support for APRA's aims in undertaking the review and APRA refined its approach in a number of areas to address issues raised in submissions.

APRA finalised the new capital regime for general and life insurers in October 2012 with the release of a response to submissions paper outlining its final policy positions, accompanied by the final prudential standards. This was followed by the release of a final package specifying a revised reporting framework for the new regime (see page 88). To provide guidance on good practice and assist institutions in complying with the revised requirements, APRA released draft guidance and information material for consultation in September 2012. These documents were finalised in March 2013.

The impact of the reforms on overall capital requirements across both industries has been modest, much as APRA expected. In commencing the review, APRA's starting position was not that existing capital requirements for the general and life insurance industries were, overall, either too high or too low. The objective was to increase the risk-sensitivity of the standards and, consequently, capital requirements for individual insurers would increase or decrease according to their risk profile. QIS results during the consultation phase suggested that the reforms were likely to increase overall capital requirements across both industries but, as expected, insurers have taken steps to optimise their business and capital management strategies to offset potential impacts. This process of adjustment is probably incomplete. A small number of insurers were granted transitional relief to assist with their adjustment to full compliance with the revised requirements.

OTHER HARMONISED PRUDENTIAL STANDARDS

Supervision of conglomerate groups

APRA made considerable progress on its proposed prudential framework for conglomerate ('Level 3') groups during 2012/13. Level 3 groups are groups (containing APRA-regulated institutions) that perform material activities across more than one APRA-regulated industry and/or in one or more non-APRA-regulated industries. The objective of this substantial initiative is to better protect the interests of beneficiaries (depositors, policyholders and superannuation fund members) by limiting the risks to an APRA-regulated institution – from contagion, reputation and operational risks in particular – that may arise from that institution's membership of a conglomerate group. The initiative also aims to ensure that both APRA and the group itself have a broader understanding of the financial and operational soundness of the group, irrespective of its structure and variety of operations. The global financial crisis has shown that the failure of one institution (regulated or not) within a conglomerate group may damage or even cause the failure of regulated institutions and that supervisory regimes must be able to capture the risks facing regulated institutions within such a group.

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

The proposed framework has four components: group governance, risk exposures, risk management and capital adequacy. The overarching requirements are:

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

APRA's proposals were first outlined in a consultation paper released in March 2010. In response to feedback on that paper, extensive dialogue with potential Level 3 groups and detailed quantitative impact analysis, APRA refined its approach and released its proposed Level 3 framework for consultation in two stages. Eight draft prudential standards setting out requirements for group governance and risk exposures were released in December 2012. This was followed in May 2013 by a second consultation package and five draft prudential standards relating to risk management and capital adequacy. In releasing this package, APRA noted that potential Level 3 groups were unlikely to need additional capital to meet the proposed Level 3 requirements. Proposed reporting requirements relating to the capital adequacy of Level 3 groups were released in September 2013.

In order to provide sufficient time for Level 3 groups to make the transition to the new requirements, the effective date of the new Level 3 framework has been deferred to 1 January 2015. APRA plans to finalise the Level 3 prudential standards by the end of 2013 and the reporting requirements in the first quarter of 2014.

Risk management

APRA is committed to harmonising and consolidating its prudential standards across APRA-regulated industries, where appropriate. Consolidated 'behavioural' prudential standards are now in place for ADIs, general and life insurers and Level 2 groups for outsourcing, business continuity management, governance, and fitness and propriety. During 2012/13, APRA proposed to continue this process of harmonisation with a consolidated prudential standard that would ensure the consistent application of its risk management requirements across these industries. At present, some risk management requirements for ADIs are spread across a number of ADI prudential standards. As well as harmonising existing requirements, APRA has enhanced the requirements to reflect its heightened expectations for risk management. The new standard would apply to ADIs, general and life insurers, and Level 2 and Level 3 groups; it would not apply to the superannuation industry, where a superannuation-specific risk management prudential standard has recently been implemented.

APRA is also proposing enhancements to its governance prudential standard to ensure that risk management governance principles are aligned with the proposed risk management standard.

The most important of APRA's proposed risk management enhancements are:

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

A discussion paper and drafts of the consolidated risk management prudential standard and revised governance prudential standard were released for consultation in May 2013. APRA is currently considering industry responses to these proposals and, in particular, how the standards can accommodate the circumstances of smaller, less complex institutions. APRA intends to finalise the standards by the end of 2013 but the standards will not be fully effective until 1 January 2015.

Managing data risk

The management of risks associated with data is crucial for APRA-regulated institutions because it can affect their ability to meet financial and other obligations to beneficiaries. The risks associated with the use of data, including data application, retention, storage and security, have become more significant with increasing automation and the criticality of data to decision-making. Hence, boards and management need to have an understanding of data management risks, including the collection, retention and use of data, and of the practices that would safeguard data quality across the data life-cycle.

In December 2012, APRA released a draft cross-industry prudential practice guide designed to assist APRA-regulated institutions to appropriately managing their data risks and targeted at those areas of data risk that APRA has identified, through its ongoing supervision, as areas of potential weakness. The guide is applicable to all ADIs, general and life insurance companies and APRA-regulated superannuation funds. The guide was finalised in September 2013 after consultation.

SUPERANNUATION

The Stronger Super reforms, announced by the Government in December 2010, aim to strengthen the governance, integrity and regulatory settings of the superannuation system in Australia. Key design aspects of the Stronger Super reforms were confirmed in September 2011. The reforms largely took effect from 1 July 2013 and are driving significant changes in the superannuation industry.

The Stronger Super reforms envisage a strengthening of trustee duties, the establishment of a new superannuation product ('MySuper') and the streamlining of superannuation transactions ('SuperStream'). MySuper products are characterised by a basic set of product features, including the fees that can be charged, designed to aid comparability across the range of MySuper products offered by the industry. SuperStream is intended to enhance the productivity and efficiency of the superannuation system. Its particular objectives are to make the processing of superannuation transactions easier, cheaper and faster, provide better information to trustees, employers and fund members, and facilitate consolidation of unnecessary additional superannuation accounts.

Under the reforms, APRA has also been granted prudential standards-making powers in superannuation.

Once the Stronger Super reforms were announced, APRA commenced a multi-year project to strengthen the prudential and reporting framework for superannuation. During the reform process, APRA has engaged extensively with a broad range of stakeholders on all elements of the new framework.

Prudential standards

APRA was granted power to make prudential standards in superannuation, for the first time, through the enactment in September 2012 of the *Superannuation Legislation Amendment (Trustee Obligations and Prudential Standards) Act 2012*. This has brought superannuation into line with the ADI and insurance industries, where prudential standards are the centrepiece of APRA's prudential framework. APRA's new standards-making power will strengthen the prudential oversight of trustees and enhance the protection of fund member interests.

APRA's formal consultations on prudential standards began with the release of a discussion paper in September 2011, which was followed in April 2012 with the release of a response to submissions and 11 draft prudential standards. APRA's approach was to seek to substantially harmonise standards on topics common to other APRA-regulated industries but to develop tailored standards on topics specific to superannuation. The superannuation standards addressing topics common to other APRA-regulated industries, and based on the respective cross-industry standards, were governance, fit and proper, outsourcing, business continuity management, risk management, and audit and related matters. The superannuation-specific standards covered investment governance, conflicts of interest, defined benefit funding and solvency, operational risk financial requirements, and insurance in superannuation. Submissions were broadly supportive of APRA's approach.

In November 2012, after extensive consultation, APRA released eight final prudential standards and three proposed final standards that were dependent on the passage of primary legislation. These three standards were finalised in June 2013 and the prudential framework applied in full from 1 July 2013.

APRA's approach is to support prudential requirements with guidance material that assists industry to meet the requirements, where needed. During 2012/13, APRA released draft superannuation prudential practice guides for consultation in two stages. In December 2012, it released 10 draft prudential practice guides that support the implementation of the new prudential standards and Stronger Super reforms. In May 2013, it released a further eight draft prudential practice guides on remaining areas related to these reforms. Eight of the original 10 prudential practice guides were finalised in July 2013 and the remainder of the drafts (including combining the three draft investment governance-related prudential practice guides into a single guide) will be finalised by the end of 2013. This material largely replaces the former Superannuation Circulars and guidance notes.

Reporting standards

In response to the growing size and complexity of the industry, and as part of the implementation of the Stronger Super reforms, APRA has substantially enhanced its superannuation data collection. The new collection implements the transparency and accountability elements of the Stronger Super reforms and supports the implementation of prudential standards, MySuper products and SuperStream. Overall, APRA expects that the new data collection will be of significant benefit to all industry stakeholders by providing greater transparency of investments and costs in superannuation and enhancing APRA's ability to supervise trustees and funds through broadening and deepening the statistics collected about the trustees and each fund.

A comprehensive consultation package on the new data collection was released in September 2012, resuming consultations that had been put on hold since 2009, when the *Review into the governance, efficiency, structure and operation of Australia's superannuation system* (Cooper Review), the precursor to the Stronger Super reforms, was announced. APRA received submissions on its proposals from a wide range of stakeholders and also conducted extensive informal consultation and industry roundtables. The consultation process culminated in the release of 32 final reporting standards in June 2013. In July 2013, APRA released drafts of three remaining reporting standards to support enhanced disclosure and reporting obligations for. These standards related to the MySuper product dashboard, product disclosure statement fees and costs, and investment performance. These standards, together with reporting guidance, were finalised in September 2013.

APRA is implementing the new statistical collection on a phased basis. Reporting requirements relating to MySuper products, prudential requirements and fund-level financial statements came into effect from 1 July 2013 and other requirements will be effective from 1 July 2014.

MySuper and eligible rollover funds

Under new legislation provisions in the *Superannuation Industry (Supervision) Act 1993*, enacted in November 2012, APRA is required to authorise trustees to offer MySuper products. APRA has consulted extensively on the proposed framework for MySuper authorisation and held a number of seminars, workshops and meetings with trustees and other relevant stakeholders to facilitate the authorisation process. Between December 2012 and February 2013, APRA released the final authorisation process including guidance for completing the authorisation form, a transition prudential standard and transition guidance. MySuper authorisation commenced on 1 January 2013 and MySuper products were offered from 1 July 2013.

Similarly, under the new legislation, a trustee intending to operate an eligible rollover fund from 1 January 2014 must seek authorisation from APRA. In June 2012, APRA began consultations on its proposed authorisation framework for eligible rollover funds, which is aligned with the MySuper authorisation process. The final framework, which included a transition prudential standard, was released in May 2013. The authorisation process for trustees wishing to operate an eligible rollover fund after 1 January 2014 commenced from 1 January 2013.

SuperStream

The focus of SuperStream is on the business processes associated with contributions, rollovers and the consolidation of superannuation accounts. The industry improvements it is seeking to foster are intended to produce benefits to members in the form of lower fees and improved processing timeframes. APRA has worked closely with Treasury and the Australian Taxation Office (ATO) during development of the SuperStream requirements. APRA and the ATO wrote to the superannuation industry in March 2013 to highlight some key steps that industry would need to take to prepare for the implementation of SuperStream. APRA wrote again in April 2013 to clarify its expectations regarding breaches of certain SuperStream requirements during the transition period until December 2013. APRA is also consulting on a draft data collection form that will assist Treasury in benchmarking and in evaluating the extent to which key outcomes of SuperStream have been achieved. This form will be finalised by the end of 2013.

FINANCIAL SECTOR ASSESSMENT PROGRAM

In October 2012, the IMF released the findings of its second Financial Sector Assessment Program (FSAP) review of Australia. The first review was conducted in 2005/06. The review focussed on the strength and stability of Australia's financial system and the quality of its regulatory architecture and financial supervision. Conducted largely in 2011/12 by a team of independent experts, the review involved extensive dialogue between the IMF and Australia's financial regulatory agencies.

Of particular relevance to APRA, the IMF team evaluated APRA's supervision of the banking and general and life insurance industries against the Basel Committee's *Core Principles for Effective Banking Supervision* and the *International Association of Insurance Supervisors'* new *Insurance Core Principles*, respectively. The evaluation process was rigorous, including a self-assessment by APRA, on-site interaction with the IMF team and a review of APRA's prudential framework and supervisory tools for ADIs and insurers. The IMF also conducted a macroeconomic stress test of the capacity of the Australian financial system to deal with severely adverse shocks and reviewed Australia's crisis management arrangements. A background paper on Australia's financial stability arrangements, prepared for the FSAP by the RBA and APRA, was published in September 2012.

The IMF's FSAP report provided a strong endorsement of Australia's regulatory framework and of the effectiveness of APRA's supervision. The main findings were:

- Australia's financial system is sound, resilient, and well-managed. Major banks are conservatively run, well capitalised and profitable, and they are likely to withstand severe shocks;
- however, a number of risks will need to be closely managed, including risks from a combination of high household debt and elevated house prices, reliance on offshore funding, and a highly concentrated and interconnected banking system;
- the financial regulatory and supervisory framework exhibits a high degree of compliance with international standards; and
- commendable steps have been taken to strengthen crisis management.

The report noted that APRA maintains a conservative supervisory approach. It takes a pro-active, risk-based approach to bank supervision, with notable strengths demonstrated by its strong risk analysis, its focus on bank boards' responsibility for risk management, and its assessment of banks on a system-wide basis. The report also noted that APRA has made significant progress in updating the insurance regulatory regime since the first FSAP. In insurance, too, the risk-based supervision framework was judged by the IMF to be comprehensive, with established internal policies and processes to promote prompt and consistent supervisory action.

Within this positive overall assessment of APRA, the IMF recommended that APRA devote more resources to stress testing, introduce higher loss absorbency for D-SIBs (see above), intensify on-site supervision of bank liquidity and continue recovery and resolution planning. APRA is addressing each of these recommendations.

APRA welcomes the scrutiny of the FSAP process. The review provides the opportunity to take stock of Australia's regulatory arrangements, having regard to international 'best practice' principles and codes, in a more thorough and holistic way than might otherwise be the case. It offers independent challenge to domestic views from peer supervisors, including peers with experience in jurisdictions that were badly affected by the global financial crisis. Similarly, it provides an independent view to assist Government and authorities' discussions on priorities, desired resourcing and legislative or other reforms. From APRA's perspective, the review strengthens accountability, by providing a form of external 'audit' of APRA's performance that is difficult to achieve in other ways.

APRA-regulated institutions

	Number			Assets ($ billion)[1]		
	30 Jun 12	30 Jun 13	% change	30 Jun 12	30 Jun 13	% change
ADIs[2]	174	**172**	-1.1	3,041.2	**3,177.2**	4.5
Banks	66	**68**	3.0	2,964.8	**3,103.0**	4.7
Building societies	9	**9**	0.0	22.1	**22.7**	2.7
Credit unions	92	**88**	-4.3	46.6	**44.1**	-5.4
Other ADIs, including SCCIs	7	**7**	0.0	7.7	**7.4**	-3.9
Representative offices of foreign banks	17	**16**	-5.9			
General insurers	124	**121**	-2.4	118.1	**118.1**	0.0
Life insurers	28	**28**	0.0	237.5	**256.7**	8.1
Friendly societies	13	**13**	0.0	6.1	**6.3**	3.3
Licensed trustees[3]	209	**190**	-9.1			
Superannuation entities[4]	3,675	**3,379**	-8.1	833.6	**968.4**	16.2
Public offer funds	173	**161**	-6.9	644.8	**752.5**	16.7
Non-public offer funds	141	**125**	-11.3	181.5	**208.9**	15.1
Small APRA funds	3,201	**2,950**	-7.8	1.8	**1.7**	-5.6
Approved deposit funds	77	**66**	-14.3	0.1	**0.1**	0.0
Eligible rollover funds	16	**16**	0.0	5.4	**5.2**	-3.7
Pooled superannuation trusts[5]	67	**61**	-9.0	87.6	**99.3**	13.4
Non-operating holding companies	25	**25**	0.0			
Total	**4,265**	**3,944**	**-7.5**	**4,236.5**	**4,526.7**	**6.8**

Notes:

1 Asset figures for end-June 2013 are based on most recent returns. Asset figures for end-June 2012 have been revised slightly from APRA's *2012 Annual Report* in line with the audited returns received during the year.

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

3 Licensed trustees do not include groups of individual trustees. As at end-June 2013, there were three such groups.

4 Superannuation entities comprise registered and unregistered entities. From 1 July 2006, all trustees operating APRA-regulated superannuation entities were required to hold an RSE licence and register their superannuation entities with APRA. A small number of unregistered entities are still in the process of winding-up or transferring trusteeship to an RSE licensee. The total for superannuation entities does not include uncontactable funds that are in the process of being formally wound-up or transferred to the Australian Taxation Office. As at end-June 2013, there were two such funds.

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

COOPERATION AND LIAISON

- AUSTRALIA
- INTERNATIONAL
- TECHNICAL ASSISTANCE

4

APRA's liaison activities, which are essential input into its supervisory and policy work, take three broad forms. One is close engagement with other domestic financial regulatory agencies in pursuit of a robust and stable financial system. Another is regular liaison with other Australian agencies and industry bodies, and with overseas regulators, as part of APRA's network of intelligence on the institutions and industries that it regulates. The third is APRA's participation in the global standard-setting bodies for prudential regulation, which gives Australia an active voice in global reform initiatives. This participation stepped up in intensity over recent years as the wave of global prudential reforms in banking reached its peak. APRA is looking to scale back this activity as global banking reforms are finalised, but global reform initiatives in insurance are now gathering momentum.

AUSTRALIA

The effectiveness of APRA's working relationships with the other domestic financial regulatory agencies in Australia – the Reserve Bank of Australia (RBA) and the Australian Securities and Investments Commission (ASIC) – has been one of the strengths of Australia's financial stability framework. Important, as well, has been APRA's productive links with the Australian Treasury, which provides advice to the Government on policy and possible legislative reforms that promote a sound financial system and infrastructure. APRA's bilateral relationships with each of these agencies, built on regular dialogue at various levels of formality from agency heads down, eased in tempo over the course of 2012/13 as the aftershocks of the global financial crisis receded. However, cooperation between the four agencies under the auspices of the Council of Financial Regulators, of which each is a member, continued to involve considerable follow-up work.

The Council, chaired by the Governor of the RBA, operates as a forum for coordination and information exchange between its members on financial policy and regulatory issues. Its objectives are to contribute to the efficiency and effectiveness of regulation and promote stability of the Australian financial system. During the crisis, the Council became the natural focal point for agency coordination and it continues its watching brief over conditions in global financial markets. Over 2012/13, the Council's main priority was to progress work on Australia's crisis management arrangements and on financial market infrastructure.

The Council's work on crisis management continued its exploration of resolution options for a distressed ADI. It also covered funding issues related to the Financial Claims Scheme for ADIs, looking both at mechanisms for making Government funding available if the Scheme is declared for a particular ADI and at options for pre-funding the Scheme. Following a review of pre-funding options, the Council concluded that an *ex ante* funding model for the Scheme should be introduced in Australia.

The Council's preferred model was one based on a flat (not risk-based) levy applied to all ADI deposits protected by the Scheme, with the proceeds from the levy hypothecated into a specific fund that would be confined to making payments under the Scheme or to helping to fund other ADI resolution activities that seek to protect deposits. An *ex ante* funding model was listed as a 'high priority' recommendation of the IMF's Financial Sector Assessment Program review of Australia in 2012 (see page 57). The Council also continued to work closely with the New Zealand Treasury and the Reserve Bank of New Zealand (RBNZ) on trans-Tasman crisis management arrangements (see page 67). APRA participates in two Council working groups on crisis management arrangements.

APRA also participates in the Council's work on financial market infrastructures. Although APRA has no direct responsibilities in this area, the Council's work has implications for risk management by APRA-regulated institutions active in financial markets. The work has had two main strands. The first relates to over-the-counter (OTC) derivatives transacted in Australia's financial markets. This is in response to the substantial reforms in this area underway in many offshore jurisdictions and to the G20 commitment to see all OTC derivatives contracts reported to trade repositories and all standardised OTC derivatives transactions centrally cleared and traded on electronic platforms, where appropriate. The second strand relates to enhancing the regulation of financial market infrastructures in Australia to improve the ability of regulators to provide effective oversight and manage risks to stability and market integrity. The Council has been developing legislative proposals that would strengthen recovery and resolution regimes for financial market infrastructures.

APRA's close bilateral relationship with the RBA supports the shared responsibility of the two agencies for the stability of the Australian financial system. A crucial element in the relationship is, therefore, the regular sharing of information about emerging systemic risks, from both domestic and offshore sources. Other issues under discussion during 2012/13, particularly through the formal channel of the RBA/APRA Coordination Committee, included the implementation of the RBA's Committed Liquidity Facility in the context of the Basel III liquidity reforms (see page 48), other elements of APRA's prudential policy agenda that may impact on financial system stability, the composition of ADI credit portfolios, stress testing, and the coordination of RBA and APRA activities on the Basel Committee on Banking Supervision.

Regulatory liaison meetings and enforcement liaison meetings are the main formal channels for cooperation between APRA and ASIC. The former meetings focus on policy issues or operational supervision matters concerning industries and institutions regulated by both agencies; they are also a forum for discussion on practical supervision outcomes arising out of changes to legislative and administrative procedures. The latter meetings discuss broad enforcement-related issues, coordinate specific actions related to jointly regulated institutions and discuss cases identified by one agency that may have relevance to the other. Over 2012/13, APRA and ASIC strengthened their information-sharing arrangements, in part to address the recommendations of the report of the Parliamentary Joint Committee into the failure of Trio Capital Limited. Steps taken included:

- measures to raise the awareness amongst staff of both agencies about matters of joint interest, which has led to more exchanges of information in between formal meetings;
- presentations to APRA staff on ASIC's role and functions;
- the development of guidance notes to assist APRA staff to identify matters relevant to ASIC; and
- secondment of staff between APRA and ASIC in a number of areas, including enforcement.

Broad issues under discussion between APRA and ASIC during 2012/13 included implementation of the Government's Stronger Super reforms and the Government's proposals to strengthen the regulation of Registered Financial Corporations (see page 50).

An important mechanism for joint consultation with industry is the annual meeting between the APRA Members, the ASIC Commissioners and the Finance Industry Council of Australia (FICA), an umbrella body for a number of finance industry associations. This dialogue on significant regulatory and other issues is important to ensuring balanced outcomes for the industry and the broader community. FICA comprises the Australian Bankers' Association, the Customer Owned Banking Association (formerly Abacus – Australian Mutuals), the Australian Finance Conference, the Australian Financial Markets Association, the Australian Securitisation Forum, the Financial Services Council and the Insurance Council of Australia.

APRA's active engagement with Treasury in 2012/13 was centred on key legislative initiatives relevant to APRA's powers and responsibilities. Four tranches of superannuation legislation were enacted to implement the Government's Stronger Super reforms, the second of which granted APRA prudential standards-making power in superannuation. The legislation has enabled the introduction of superannuation prudential standards on 1 July 2013 and the authorisation of MySuper products. Additionally, a discussion paper was released for consultation proposing amendments to APRA's crisis management powers, as well as measures to streamline and simplify APRA's existing industry acts. Senior APRA and Treasury officials also held regular liaison meetings to discuss the G20's and the Financial Stability Board's regulatory reform agenda, the activities of the global standard-setting bodies and domestic reform initiatives.

APRA also interacts with a number of other Australian agencies, again with varying degrees of formality. APRA has a structured liaison arrangement with the Australian Transaction Reports and Analysis Centre (AUSTRAC) and activities are coordinated through the AUSTRAC/APRA Coordination Committee. Meetings of this Committee allow the agencies to update each other on relevant regulatory developments, and to share findings from supervisory activities and concerns with specific areas of the financial industry. Referrals on specific regulatory matters and exchanges of information between the agencies are based on protocols that meet relevant legislative requirements.

APRA has a longstanding commitment to cooperation with the Australian Taxation Office (ATO) on superannuation matters. Regular consultation takes place across a range of superannuation administration and policy issues, including ATO rulings, determinations and interpretative decisions and APRA prudential practice guides on the application of superannuation legislation, illegal early access to superannuation benefits, limited recourse borrowing arrangements and the public register of superannuation funds maintained by the ATO. During 2012/13, extensive consultation took place on the Stronger Super reforms, particularly the introduction of SuperStream and the implementation of new data standards. The regular interaction between APRA and ATO staff (including data interchange on superannuation matters) is augmented by quarterly technical liaison meetings as well as *ad hoc* meetings on specific issues as required. APRA participates in the ATO's Superannuation Consultative Committee, the Super Reform cross-agency communications working group and the superannuation technical sub-committee of the National Tax Liaison Group.

APRA has a strong cooperative relationship with the Private Health Insurance Administration Council (PHIAC), the prudential regulator of the health insurance industry. The two agencies share prudential information, where appropriate, particularly in relation to transactions in the private health insurance industry (including conversions to 'for profit' health funds) and the development of capital and other prudential standards. During the year, APRA provided feedback to PHIAC on policy documents related to the use of actuaries in health insurance, risk management and capital management practices. PHIAC also utilised APRA's Information Technology specialist risk team in a review of a major private health insurer, on a cost-recovery basis. PHIAC staff have also participated in APRA's in-house training and development programs.

APRA liaises regularly with the Motor Accidents Authority of New South Wales (MAA) and the Motor Accident Insurance Commission of Queensland (MAIC). These State regulatory bodies administer compulsory third-party (CTP) motor vehicle insurance schemes in these states. The MAA and MAIC provide APRA with scheme information and consult with APRA on the financial condition of the CTP insurance providers; in turn, APRA provides both agencies with solvency information and general updates on these providers. APRA also keeps these agencies informed of policy developments in the prudential supervision of general insurers. During the year, APRA's MoU with the MAIC was updated. APRA also liaises with WorkCover State authorities on prudential matters relevant to workers' compensation insurance.

APRA has continued its involvement with the Financial Reporting Council and the two Boards the Council oversees: the Australian Accounting Standards Board (AASB) and the Australian Auditing and Assurance Standards Board (AuASB). APRA Deputy Chairman Ian Laughlin is a member of the Council and also represents APRA on the Council's committees on audit quality and strategy and on a taskforce on financial reporting. APRA contributed to the AASB's work on reporting by superannuation funds and to the AASB's impairment roundtable.

APRA is a permanent member of the Banking and Finance Sector Group (BFSG). Established under the Government's Trusted Information Sharing Network, the BFSG aims to strengthen the financial system's ability to respond to an industry-wide operational disruption by providing a framework for sharing security-related information that affects critical infrastructure. Membership comprises representatives from major financial institutions and from financial regulatory agencies. The BFSG is an important forum for strengthening the resilience of the banking and finance sector and further streamlining business and government coordination in disasters. During 2012/13, areas of interest included third-party service providers and business-to-government communication relating to cyber threats.

In addition to its meetings with FICA, APRA liaises directly with a number of industry organisations including the Australian Bankers' Association, the Customer Owned Banking Association, the Australian Finance Conference, the Australian Payments Clearing Association, the Financial Services Council, the Insurance Council of Australia, the Association of Superannuation Funds of Australia, the Industry Super Network and the Australian Institute of Superannuation Trustees. APRA also liaises with professional associations and institutes such as those for accountants, actuaries, administrators, auditors, company directors, compliance professionals, financial planners, lawyers, risk managers and trustees. Such liaison may be at multiple levels throughout these organisations and APRA staff are actively involved in various committees and taskforces of some of the professional associations. APRA's regional offices also have wide-ranging liaison programs with regional offices of ASIC, industry bodies and professional associations.

The actuarial profession plays a key role in financial management and prudent risk management – both formally through statutory roles and also in an advisory capacity – in the general insurance, life insurance and superannuation industries. APRA has regular dialogue with the Actuaries Institute as well as its relevant committees. During 2012/13, implementation of APRA's reforms to capital standards for the general and life insurance industries was the principal topic of discussions. Other topics were the role and responsibilities of appointed actuaries in reviewing the adequacy and effectiveness of the risk management framework of insurers, signing-off on life insurance product or reinsurance changes, recently observed experience and premium changes, and new life insurance products and distribution channels. APRA also liaises regularly with Appointed Actuaries as a group and with groups of auditors of APRA-regulated institutions.

INTERNATIONAL

APRA has direct links – long-established in many cases – with a range of overseas regulatory agencies and these links enhance its oversight of APRA-regulated institutions that also operate in other jurisdictions and of foreign financial institutions for which APRA is 'host' supervisor. The global financial crisis highlighted the importance of supervisory cooperation and timely sharing of information in relation to large cross-border financial institutions. In response, a number of supervisory colleges, which are multilateral working groups of relevant agencies, have been formed to strengthen the supervision of each of the largest international banking and insurance groups. APRA has participated in several of these colleges and has established its own colleges for a number of large, internationally active APRA-regulated institutions headquartered in Australia. In the past three years, APRA has hosted five of these colleges for three different institutions, involving up to 14 participants from overseas regulatory agencies. As well as physical attendance, APRA has also hosted and participated in colleges through teleconferences. APRA is planning to host three colleges during 2013/14.

APRA now has formal bilateral information-sharing arrangements with 24 overseas regulatory agencies, following the signing in May 2013 of a Memorandum of Understanding (MoU) with the National Bank of Cambodia. Other arrangements remain under discussion, some of which will facilitate the activities of supervisory colleges. APRA is also one of 37 signatories to the multilateral MoU (MMoU) put in place by the International Association of Insurance Supervisors (IAIS); this MMoU now covers agencies supervising insurers writing over 50 per cent of global insurance premiums. APRA provides staff resources to assist the IAIS in the validation of applications from other member jurisdictions to become signatories to the MMoU.

The direct link that has traditionally been of most importance to APRA is that with the RBNZ, the prudential supervisor of banks and insurance companies in New Zealand. The high degree of interconnectedness between the Australian and New Zealand financial systems makes a close and cooperative relationship between the two agencies essential. In that spirit, there is regular liaison on matters relating to the supervision of the major Australian banks, including regular information exchange and coordination of supervisory activities where appropriate. Such liaison is either face-to-face or, more recently, via video conferencing. Cooperation has extended to the supervision of insurance now that the RBNZ has taken on its new role in this area.

Over recent years, APRA and the RBNZ, together with other members of the Trans-Tasman Council on Banking Supervision (the RBA, the Australian and New Zealand Treasuries and, most recently, ASIC), have done substantial preparatory work for the handling of any episode of financial distress involving a trans-Tasman banking group. High-level principles and responsibilities were formalised in a *Memorandum of Cooperation on Trans-Tasman Bank Distress Management* agreed between the Trans-Tasman Council agencies in September 2010 and work has continued on specific protocols and guidelines, drawing on the lessons learned from the trans-Tasman bank crisis simulation exercise carried out in 2011/12. Notwithstanding the Memorandum, the Trans-Tasman Council agencies recognise that the exact nature of any response by the respective governments and their agencies will always depend on the specifics of a particular situation. In the first instance, both countries will look to the private sector for solutions to financial distress affecting trans-Tasman banking groups.

APRA's participation in the global standard-setting bodies for prudential regulation involves a range of experienced APRA supervisory staff. This enables APRA to inject supervisory knowledge and practical considerations into the global debate on regulatory reforms and ensures that APRA's senior supervisors are well-acquainted with the reforms and their context when they are being implemented.
The main standard-setting bodies are:

- **Basel Committee on Banking Supervision**. APRA and the RBA have been members of the Basel Committee on Banking Supervision, the global standard-setting body for bank regulation and supervision, since 2009. The APRA Chairman represents Australia on prudential supervision matters. Over the past year, the Basel Committee finalised a framework for dealing with domestic systemically important banks (D-SIBs) and the rules text for the new Basel III liquidity standard (see pages 47-48), and continued work on remaining elements of the Basel III capital reforms, particularly the leverage ratio. The Basel Committee also began to take an active role in ensuring the timely, consistent and effective implementation of the Basel III reforms in member countries. One key aspect of this role is vigorous peer review and public disclosure of the compliance of domestic regulations or standards with the agreed rules text for the Basel III capital reforms. Initial peer reviews were conducted of the European Union, the United States and Japan, with an APRA senior executive leading the European Union review. Australia will be subject to this peer review process in 2013/14. The other key aspect is ensuring that the Basel capital framework is delivering consistent outcomes in practice across banking institutions and jurisdictions. Preliminary analysis has identified considerable variation across global banks in the calculation of risk-weighted assets on both trading and banking books, which the Basel Committee has said warrants further attention. An APRA expert is participating in this work.

APRA is also represented on three of the Basel Committee's four main expert sub-committees: the Policy Development Group, the Supervision and Implementation Group and the Accounting Experts Group. The RBA is represented on the fourth sub-committee, the Macroprudential Supervision Group. The Policy Development Group identifies and reviews emerging prudential issues and develops policies to promote strong prudential standards. Its work program during 2012/13 continued to focus upon Basel III implementation issues, banks' exposures to central counterparties and the regulatory framework for securitisation exposures. The Group is also overseeing the Committee's current review of the large exposures framework. The Supervision and Implementation Group seeks to advance improvements in banking supervision, particularly across Basel Committee members. It also has carriage of the Basel Committee's drive to promote national convergence of Basel Committee standards and guidelines, as outlined above.

The Accounting Experts Group engages with accounting and auditing standard-setting bodies to help ensure that international accounting and auditing standards and practices promote sound risk management at banks, support market discipline through transparency, and reinforce the safety and soundness of the banking system. In 2012/13, the Group remained closely involved in the ongoing convergence process between the International Accounting Standards Board and the Financial Accounting Standards Board with respect to financial instruments. The Group has a particular interest in the development of a provisioning (or impairment) approach based on expected loss. It also continued to analyse the implications for bank balance sheets of the interaction between changes to capital and accounting standards, and developed enhanced guidance for the external audit of banks.

In addition, APRA is an active participant in a number of other sub-committees and working groups of the Basel Committee. APRA is represented on three groups dealing with key aspects of the Basel III reforms – the Working Group on Capital, the Working Group on Liquidity and the QIS Working Group, which is monitoring the impact of the reforms through semi-annual quantitative impact studies during the transition to Basel III. APRA is also a member of the Operational Risk Subgroup of the Supervision and Implementation Group, which investigates issues related to the management and measurement of operational risk. During 2012/13, the bulk of the Subgroup's work was a review of the calibration of the standardised approaches for calculating operational risk capital charges; other initiatives included an Advanced Measurement Approach benchmarking exercise and a review of the implementation of the Basel Committee's principles for the sound management of operational risk.

A senior executive of APRA, Mr Wayne Byres, took up a secondment to the Basel Committee, as Secretary General, in the latter part of 2011. The Secretary General heads up the Secretariat of the Committee. As noted elsewhere in this *Report*, Mr Byres will complete his secondment in June 2014 and will take up the Chairmanship of APRA on his return.

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

  One of the significant IAIS initiatives over recent years has been the development of a common framework ('ComFrame') for the supervision of internationally active insurance groups. APRA is in a strong position to contribute to this work as it has had a group supervision framework for general insurance since 2009, and it has either led or participated in a number of Comframe drafting groups. Another important IAIS initiative has been responding to the G20 and Financial Stability Board on a framework for identifying and dealing with systemically important insurers. Through its involvement in the Financial Stability Committee, APRA contributed to the recently released IAIS methodology for use in determining whether an insurance group has global systemic importance and to the development of appropriate supervisory measures to be applied to such groups.

  APRA has also continued to be involved in relevant work of the Accounting and Auditing Issues, Solvency and Actuarial Issues, Insurance Groups and Cross-sectoral Issues, Supervisory Cooperation and Reinsurance sub-committees.

- **Joint Forum**. APRA and ASIC represent Australia on the Joint Forum, a body working under the umbrella of the Basel Committee, the IAIS and the International Organization of Securities Commissions (IOSCO).

  The Joint Forum focusses on issues relating to financial conglomerates and other issues that are common to, or have cross-sectoral implications for, the banking, insurance and securities sectors. During 2012/13, the Joint Forum released the update of its *Principles for the Supervision of Financial Conglomerates*. APRA has significant supervisory experience in this area and was an active contributor to the work including, for most of 2012/13, as co-chair of the working group revising the *Principles*. The Principles are directly relevant to APRA's development of a prudential framework for conglomerate (Level 3) groups (see page 52). Other workstreams reported on the market structure, underwriting cycle and policy implications of mortgage insurance, on longevity risk transfer markets, and on point-of-sale disclosure.

- **International Organisation of Pension Supervisors (IOPS)**. IOPS is an independent body representing agencies involved in the supervision of private pension arrangements. Its objectives are to be the global standard-setting body for pensions supervision, to promote international cooperation on pension supervisory issues and to provide a global forum for policy dialogue and exchange of information on these matters.

  APRA has been on the board of IOPS since its foundation and is a member of the Technical Committee. APRA's then Deputy Chairman Ross Jones stepped down as President of IOPS at the end of June 2013. During 2012/13, the work of IOPS included development and publication of three further working papers in the 'Effective Supervision' series covering the structure of pension supervisory authorities and their approach to risk-based supervision, the supervision of pension intermediaries, and supervision of default investment funds. IOPS also held a series of outreach workshops and a global forum during the year, in which APRA staff participated.

- **OECD Insurance and Private Pensions Committee (IPPC)**. APRA is represented on the IPPC, which focusses on liberalisation of insurance markets, governance and regulatory frameworks in insurance and private pensions, and the collection and publication of cross-country statistics in insurance and pensions. APRA's then Deputy Chairman also stepped down as Vice-Chairman of the IPPC Working Party on Private Pensions (WPPP) during the year. During 2012/13, the IPPC and WPPP continued work on a series of studies covering the management of longevity risk, analysis of long-term investment options, the adequacy of retirement savings in OECD countries, insurance for catastrophic risk and disaster risk management. The WPPP considered revisions to the OECD's *Core Principles for Occupational Pension Regulation*. The IPCC and WPPP also considered how the level and quality of insurance and pension statistical collections could be improved and undertook accession reviews of, and engagement with, a number of countries seeking to join the OECD. Together, the IPPC, the WPPP and IOPS are undertaking a major project on annuities, involving a stocktake of types of annuity products and their guarantees, and an examination of the regulatory framework governing different types of annuity products and of their fiscal treatment. APRA is contributing to this project.

- **International Association of Deposit Insurers (IADI)**. IADI is responsible for promoting principles and guidance in the design and administration of deposit insurance and guarantee arrangements. Consistent with its responsibilities for the administration of Australia's Financial Claims Scheme in the ADI industry, APRA is a member of IADI and its regional committee in the Asia-Pacific region. Membership provides APRA with access to targeted training on deposit insurance systems and information on overseas developments on deposit insurance and resolution of banking institutions, with the aim of improving practice in Australia. During 2012/13, APRA joined the International Forum of Insurance Guarantee Schemes, which is the equivalent of IADI for insurance.
- **International Credit Union Regulators Network (ICURN)**. ICURN is an independent network of regulators of financial cooperatives. Its objective is to share information on topics critical to sound financial regulation; it also initiates research on financial cooperatives and their oversight, identifies best practice and issues recommendations to its members to improve regulations, safety and soundness. Governance has been a primary area of focus for ICURN and in 2012/13 it published a new guiding principles document, *Enhancing Governance of Cooperative Financial Institutions.* ICURN continues to work closely with the World Council of Credit Unions in assisting the development of supervisory systems and approaches in developing countries. ICURN is governed by a steering committee of representatives from six regions around the world and APRA is currently the representative for the Asia-Pacific region.

Although APRA is not a member agency of the Financial Stability Board (FSB) – Australia is represented by the RBA and Treasury – it continued to contribute to the work of the FSB in 2012/13. APRA is a member of the FSB's Supervisory Intensity and Effectiveness Group, which seeks to promote robust supervisory practice in relation to systemically important financial institutions. The Group undertook a thematic review of risk governance, which was published in February 2013, and developed a set of principles for an effective risk appetite framework, which were released for public consultation just after year-end. APRA is also a member of the FSB's Compensation Monitoring Contact Group. This Group is responsible for sharing and promoting good practice in implementation of the FSB's *Principles for Sound Compensation Practices*, monitoring and reporting on national implementation of the *Principles*, and establishing and maintaining a process to ensure consistency of their application. In addition, APRA participated in a peer review of resolution regimes, the results of which were published in April 2013. APRA works closely with the RBA and Treasury in ensuring a coordinated Australian response to the FSB's peer reviews, surveys and other initiatives.

APRA meets annually with integrated supervisory agencies from a range of countries to discuss matters of common interest. The key topics covered at the 15th conference in June 2013 included supervisory transparency and accountability, lessons learned from Iceland's experience in the global financial crisis, and risk governance, management and culture.

APRA is a member, as is the RBA, of the Working Group on Banking Supervision (WGBS) of the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), which brings together central banks, banking supervisors and monetary authorities within the region. The Group provides a forum for examining regional financial and prudential matters. In 2012/13, these matters included the implications for member countries of global regulatory reforms and low interest rates in major economies. The Group also continued to work on regional crisis management and recovery planning.

TECHNICAL ASSISTANCE

APRA supports the deepening of institutional capacity among its Asian and Pacific supervisory counterparts through a series of tailored technical assistance programs, principally funded by the Australian Agency for International Development (AusAID). These programs seek to assist supervisory agencies to improve standards of prudential supervision, as part of a broader whole-of-government effort to strengthen public sector governance in the Asian and Pacific regions. APRA's technical assistance activities aim primarily at building relationships with its regional counterparts through the sharing of supervisory skills and experience.

In Asia, APRA's engagement is primarily focused on technical assistance activities with Indonesia. For a number of years, APRA worked with Bapepam-LK, Indonesia's integrated regulator of non-bank financial institutions and securities markets. APRA's assistance included guidance in the introduction of a new risk-rating model (adapted from APRA's PAIRS framework) by Bapepam-LK's Pension Fund Bureau. The Indonesian Government is now integrating the supervision of banking with supervision of non-bank financial institutions and securities markets in a single financial supervisory agency, Otoriatas Jasa Keuangan (OJK), which will begin operations in early 2014. To assist in preparations for the new agency, APRA hosted several visits by Indonesian officials in 2012/13 to review Australia's regulatory framework and to discuss how APRA itself was established. APRA's capacity-building engagement with Bank Indonesia, which has been the banking supervisor, continued in 2012/13, with two Bank Indonesia interns placed within APRA's frontline supervisory divisions for a period of six months. This was the fifth instalment of a long-term engagement between APRA and Bank Indonesia that began in 2006. Other visits from Bank Indonesia staff focused on adapting regulatory tools and assisting with the development of its risk-based bank rating guidance system, which applies a similar philosophy and methodology to APRA's PAIRS/SOARS framework. In total, APRA hosted 25 interns from Indonesia during the past year.

APRA's assistance to Indonesia has been funded by a multi-year initiative under the auspices of the Government Partnership Fund II (GPF II) funded by AusAID.

In the Pacific, APRA administers two distinct but complementary projects under the auspices of the Government's multilateral Public Sector Linkages Program. The Pacific On-Site Prudential Supervision Project provides for APRA supervisors to travel to Pacific countries for two weeks at a time to conduct training programs with on-site review teams comprised of local and other visiting Pacific prudential regulators. During 2012/13, APRA supervisors undertook two on-site training programs in Fiji, two in Papua New Guinea, one in the Solomon Islands and one in Vanuatu. These programs ranged across banking and other credit providers and provident funds. The Pacific Prudential Regulator Internship Project places staff from Pacific prudential regulators within APRA's frontline supervisory divisions for a period of up to three months to learn about prudential supervision techniques. In 2012/13, this project placed one participant from the Reserve Bank of Fiji in APRA's office in Sydney. Funding arrangements for these Pacific projects have now ended.

The Association of Financial Supervisors of Pacific Countries facilitates cooperation between supervisory agencies in the Pacific through meetings of heads of supervision. APRA represents Australia as an observer at Association meetings and supports its training activities, through sponsoring speakers on topical issues at the Association's annual meeting and training workshops (most recently, on risk governance issues in provident funds). The Association annual meeting is also a forum to exchange views on important regulatory issues and developments, including areas of emerging financial sector risk. APRA is also a member of:

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

Given the importance of Australian banks within the South Pacific, APRA has been invited to join the annual meeting of South Pacific Central Bank Governors. The 2012 meeting was hosted by the Reserve Bank of Australia in Sydney.

APRA continues to support the international broadening of knowledge on prudential supervision by providing expert speakers to various institutes, including the Financial Stability Institute (of the Bank for International Settlements), the South East Asian Central Banks (SEACEN) Research and Training Centre and the APEC FRTI. During 2012/13, APRA provided seven speakers to conferences organised by the Financial Stability Institute, which are often co-hosted with other regional bodies, and one speaker to programs organised by each of the SEACEN Centre and EMEAP. APRA also hosted and provided a speaker to an APEC FRTI/US Federal Reserve System workshop on IT risk issues in February 2013; it also provided speakers to four regional events organised by IOPS on pension sector supervision and related matters. APRA values the opportunity to develop the skills of its staff, as both participants and speakers in such programs.

During the year, APRA hosted around 70 international delegations (with delegates from around 80 countries) from regulatory agencies, central banks, multilateral organisations, industry bodies and private sector organisations. This number is well down on recent years. Over half of the delegations involved developing countries, with around one-fifth of visits being from China. Delegation visits from Indonesia (10) and South Korea (eight) were also prominent. Areas of interest were wide-ranging and included APRA's functions and operations, Australia's 'twin peaks' approach to regulatory arrangements and the challenges of establishing an integrated prudential regulator, prudential policy developments, risk-based supervision, Australia's handling of the global financial crisis, implementation of the Basel III reforms, APRA's proposed prudential framework for conglomerate groups (Level 3 framework), and superannuation prudential policy and supervisory practice. In addition, there were a number of visits by individual financial institutions to discuss the requirements for establishing operations in Australia.

APRA'S RESOURCES AND PERFORMANCE

- APRA'S STAFFING RESOURCES
- APRA'S FINANCIAL RESOURCES
- APRA'S PERFORMANCE AS A SUPERVISORY AGENCY
- APRA'S PERFORMANCE AS A NATIONAL STATISTICAL AGENCY
- STRATEGIC PLANNING

5

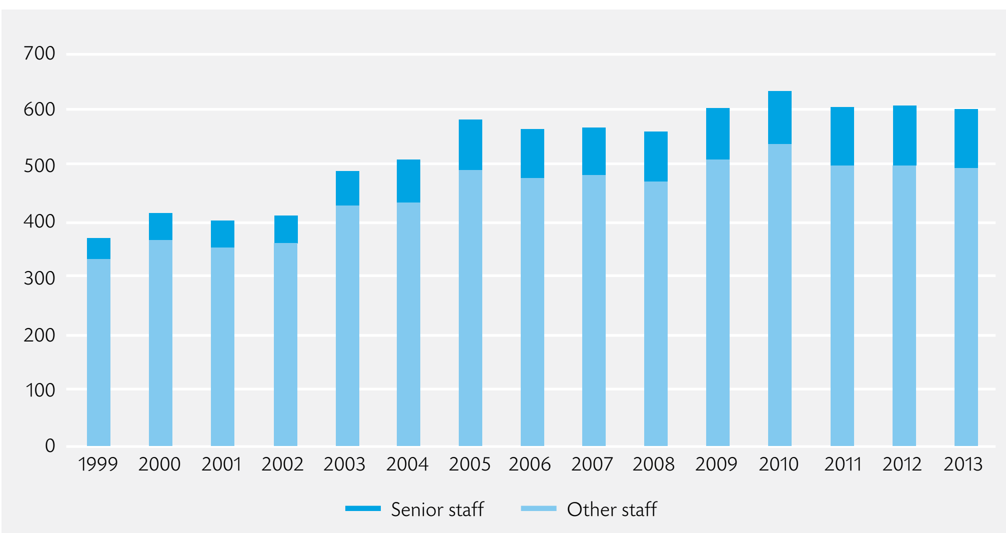
APRA'S STAFFING RESOURCES

APRA has been able to maintain its staffing resources at around full strength, and little changed overall, since the global financial crisis began. It has needed to, given the intensity of its supervision, the substantial prudential policy agenda it has been pursuing and the additional responsibilities it has acquired over this period. A new four-year funding agreement put in place in 2012/13 is intended to ensure APRA's continued staffing strength and supervisory capacity, although subsequent 'efficiency dividends' have required staffing targets to be trimmed.

APRA's total permanent staffing at end-June 2013 was 588, and the addition of fixed-term employees brought total numbers to around 599 on a full-time equivalent basis. This was slightly lower than the total figure of 606 a year earlier. Staff turnover was above the historical low rate it had reached the previous year, but continued subdued conditions in the finance industry limited the increase.

Stability in APRA's workforce has ensured that supervisory and policy experience continues to mature. The average APRA experience of staff in operational divisions has increased to well over nine years and that is augmented by an average of around six years of relevant industry experience; around 65 per cent of APRA's staff have previous experience in financial institutions or in legal, accounting or other professional firms. Almost all of APRA's staff in its operational divisions hold tertiary qualifications and more than one-third hold additional postgraduate qualifications, many earned with APRA's study support. An annual graduate program with an intake of around 12 to 15 new graduates provides a valuable source of fresh skills to complement more experienced hires. As APRA has matured as an organisation, so too has its age structure; the median age of APRA staff has risen by over five years, to a little below 41 years, in the past decade.

APRA staffing (as at end June)



Since prudential supervision talent rarely comes ready-made, APRA has always invested heavily in its training and development programs to build the skills and capabilities of its staff. In benchmark surveys, APRA consistently ranks around the 90th percentile of organisations in terms of training expenditures, with an average annual training expenditure per employee of around $3,300. Recent investment in training has been concentrated on enhancing the financial analytical skills of frontline supervisors to assist them to identify key risks early, assess the financial health of regulated institutions and determine whether supervisory action is required. APRA has partnered with a number of external providers to develop training curricula across each of its regulated industries, which involve formal training supplemented by on-the-job experience and embedding into practice. The training courses typically take an interactive approach, using examples and case studies designed to provide a framework for forward-looking and superior financial analysis and develop a sceptical and forensic mindset amongst supervisors. Further stages in these training programs are in preparation. In parallel, special training was provided in 2012/13 on the new Basel III capital regime and on APRA's life and general insurance capital reforms to ensure that supervisors had the requisite depth of knowledge to support the implementation of these reforms. Similar special training on the implementation of the Stronger Super reforms is being provided over the course of 2013/14.

In addition to this technical training, APRA invests in enhancing the ability of its staff to effectively communicate with and influence both internal and external audiences. As such, a wide range of interpersonal skills training is provided. This training is a key requirement for graduates and is offered to all staff as they develop in their roles.

APRA also attaches high priority to promoting a strong and effective leadership culture, one that will encourage the next generation of APRA leaders. Leadership development courses for both mid-level and senior managers have aimed to ensure that good people leadership and management practices are maintained throughout APRA by, amongst other things, fostering coaching skills and encouraging candour and openness in the way managers deal with their staff on performance and career development issues. The high priority given to leadership culture has been an important factor in the substantial improvement in APRA's staff engagement over recent years. Another important factor has been APRA's commitment to a supportive and flexible workplace that values and utilises the contribution of people of different backgrounds, experiences, perspectives and abilities.

APRA's training activities

Training by type (%)	2011/12	2012/13
Internal technical training and seminars	60	42
External training	23	53
Management training	17	5
Studies support		
Employees undertaking formal post-graduate studies	103	70
Key training metrics		
Training spend per employee	$3,547	$3,297
Training spend as a per cent of base salary (%)	2.8	3
Per cent of staff provided with training (%)	100	100
Training sessions per employee	10.4	11.5
Training days per employee	4.6	5.6
Number of internal classroom courses offered	535	643

APRA'S FINANCIAL RESOURCES

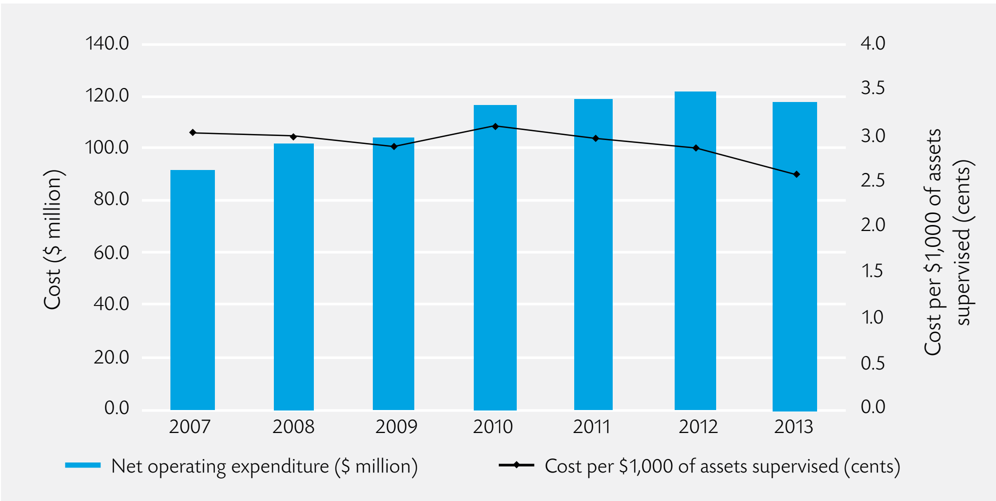
APRA's expenditure is devoted to implementing and enhancing the prudential framework in Australia and to APRA's ongoing supervisory and enforcement activities. APRA's income derives mostly from annual levies on its supervised entities.

APRA's expenditure

APRA's total operating expenditure in 2012/13 was $116.5 million compared with the budget of $121.2 million. The underrun related mainly to the deferral of certain APRA activity to 2013/14 and the positive impact of a higher 10-year government bond rate on the valuation of employee liabilities.

Consistent with its relatively stable workforce during the global financial crisis, APRA's operating expenditure has changed little over the past four years. Further, relative to the value of assets supervised by APRA, costs have declined slowly to about 2.6 cents per $1,000 of assets supervised.

APRA's costs



APRA's income

APRA's total income in 2012/13 was $121.6 million compared with the budget of $118.0 million. In addition to levies collected from supervised institutions, APRA's income includes interest earnings, fees for services and miscellaneous cost recoveries.

Levies are raised according to the *Financial Institutions Supervisory Levies Collection Act 1998* and seven other Acts applying to the regulated industries. Prior to the beginning of each financial year, and after consultation with industry, the Minister determines the levy rates for each industry. The levy rate is applied on assets, subject to a minimum and maximum amount per institution, except for non-operating holding companies and small APRA superannuation funds, which are levied at a flat rate. The levies collected by APRA also cover some costs of ASIC, the ATO and, following the transfer of responsibility for the early release of superannuation benefits in November 2011, the Department of Human Services. Levies are based on the costs incurred for each industry. In addition, levies are collected to cover the costs of the National Claims and Policies Database, with a rate applied to the gross earned premiums of general insurance entities that contribute data to it.

The total levies collected by APRA for all agencies in 2012/13 were $270.4 million compared with the budget of $266.6 million. The substantial increase in this collection over 2011/12 was attributable to the ATO's costs associated with the Government's SuperStream reforms. A $3.2 million over-collection of levies, mainly due to a difference between the estimated values of superannuation assets used for levy calculations and the actual values, will be returned to industry via the levy-setting process in 2013/14.

Over the year, Treasury has been consulting with industry on the design and operation of the levy framework, based on its discussion paper, *Financial Industry Supervisory Levy Methodology*, released for comment in April 2013. Submissions are currently being considered. In addition, the Australian National Audit Office has undertaken a performance audit of APRA's approach to the determination and collection of the levies collected from financial institutions. In view of its role in the annual levy consultation process, Treasury has also been included in the audit scope. The report of the performance audit is expected to be tabled in the Spring 2013 sitting of Parliament.

Reserves

APRA had an operating surplus from ordinary activities of $5.1 million in 2012/13, which increased retained surpluses to $13.9 million. In addition, an equity contribution of $4.8 million in 2012/13 to support increased capital expenditure took the equity component of reserves to $12.3 million. As a consequence, total reserves increased to $38.7 million. Included in this amount is a $6.0 million Contingency Enforcement Fund, which is available to be used for large unexpected investigation and enforcement activities, and an Asset Revaluation Reserve of $6.5 million.

APRA'S PERFORMANCE AS A SUPERVISORY AGENCY

The global financial crisis has provided some high-profile examples where the performance of supervisory agencies fell well short of expectations and this, in turn, has prompted the search for useful *ex ante* indicators of supervisory intensity and effectiveness. This is not proving easy, particularly in separating out the contribution of supervisors from other external influences on the behaviour of financial institutions, such as credit rating agencies and shareholder discipline. That said, the search is gathering momentum in global standard-setting bodies.

For its part, APRA publishes information from two different sources to provide broad quantitative indicators of its supervisory performance. These sources are APRA's 'transition matrices' and data on financial failures and losses to beneficiaries. Stakeholder surveys have also provided valuable readings on APRA's effectiveness.

Transition matrices

In APRA's view, a risk-based approach to supervision has considerably improved the efficiency and effectiveness of APRA's supervisory activities and helped to reinforce standards of risk management in regulated institutions. Nonetheless, particularly in continued economic good times, the discriminatory power of a risk assessment model may not be easy to discern. As one performance measure, APRA has developed transition matrices to track the migration of institutions between the four supervision stances in APRA's Supervisory Oversight and Response System (SOARS), which guides supervisors in responding to identified risks.

SOARS matrix (2007/13) (%)

From \ To	Normal	Oversight	Mandated Improvement	Restructure	Exit
Normal	42	19	0	0	40
Oversight	19	47	0	1	32
Mandated Improvement	6	47	0	0	47
Restructure	0	0	0	50	50

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

As an institution moves out of a Normal stance, routine supervision is likely to give way to more intrusive supervision, greater use of APRA's more specialised resources and, possibly, intervention and enforcement powers. Institutions in Oversight are not expected to fail but there are aspects of their risk position that may create vulnerabilities in extremely adverse circumstances and that require closer attention by APRA. APRA's goal is that institutions in Oversight take appropriate action that would see them return to Normal in due course. However, some institutions may remain in Oversight indefinitely if their size and complexity, business plans or risk appetite make that appropriate; APRA's strategy with such institutions is close monitoring and communication. If an institution is downgraded to Mandated Improvement, APRA expects the institution to take immediate and appropriate action that would, in a short timeframe, see it returning to an improved supervision stance or moving to Restructure. Institutions in Restructure are those in which APRA has lost confidence that financial promises to beneficiaries will be met in the absence of vigorous intervention, or which have long ceased to be viable operating businesses and are being assisted to exit the industry in an orderly fashion.

The transition matrices show that almost half of the institutions in either Normal and Oversight as at end-June 2007 remained in that stance over the following six years. A significant percentage of the remainder of institutions in Oversight either improved or exited the industry in an orderly manner (e.g. by a run-off of liabilities or through merger). Around half of the institutions that began the period in Mandated Improvement have exited the industry while the others have moved to an improved supervision stance. Around half of the institutions that began the period in Restructure have remained in that stance, with all others exiting the industry.

Over the ten years to end-June 2013, a total of 225 institutions were in Mandated Improvement and/or Restructure (of which 10 institutions moved through both SOARS categories). Of that total, 56 institutions improved stance to Normal or Oversight, nine remained in their SOARS category, 154 exited without loss to beneficiaries and six institutions failed (four of which moved through both Mandated Improvement and Restructure during that period). While it is not possible to compare these outcomes with what would have happened had APRA not intervened, the overall direction of movement of institutions in these two supervisory stances is consistent with timely and effective intervention on APRA's part.

Entities in Mandated Improvement (2003/13)

Current stance	Total
Normal	16
Oversight	37
Mandated Improvement	3
Restructure	1
Exit	118
Failure	5
Total	**180**

Entities in Restructure (2003/13)

Current stance	Total
Normal	0
Oversight	3
Mandated Improvement	0
Restructure	6
Exit	41
Failure	5
Grand Total	**55**

At end-June 2013, around 54 per cent of risk-rated institutions were in the Normal stance, 44 per cent in Oversight, less than one per cent in Mandated Improvement and one per cent in Restructure.

Indicators of financial failures/losses

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

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

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

Financial year	Number of failures[1]	Losses ($million)	Number of institutions[2]	Protected Accounts[3] ($million)	Annual PER %	Annual MPR %
1999	4	11	4,473	887,172	99.91	100.00
2000	3	308	4,407	993,369	99.93	99.97
2001	8	5,341[4]	4,350	947,923	99.82	99.44
2002	6	140	3,803	1,006,847	99.84	99.99
2003	5	19	3,252	1,066,762	99.85	100.00
2004	1	0[5]	2,745	1,207,224	99.96	100.00
2005	0	0	2,099	1,347,738	100.00	100.00
2006	0	0	1,596	1,546,709	100.00	100.00
2007	1	0[5]	1,244	1,832,406	99.92	100.00
2008	0	0	1,129	1,922,973	100.00	100.00
2009	0	0	1,028	2,048,357	100.00	100.00
2010	1	1	965	2,231,881	99.90	100.00
2011	4	72	898	2,462,465	99.55	100.00
2012	0	0	827	2,650,610	100.00	100.00
2013	0	0	769	2,930,994	100.00	100.00

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

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

3 Protected Accounts is an estimate of the funds protected by APRA as defined by relevant legislation and is less than the total assets held by APRA-regulated institutions, which were $4,526.7 billion at end-June 2013.

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

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

These indicators are, however, silent about target outcomes against which APRA's performance can be assessed. The *Government's Statement of Expectations of APRA* (2007) confirmed that prudential regulation should not pursue a 'zero failure' objective. Rather, the objective is to maintain a low incidence of failure of supervised institutions while not impeding continued improvements in efficiency or hindering competition. APRA fully supports this objective. APRA's aim is to identify likely failures early enough so that corrective action can be initiated to prevent the failure, or at the least to set in train appropriate wind-up or other exit strategies to minimise losses to beneficiaries. Since APRA's inception in 1998, the annual PER has averaged 99.91 per cent and the annual MPR, which is dominated by the losses associated with HIH Insurance, has averaged 99.96 per cent.

Stakeholder survey

During 2013, APRA conducted its third stakeholder survey, following earlier surveys in 2009 and 2011. These surveys of regulated institutions, industry bodies and other stakeholders, foreshadowed in its Service Charter, assist APRA's understanding of the impact of the prudential framework and the effectiveness of supervision. The 2013 survey, which was conducted by Australian Survey Research (ASR), collected responses from two groups of stakeholders using a similar questionnaire: one of regulated institutions and a shorter one of industry representatives and other knowledgeable observers. APRA published the results of the ASR survey in July 2013.

ASR noted that, when compared with the two previous surveys, stakeholders' perceptions of APRA have remained relatively constant. According to ASR, the findings were '... a positive result and ongoing validation of APRA's prudential framework, its staff and its approach to supervision'. Within the questionnaire there were 45 rated items that used a five-point rating scale, from 1 (strongly disagree) through to 5 (strongly agree). Only one item scored below 3.0 (neutral) on the five-point scale and 24 of the 45 items had 75 per cent or more positive responses.

As with the two earlier surveys, APRA will use the results of the 2013 survey as an important input into its strategic planning and supervisory priorities.

2013 stakeholder survey - highest scoring items	Mean
APRA staff demonstrate the value of integrity*	4.5
APRA staff demonstrate the value of professionalism*	4.4
A single supervisory team responsible for all group companies is an appropriate way to supervise groups**	4.3
APRA's guidance material is of value to your organisation	4.3
APRA is effective in communicating the findings of supervisory visits to your organisation	4.2
APRA's prudential framework is effective in achieving APRA's mission	4.2
APRA staff demonstrate the value of collaboration	4.2
APRA's enforcement of its prudential requirements has had an impact on your industry	4.2
The APRA supervisory team responsible for your organisation has a good understanding of your organisation	4.2

2013 stakeholder survey - lowest scoring items	Mean
APRA meets its stated approach of being consistent in its supervision	3.7
APRA's harmonisation of the prudential framework across its regulated industries is important for your organisation**	3.7
APRA considers issues relevant to industry and other stakeholders when developing its prudential standards and guidance material	3.7
The instructions to APRA's statistical forms are helpful	3.7
The effort required of your organisation during APRA's prudential reviews is appropriate	3.6
Prudential standards and guidance material clearly communicate requirements	3.6
Direct to APRA (D2A) is easy to use when lodging data with APRA	3.6
During supervisory visits to your organisation, APRA supervisors focus on principles rather than detailed prescription	3.6
APRA has successfully harmonised its prudential framework across the industries it regulates**	3.4
Changes to APRA's prudential framework consider the costs of regulation imposed on industry	2.6

* These items used a five point never-always scale

** These items were asked only of group entities

APRA'S PERFORMANCE AS A NATIONAL STATISTICAL AGENCY

APRA is the central repository of statistical information on the Australian financial system and collects a broad range of financial and risk data that are essential input to its supervision of regulated institutions. In addition, APRA collects data from regulated and unregulated financial institutions to assist the RBA, the Australian Bureau of Statistics (ABS) and ASIC to fulfil their roles. Much of the data are shared between agencies to reduce unnecessary reporting burden on institutions.

Almost all of APRA's data collections are legal requirements of institutions under the *Financial Sector (Collection of Data) Act 2001* and APRA's reporting standards. Accordingly, APRA closely monitors the timeliness and quality of submissions to ensure the data is available to APRA and other data users by the statutory due dates. For regulated institutions, APRA targets a rate of 95 per cent for submission of returns by the statutory due dates, and the remainder to be submitted within the following week. Over 2012/13, 95 per cent of submissions were received by the due dates and over 99 per cent were submitted within a week of the due date.

During the year, APRA updated its data collections in line with changes to prudential standards. As part of the implementation of the Basel III capital reforms, APRA released seven reporting forms, which came into effect from 1 January 2013. The first quarterly data collection under the revised capital framework for general and life insurers also came into effect from 1 January 2013. The revised data collections involved significant reporting changes for general insurers (35 new forms were introduced, 13 existing forms were amended and another 38 revoked) and for life insurers and friendly societies (14 new forms were introduced, 10 existing forms were amended and another six were revoked). APRA also overhauled its data collection for superannuation in the context of the Government's Stronger Super reforms (see page 54). The new superannuation reporting requirements came into effect, on a staggered timetable, from 1 July 2013.

APRA continues to seek improvements to its data collections. During 2012/13, APRA upgraded its electronic data collection system, Direct to APRA (D2A), to accept AUSkey as part of its commitment to the Government's Standard Business Reporting (SBR) initiative. AUSkey was introduced by SBR to streamline access for institutions reporting to government. Institutions are now able to use their AUSkey for APRA reporting as well as to access multiple government online services.

APRA also delivered several improvements to its regular statistical publications in response, particularly, to users' desire to receive the statistics earlier. It brought forward the regular release dates of two publications, so that all quarterly statistical publications are now released within two months of the end of each reference period. This has been facilitated by the use of new statistical software in the quality assurance and compilation of publications. The timeliness of APRA's statistics now well exceeds international standards. APRA also enhanced the usefulness of its statistical publications by ensuring that they now include revisions to previously published statistics if better source data becomes available or if compilation errors are uncovered.

In October 2012, APRA improved the aggregated international banking statistics published by the Bank for International Settlements and the RBA by removing the need to mask these statistics. Industry was consulted on this change. Users of these statistics are now able to conduct in-depth analysis on cross-border financial linkages in the global financial system. The improved access to the international banking statistics assists Australia to fulfil its responsibilities as a G20 member, in particular by addressing an International Monetary Fund finding that Australia's reporting of detailed international banking statistics was among the most restrictive.

Following consultations, APRA released a consolidated quarterly ADI publication, *Quarterly Authorised Deposit-taking Institution (ADI) Performance*, in May 2013. This publication contains aggregate statistics for banks, credit unions and building societies, previously published in *Quarterly Bank Performance and Quarterly Credit Union* and *Building Society Performance*, as well as, for the first time, data on mutual ADIs. The publication also includes statistics on ADI capital adequacy, asset quality and liquidity that were previously published in APRA's *Insight* publication. In August 2013, APRA introduced a new *Quarterly Authorised Deposit-Taking Institution (ADI) Property Exposures* publication, which includes statistics on residential and commercial property exposures and new housing loans approvals.

Also in May 2013 and following consultations, APRA released enhanced versions of its *Quarterly Life Insurance Performance Statistics* and *Quarterly General Insurance Performance Statistics*. The expanded quarterly life insurance publication includes statistics based on the revised capital reporting framework and statistics at the product level. For the first time, the publication contains time-series rather than point-in-time statistics, as requested by users. The expanded quarterly general insurance publication also includes statistics based on the revised capital reporting framework and statistics at the class of business level.

During the year, APRA consulted on its proposal to determine that all data submitted to it by general insurers and life insurers are non-confidential and therefore publicly accessible. APRA will decide which general and life insurance data are to be determined non-confidential in late 2013. In the meantime, it continues to apply confidentiality protection measures to ensure that confidential information relating to an individual institution cannot be derived from APRA's published statistics.

APRA also commenced a review of the ADI and Registered Financial Corporation (RFC) data collections. In the initial stage, data users (including APRA, the RBA and ABS) examined the current collections to confirm whether or not all the data are still required to meet their needs. They also identified additional needs and needs that had changed. An early dividend has been a reduction in reporting burden through the revocation of two out of the 10 ADI monthly reporting forms.

During 2012/13, APRA continued its upgrade of the National Claims and Policy Database (NCPD) to new hardware and current versions of software. As a result of the upgrade, and following consultations, APRA was able to release the most complete and detailed NCPD information to date, with the inclusion of an additional 700,000 data points; the accuracy and reliability of the NCPD have also improved. The detailed claims reports, which now cover 2003 to 2012, can for the first time be used by NCPD contributors and subscribers to analyse risk factors such as industry or occupation group, and variations to product or policy coverage.

STRATEGIC PLANNING

In July 2013, APRA launched its 2013-16 Strategic Plan, moving in the process from fixed time period planning to a three-year rolling plan. This allows specific focus on APRA's immediate priorities, while providing flexibility to adjust the Plan each year for any emerging internal and external factors that will shape its operating environment.

The Plan acknowledges that APRA will be facing some shifting currents in its operating environment, with the global economy responding, albeit unevenly, to very accommodative monetary policy and the Australian economy adjusting to the unwinding of the mining investment boom. The Plan does not involve any major change in APRA's strategic direction but gives priority to successfully bedding down major initiatives on the prudential policy front and in APRA's supervisory and business infrastructure, whilst maintaining the intensity of its ongoing supervision. The Plan also acknowledges the importance of APRA's engagement with and influence on boards and senior management in order to achieve sound prudential outcomes.

The Plan articulates APRA's long-term strategy to achieve its mission and realise its vision. It also identifies four strategic objectives and the initiatives APRA will undertake to meet them. The objectives are to:

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

The Plan forms the basis for APRA's annual Operational Plan, which includes specific actions and targets to deliver each strategy, and for annual divisional business plans. Relevant objectives are also incorporated into individual performance plans. Overall performance against the Plan is reviewed on a quarterly and annual basis by the Executive Group.

GOVERNANCE

- GOVERNANCE STRUCTURE
- RISK MANAGEMENT IN APRA
- APRA MEMBERS

6

GOVERNANCE STRUCTURE

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

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

In performing and exercising its functions and powers, APRA is required to balance the objectives of financial safety and efficiency, competition, contestability and competitive neutrality and, in balancing these objectives, is to promote financial system stability in Australia.

APRA also acts as a national statistical agency for the Australian financial system and is responsible for administering the Financial Claims Schemes provided for in relevant banking and general insurance legislation.

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

Members' attendance at Executive Group meetings from 1 July 2012 to 30 June 2013

	Meetings	Attended
John Laker	26	24
Ross Jones	26	21
Ian Laughlin	26	25

Details on APRA Members are provided on pages 98-99 of this *Report*.

The *Statutory Report* provided in Chapter 9 gives details of various other aspects of governance in APRA, including executive and consultative committees.

RISK MANAGEMENT IN APRA

Risk Management and Audit Committee

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

The Committee comprises an external chair, one external member and one member of APRA's Executive Group. Up until August 2012, one of APRA's Executive General Managers was also a member of the Committee. Following consultation and review, the APRA Members decided that the Committee should have a majority of independent members and the necessary changes to the Committee's Charter were approved in October 2012. As a result, the Executive General Manager now attends Committee meetings as an invitee. Other regular attendees at Committee meetings are the General Manager – Risk Management and Internal Audit, the Chief Financial Officer, the APRA Secretary and representatives of the Australian National Audit Office. The Chairman of APRA and other APRA executives may attend by invitation.

During 2012/13, the Committee met five times and at those meetings all audit reports were reviewed. The Committee approved the Risk Management and Internal Audit annual plans and monitored progress against these plans; it also monitored the operation of APRA's Enterprise Risk Management Framework. At the August 2013 meeting, the Committee made an attestation to the APRA Chairman that reliance could be placed on APRA's systems and controls applied in preparing the annual accounts.

The members of the Committee in 2012/13 were:

Mr W Peter Day
LLB (Hons), MBA, FCPA, FCA, FTIA, FAICD

Chair

Mr Day was appointed for an initial five-year term in 2008 and assumed the role of Chair of the Committee from 1 September 2010. He has been reappointed for a further term of two years from 1 September 2013. Mr Day is Chairman of Orbital Corporation Limited and a non-executive director of Ansell Limited, Federation Centres Limited and SAI Global Limited. He also serves on the Accounting Professional and Ethical Standards Board.

Mr Day was, for seven years until 2007, Chief Financial Officer of Amcor Limited. He is a former Chairman of the Australian Accounting Standards Board, has participated in the setting of international accounting standards and was Deputy Chairman of the Australian Securities and Investments Commission from 1997 to 1999.

Ms Fiona Bennett
BA (Hons), FCA, FAICD, FAIM

External member

Ms Bennett was appointed for a three-year term on 1 January 2011. She is Chairman of the Legal Services Board (Victoria) and a non-executive director of Hills Holdings Limited, Boom Logistics Limited and Beach Energy Limited.

During her executive career, Fiona held senior executive positions at BHP Billiton Limited and Coles Group Limited, and has been Chief Financial Officer at several organisations in the health sector.

Mr Ian Laughlin

APRA Member

Mr Keith Chapman

Executive General Manager – Diversified Institutions Division (until 20 August 2012).

Attendance at Risk Management and Audit Committee meetings from 1 July 2012 to 30 June 2013

	Meetings	Attended
Peter Day	5	5
Fiona Bennett	5	5
Ian Laughlin	5	5
Keith Chapman*	1	1

* Four additional attendances as invitee.

Risk Management and Internal Audit

The Risk Management and Internal Audit unit plays an important role in APRA's governance, assurance and compliance framework through a detailed and structured approach to the monitoring and assessment of risks and the review of APRA's systems and processes. The General Manager – Risk Management and Internal Audit has a direct reporting line to the Chair of the Risk Management and Audit Committee and direct access to the Executive Group. The unit is staffed by officers with extensive experience in risk management, audit, regulated industries and prudential supervision. The General Manager—Risk Management and Internal Audit also attends Management Group meetings as an observer.

APRA's Enterprise Risk Management Framework is central to the identification, monitoring and management of risk within APRA and to the work of the unit. An APRA-wide risk management framework is in place, including an articulation of APRA's risk appetite. It covers substantial risks to APRA's mandate and objectives, each captured in a defined category. A member of APRA's Management Group is allocated responsibility for the ongoing review, management and reporting of each such risk. Risks are reassessed on a regular basis and the unit provides APRA's Executive Group and the Risk Management and Audit Committee with consolidated risk reports on a quarterly basis. In 2012/13 the unit developed an online risk management training course, which all staff were required to undertake to assist them in understanding their risk management responsibilities.

Each year, following consultation with APRA management and an assessment of APRA's strategies and risks, a broad-ranging and robust program of internal audits is developed by the unit and subsequently approved by the Executive Group and endorsed by the Risk Management and Audit Committee. The risk-based program covers specific aspects of APRA's supervisory and operational processes and its financial systems, including reviews of compliance with both internal and external requirements. Audit reviews identify and rate risks, and make recommendations aimed at improving APRA's internal control environment and processes. The reviews also set out detailed and agreed management action plans and timeframes to address issues identified. The unit monitors the implementation of agreed actions on a quarterly basis, undertakes follow-up reviews and reports the results of those reviews to the Executive Group and the Risk Management and Audit Committee.

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

APRA has a range of external accountabilities and, to ensure compliance, a comprehensive APRA-wide compliance framework based upon the relevant Australian Standard has been put in place and is being expanded. The responsibility for monitoring and ongoing development of this framework is with the Secretary.

APRA MEMBERS

DR JOHN LAKER AO

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

Chairman and Member

Dr Laker was appointed as a Member and Chairman of APRA on 1 July 2003, and was reappointed for a second five-year term commencing 1 July 2008. His term as a Member and Chairman was extended for a further year commencing 1 July 2013.

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

MR (KERRY) ROSS JONES

BA, MCom (Newcastle)

Deputy Chairman and Member

Mr Jones served as a Member and Deputy Chairman of APRA from 1 July 2003 to 30 June 2013.

During this period, Mr Jones was also President of the International Organisation of Pension Supervisors, Deputy Chairman of the OECD Working Party on Private Pensions, and a member of the International Network for Financial Education. Prior to joining APRA, Mr Jones held the position of Commissioner at the Australian Competition and Consumer Commission with responsibilities for mergers and acquisitions and telecommunications. Mr Jones was also an Associate Professor in the School of Finance and Economics at the University of Technology Sydney (UTS).

MR IAN LAUGHLIN

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

Deputy Chairman and Member

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

Mr Laughlin is APRA's representative on the Executive Council of the International Association of Insurance Supervisors and on the Financial Reporting Council. Mr Laughlin has extensive experience in the financial services industry. He has been a non-executive director of AMP Life Limited, serving as Chairman of its Board Audit Committee, Managing Director of the United Kingdom life insurance subsidiaries of AMP (Pearl, London Life and NPI), director of HHG plc and non-executive director of Diligenta Ltd in the United Kingdom. Before then, he held senior management positions in AMP, Suncorp and National Mutual in Australia, New Zealand and Hong Kong. Mr Laughlin is also a Fellow of the Institute of Actuaries of Australia and has served on its Council.

MRS HELEN ROWELL

BA (Macquarie), FIAA

Member

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

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

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

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STATEMENT BY MEMBERS AND THE CHIEF FINANCIAL OFFICER

In our opinion, the attached financial statements for the year ended 30 June 2013 are based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, as amended.

DR JOHN F. LAKER
Chairman
3 September 2013

MR IAN LAUGHLIN
Deputy Chairman
3 September 2013

MRS HELEN ROWELL
Member
3 September 2013

MR STEVE MATTHEWS
Chief Financial Officer
3 September 2013

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June 2013

	Notes	2013 $'000	2012 $'000
Expenses			
Employee benefits	4A	**86,617**	89,812
Supplier expenses	4B	**23,868**	26,053
Depreciation and amortisation	4C	**5,855**	5,131
Finance costs	4D	**48**	97
Write-down and impairment of assets	4E	**–**	–
Losses from asset disposals	4F	**127**	26
Total expenses		**116,515**	121,119
Less:			
Own-source income			
Own-source revenue			
Rendering of services	5A	**4,331**	4,212
Rental income	5B	**12**	11
Other revenue	5C	**366**	569
Total own-source revenue		**4,709**	4,792
Gains			
Other gains	5D	**131**	128
Total gains		**131**	128
Total own-source income		**4,840**	4,920
Net cost of services		**111,675**	116,199
Revenue from Government	5E	**116,777**	113,729
Operating surplus/(deficit)		**5,102**	(2,470)
Other comprehensive income			
Items not subject to subsequent reclassification to profit or loss			
Changes in asset revaluation reserves	6A	**63**	(170)
Total other comprehensive income		**63**	(170)
Total comprehensive income/(loss)		**5,165**	(2,640)

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

BALANCE SHEET
as at 30 June 2013

	Notes	**2013 $'000**	2012 $'000
Assets			
Financial assets			
Cash	7A	**1,360**	1,739
Trade and other receivables	7B	**56,552**	46,561
Total financial assets		**57,912**	48,300
Non-financial assets			
Property, plant and equipment	8A,B	**5,472**	5,792
Intangibles	8C,D	**16,124**	12,717
Other non-financial assets	8E	**2,102**	1,995
Total non-financial assets		**23,698**	20,504
Total assets		**81,610**	68,804
Liabilities			
Payables			
Suppliers	9A	**683**	373
Unearned fees and charges	9B	**753**	1,036
Other payables	9C	**6,031**	3,826
Total payables		**7,467**	5,235
Provisions			
Employee provisions	10A	**32,580**	32,000
Other provisions	10B	**2,900**	2,881
Total provisions		**35,480**	34,881
Total liabilities		**42,947**	40,116
Net assets		**38,663**	28,688
Equity			
Contributed equity		**12,279**	7,469
Reserves		**12,530**	12,467
Retained surpluses		**13,854**	8,752
Total equity		**38,663**	28,688

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

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2013

	Retained surpluses		Asset revaluation reserve		Contingency Enforcement Fund		Contributed equity/capital		Total equity	
	2013 $'000	2012 $'000	**2013 $'000**	2012 $'000	**2013 $'000**	2012 $'000	**2013 $'000**	2012 $'000	**2013 $'000**	2012 $'000
Opening balance										
Balance carried forward from previous period	**8,752**	11,222	**6,467**	6,637	**6,000**	6,000	**7,469**	7,469	**28,688**	31,328
Adjusted opening balance	**8,752**	11,222	**6,467**	6,637	**6,000**	6,000	**7,469**	7,469	**28,688**	31,328
Comprehensive income										
Other comprehensive income	**–**	–	**63**	(170)	**–**	–	**–**	–	**63**	(170)
Surplus/(deficit) for the period	**5,102**	(2,470)	**–**	–	**–**	–	**–**	–	**5,102**	(2,470)
Total comprehensive income	**5,102**	(2,470)	**63**	(170)	**–**	–	**–**	–	**5,165**	(2,640)
Distributions to owners										
Return of Government equity contribution	**–**	–	**–**	–	**–**	–	**(3,197)**	–	**(3,197)**	–
Contributions by owners										
Equity injection - appropriations	**–**	–	**–**	–	**–**	–	**8,007**	–	**8,007**	–
Sub-total: transactions with owners	**–**	–	**–**	–	**–**	–	**4,810**	–	**4,810**	–
Closing balance as at 30 June	**13,854**	8,752	**6,530**	6,467	**6,000**	6,000	**12,279**	7,469	**38,663**	28,688

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

STATEMENT OF CASH FLOWS
for the year ended 30 June 2013

	Notes	2013 $'000	2012 $'000
Operating activities			
Cash received			
Appropriations		**114,176**	119,151
Rendering of services		**4,918**	5,023
Rental income		**12**	11
Net GST received		**2,098**	2,508
Other		**367**	568
Total cash received		**121,571**	127,261
Cash used			
Employees		**(86,036)**	(83,584)
Suppliers		**(24,307)**	(30,589)
Section 31 receipts transferred to Official Public Account (OPA)		**(7,395)**	(8,110)
Total cash used		**(117,738)**	(122,283)
Net cash from/(used by) operating activities	12	**3,833**	4,978
Investing activities			
Cash used			
Purchase of property, plant and equipment		**(1,326)**	(640)
Purchase/development of software intangibles		**(7,696)**	(4,178)
Total cash used		**(9,022)**	(4,818)
Net cash from/(used by) investing activities		**(9,022)**	(4,818)
Financing activities			
Cash received			
Equity injection – appropriations		**8,007**	–
Total cash received		**8,007**	–
Cash used			
Return of Government equity contribution		**(3,197)**	–
Total cash used		**(3,197)**	–
Net cash from financing activities		**4,810**	–
Net increase/(decrease) in cash held		**(379)**	160
Cash at the beginning of the reporting period		**1,739**	1,579
Cash at the end of the reporting period	7A	**1,360**	1,739

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

SCHEDULE OF COMMITMENTS
as at 30 June 2013

	2013 $'000	2012 $'000
By type[1]		
Commitments receivable		
Net GST recoverable on commitments	**(3,066)**	(3,082)
Total commitments receivable	**(3,066)**	(3,082)
Commitments payable		
Operating leases	**22,037**	27,712
Other	**11,690**	6,198
Total commitments payable	**33,727**	33,910
Net commitments by type	**30,661**	30,828
By maturity		
Commitments receivable		
Net GST recoverable on commitments		
One year or less	**(1,250)**	(948)
From one to five years	**(1,811)**	(2,134)
Over five years	**(5)**	–
Total net GST recoverable on commitments	**(3,066)**	(3,082)
Commitments payable		
Operating lease commitments		
One year or less	**6,662**	6,598
From one to five years	**15,321**	21,114
Over five years	**54**	–
Total operating lease commitments	**22,037**	27,712
Other		
One year or less	**7,090**	3,832
From one to five years	**4,600**	2,366
Over five years	**–**	–
Total other	**11,690**	6,198
Net commitments by maturity	**30,661**	30,828

Leases for office accommodation

Lease payments in Sydney (except for one level) and Perth are subject to prevailing market rates. Leases for all other offices are subject to fixed annual increments. Office leases, with current expiry dates shown in brackets, are current for space in Perth (2014), Canberra (2015), Melbourne (2016), Sydney (2016), Brisbane (2018) and Adelaide (2019).

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

1 Commitments are stated inclusive of GST where relevant.

SCHEDULE OF CONTINGENCIES
as at 30 June 2013

	2013 $'000	2012 $'000
Contingent assets		
Claims for damages or costs	–	–
Total contingent assets	–	–
Contingent liabilities		
Claims for damages or costs	–	–
Total contingent liabilities	–	–
Net contingent assets (liabilities)	–	–

Details of each class of contingent assets and liabilities, including those not included above because they cannot be quantified or are remote, are disclosed in Note 13: *Contingent assets and liabilities*.

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

ADMINISTERED SCHEDULE OF COMPREHENSIVE INCOME
for the year ended 30 June 2013

	Notes	2013 $'000	2012 $'000
Expenses			
Supervisory Levy waivers	19	3,536	959
Total expenses administered on behalf of Government		3,536	959
Less:			
Income			
Taxation/levy revenue			
Financial Institutions Supervisory Levies	20A	273,932	131,949
Financial Assistance Levy	20B	17,662	20
Total taxation/levy revenue		291,594	131,969
Net cost of (contribution by) services		288,058	131,010
Total comprehensive income administered on behalf of Government		288,058	131,010

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

ADMINISTERED SCHEDULE OF ASSETS AND LIABILITIES
as at 30 June 2013

	Notes	2013 $'000	2012 $'000
Assets			
Financial assets			
Receivables	21	**775**	2,201
Total assets administered on behalf of Government		**775**	2,201
Liabilities			
Liabilities administered on behalf of Government		**–**	–
Total liabilities administered on behalf of Government		**–**	–
Net assets administered on behalf of Government		**775**	2,201

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

ADMINISTERED RECONCILIATION SCHEDULE
as at 30 June 2013

	2013 $'000	2012 $'000
Opening administered assets less administered liabilities as at 1 July	**2,201**	54,555
Plus: Administered income	**291,594**	131,969
Less: Administered expenses	**(3,536)**	(959)
Administered transfers to/from Australian Government:		
Plus: Appropriation transfers from Official Public Account	**343**	22
Less: Transfers to Official Public Account	**(289,827)**	(183,386)
Closing administered assets less administered liabilities as at 30 June	**775**	2,201

ADMINISTERED STATEMENT OF CASH FLOWS
for the year ended 30 June 2013

	Notes	2013 $'000	2012 $'000
Operating activities			
Cash received			
Financial Institutions Supervisory Levies		**270,480**	131,028
Financial Assistance Levy		**19,347**	52,358
Total cash received		**289,827**	183,386
Cash used			
Refunds for overpayment of Supervisory Levies		**(343)**	(21)
Refunds for overpayment of Financial Assistance Levy		**–**	(1)
Total cash used		**(343)**	(22)
Net cash flows from operating activities	22	**289,484**	183,364
Net increase in cash held		**289,484**	183,364
Cash at the beginning of the reporting period		**–**	–
Cash from Official Public Account for:			
– APRA Special Account: Supervisory Levies		**343**	21
– Section 28 FMA Act refund appropriations: Financial Assistance Levy		**–**	1
		343	22
Cash to Official Public Account for:			
– Financial Institutions Supervisory Levies		**(270,480)**	(131,028)
– Financial Assistance Levy		**(19,347)**	(52,358)
		(289,827)	(183,386)
Cash at the end of the reporting period		**–**	–

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

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

ADMINISTERED SCHEDULE OF COMMITMENTS
for the year ended 30 June 2013

APRA had no administered commitments as at balance date (2012: Nil).

ADMINISTERED SCHEDULE OF CONTINGENCIES
for the year ended 30 June 2013

APRA had no administered contingencies as at balance date (2012: Nil).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 Objectives of Australian Prudential Regulation Authority (APRA)

The role of APRA is developing and enforcing a robust prudential framework that promotes prudent behaviour by authorised deposit-taking institutions (ADIs), insurance companies, superannuation funds and other financial institutions it supervises, with the key aim of protecting the interests of depositors, policyholders and superannuation fund members. In carrying out its role, APRA's objective is to enhance public confidence in Australia's financial institutions through a prudential framework that balances financial safety and efficiency, competition and competitive neutrality. Prudential regulation focuses on the quality of an institution's systems for identifying, measuring and managing the various risks in its business. In addition, APRA is responsible for administering the Financial Claims Schemes provided for in relevant banking and general insurance legislation.

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

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

1.2 Basis of preparation of the financial statements

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

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

- Finance Minister's Orders (FMOs) for reporting periods ending on or after 1 July 2011; and
- Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

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

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

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

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

1.3 Significant accounting judgements and estimates

In the process of applying the accounting policies listed in this note, APRA has made the following judgements that have the most significant impact on the amounts recorded in the financial statements:

- the fair value of leasehold improvements has been taken to be the market value of similar installations as determined by an independent valuer in May 2011.

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

APRA has assessed the value of its non-financial assets as at 30 June 2013 and is satisfied that they reflect the fair value.

1.4 Changes in Australian Accounting Standards

Adoption of new Australian Accounting Standard requirements

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

Future Australian Accounting Standard requirements

New accounting standards, amendments to standards and interpretations that were issued prior to the signing of the financial statements by Members and the Chief Financial Officer and are effective for future reporting periods have been issued by the AASB. It is expected that these changes, when effective, will have no material financial impact on future reporting periods.

1.5 Revenue

Revenue from Government

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

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

Other revenue

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

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

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

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

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

Parental leave payments scheme

Amounts received under the Parental Leave Payments Scheme not yet paid to employees are presented gross as cash and a liability (payable) by APRA.

1.6 Gains

Resources received free of charge

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

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

Resources received free of charge are recorded as either revenue or gains depending on their nature.

Sale of assets

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

1.7 Transactions with the Government as owner

Equity injections

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

1.8 Employee benefits

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

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

Leave

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

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

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

Separation and redundancy

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

Superannuation

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

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

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

The liability for superannuation recognised at the balance date represents outstanding contributions for the remaining days following the last payroll in June 2013.

1.9 Leases

A distinction is made between finance leases and operating leases. Finance leases effectively transfer from the lessor to the lessee substantially all the risks and rewards incidental to ownership of leased assets. In operating leases, the lessor effectively retains substantially all such risks and benefits.

Operating lease payments are expensed on a straight-line basis that is representative of the pattern of benefits derived from the leased assets. APRA has no finance leases.

1.10 Cash

Cash includes cash on hand and cash at bank.

1.11 Financial assets

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

Loans and receivables

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

Impairment of financial assets

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

1.12 Financial liabilities

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

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

1.13 Contingent assets and contingent liabilities

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

1.14 Acquisition of assets

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

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

1.15 Property, plant and equipment

Asset recognition threshold

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

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

Revaluations

Following initial recognition at cost, property, plant and equipment are carried at fair value, less subsequent accumulated depreciation and accumulated impairment losses. Valuations are conducted with sufficient frequency such that the carrying amount of each class of asset is not materially different, at reporting date, from its fair value. Valuations are undertaken every three years as at 30 June (last valuation May 2011).

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

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

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

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

Depreciation

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

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

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

Asset Class	2013	2012
Leasehold improvements	Lesser of 10 years or lease term	Lesser of 10 years or lease term
Computer hardware and office equipment	3 to 12 years	3 to 12 years

Impairment

All assets were assessed for indications of impairment as at 30 June 2013. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

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

Derecognition

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

1.16 Intangibles

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

Software is amortised on a straight-line basis over its anticipated useful life. The useful lives of APRA's software are the lesser of five years or assessed useful life (2011/12: lesser of five years or assessed useful life).

All software assets were assessed for indications of impairment as at 30 June 2013.

1.17 Taxation

APRA is exempt from all forms of taxation except Fringe Benefits Tax (FBT) 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. Receivables and payables are recognised inclusive of GST.

1.18 Reporting of administered activities

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

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

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

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

Revenue

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

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

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

Expenses

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

Waivers of levies under the *Financial Institutions Supervisory Levies Collection Act 1998* are shown at Note 25, as required by the FMOs. Waivers generally occur due to a change of status of a supervised entity during the year, resulting in the annual levy being wholly or partly waived.

Contingent assets and liabilities

There were no administered contingent assets or liabilities in 2013 or in 2012.

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

The Australian Government continues to have regard to developments in case law, including the High Court's most recent decision on Commonwealth expenditure in Williams v Commonwealth (2012) 288 ALR 410, as they contribute to the larger body of law relevant to the development of Commonwealth programs. In accordance with its general practice, the Government will continue to monitor and assess risk and decide on any appropriate actions to respond to risks of expenditure not being consistent with constitutional or other legal requirements.

NOTE 2: EVENTS AFTER THE BALANCE SHEET DATE

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

NOTE 3: CALCULATION OF APRA SPECIAL APPROPRIATION

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

Details are as follows:

	2013 $'000	2012 $'000
Table 1: Summary		
Current year levies and penalties (see Note 20A, Table 1)	**273,932**	131,949
Less: Waivers and doubtful debts (see Note 19)	**(3,536)**	(959)
Net current year levies and penalties (see Table 2 below)	**270,396**	130,990
Less: Amount retained in the CRF (see Table 3 below)	**(153,500)**	(30,610)
Total	**116,896**	100,380
Table 2: Net current year levies and penalties by levy type		
Superannuation funds	**183,307**	46,315
Authorised deposit-taking institutions	**50,149**	45,650
Life insurers and friendly societies	**12,985**	12,777
General insurers	**23,955**	26,248
Total	**270,396**	130,990
Table 3: Amounts retained in the CRF by levy type[1]		
Superannuation funds	**(144,900)**	(20,710)
Authorised deposit-taking institutions	**(3,400)**	(4,100)
Life insurers and friendly societies	**(2,300)**	(2,100)
General insurers	**(2,900)**	(3,700)
Total	**(153,500)**	(30,610)
Table 4: Amounts of levy payable to APRA under the APRA Special Appropriation by levy type		
Superannuation funds	**38,407**	25,605
Authorised deposit-taking institutions	**46,749**	41,550
Life insurers and friendly societies	**10,685**	10,677
General insurers	**21,055**	22,548
Total	**116,896**	100,380
This is represented by:		
Special Appropriation	**113,699**	100,380
Government equity contribution	**3,197**	–
Total	**116,896**	100,380

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

NOTE 4: EXPENSES

	2013	2012
	$'000	$'000
Note 4A: Employee benefits		
Salaries and wages	70,886	70,297
Superannuation	7,414	7,395
Leave and other entitlements	7,867	11,413
Separation and redundancies	353	528
Other employee benefits	97	179
Total employee benefits	86,617	89,812
Note 4B: Supplier expenses		
Goods and services		
Consultants	1,974	2,123
Contractors	1,049	886
Travel-related expenses	2,669	2,952
Operational expenses	9,875	11,163
Training and conference expenses	1,688	1,841
Other professional services	25	62
Total goods and services	17,280	19,027
Goods and services are made up of:		
Provision of goods – external parties	1,954	2,583
Rendering of services – related entities	1,875	2,921
Rendering of services – external parties	13,451	13,523
Total goods and services	17,280	19,027
Other supplier expenses		
Operating lease rentals – external parties:		
– minimum lease payments	6,103	6,779
Workers' compensation premiums	485	247
Total other supplier expenses	6,588	7,026
Total supplier expenses	23,868	26,053

NOTE 4: EXPENSES (CONTINUED)

	2013 $'000	2012 $'000
Note 4C: Depreciation and amortisation		
Depreciation:		
Computer hardware	497	648
Leasehold improvements	1,195	1,399
Total depreciation	1,692	2,047
Amortisation:		
Intangibles – computer software	4,163	3,084
Total amortisation	4,163	3,084
Total depreciation and amortisation	5,855	5,131
Note 4D: Finance costs		
Unwinding of discount	48	97
Total finance costs	48	97
Note 4E: Write-down and impairment of assets		
Asset write-downs and impairments from:		
Impairment of internally developed software	–	–
Total write-down and impairment of assets	–	–
Note 4F: Losses from asset sales/disposals		
Computer hardware:		
Proceeds from sale	–	(2)
Carrying value of assets disposed	127	28
Total losses from asset sales /disposals	127	26

NOTE 5: INCOME

	2013 $'000	2012 $'000
Note 5A: Rendering of services		
Rendering of services – government entities	2,008	1,580
Rendering of services – external entities	2,323	2,632
Total rendering of services	4,331	4,212
Note 5B: Rental income		
Rental income	12	11
Total rental income	12	11
Note 5C: Other revenue		
Licence fees from finance sector entities	192	285
Superannuation trustee applications	6	60
Fees from foreign bank representative offices	80	85
Recoveries from RBA for scholarships	–	19
Other	88	120
Total other revenue	366	569
Note 5D: Other gains		
Resources received free of charge	131	128
Total other gains	131	128
Note 5E: Revenue from Government		
Appropriations:		
Special Appropriations	113,699	100,380
Departmental outputs	3,078	13,349
Total revenue from Government	116,777	113,729

NOTE 6: OTHER COMPREHENSIVE INCOME

	2013 $'000	2012 $'000
Note 6A: Changes in asset revaluation reserve		
Make good revaluation	**63**	(170)
	63	(170)

NOTE 7: FINANCIAL ASSETS

	2013 $'000	2012 $'000
Note 7A: Cash		
APRA official bank accounts	**1,358**	1,737
Cash on hand	**2**	2
Total cash and cash equivalents	**1,360**	1,739
Note 7B: Trade and other receivables		
Goods and services:		
Goods and services – related entities	**104**	203
Goods and services – external parties	**2,665**	2,501
Total receivables for goods and services	**2,769**	2,704
Appropriations receivable:		
For existing outputs	**726**	938
Special Appropriations	**267**	9
APRA Special Account	**52,766**	42,815
Total appropriations receivable	**53,759**	43,762
Other receivables:		
GST receivable from the Australian Taxation Office	**22**	47
Other	**2**	48
Total other receivables	**24**	95
Total trade and other receivables (gross)	**56,552**	46,561

NOTE 7: FINANCIAL ASSETS (CONTINUED)

	2013 $'000	2012 $'000
Less: impairment allowance account:		
Trade and other receivables	–	–
Total impairment allowance account	–	–
Total trade and other receivables (net)	56,552	46,561
Receivables are expected to be recovered in:		
No more than 12 months	56,552	46,555
More than 12 months	–	6
Total trade and other receivables (net)	56,552	46,561
Receivables are aged as follows:		
Not overdue	56,395	46,509
Overdue by:		
– 0 to 30 days	46	1
– 31 to 60 days	12	10
– 61 to 90 days	3	2
– more than 90 days	96	39
Total receivables (gross)	56,552	46,561
The impairment allowance account is aged as follows:		
– more than 90 days	–	–
Total impairment allowance account	–	–

Reconciliation of the impairment allowance account:

Movements in relation to 2013	Other receivables $'000	Total $'000
Opening balance	–	–
Amounts written off	–	–
Closing balance	–	–

NOTE 7: FINANCIAL ASSETS (CONTINUED)

Movements in relation to 2012	Other receivables $'000	Total $'000
Opening balance	**(4)**	(4)
Amounts written off	**4**	4
Closing balance	**–**	–

NOTE 8: NON-FINANCIAL ASSETS

	2013 $'000	2012 $'000
Note 8A: Property, plant and equipment		
Computer hardware and office equipment		
– fair value	**2,651**	1,382
– accumulated depreciation	**(1,079)**	(583)
Total computer hardware and office equipment	**1,572**	799
Leasehold improvements		
– fair value	**7,688**	7,686
– accumulated depreciation	**(3,788)**	(2,693)
Total leasehold improvements	**3,900**	4,993
Total property, plant and equipment	**5,472**	5,792

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

Revaluations of non-financial assets

Revaluations are conducted in accordance with the revaluation policy stated in Note 1.15. The latest revaluation was undertaken by an independent valuer in May 2011.

NOTE 8: NON-FINANCIAL ASSETS (CONTINUED)

Note 8B: Reconciliation of the opening and closing balances of property, plant and equipment – 2013

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

NOTE 8: NON-FINANCIAL ASSETS (CONTINUED)

Note 8B: Reconciliation of the opening and closing balances of property, plant and equipment – 2012

	Computer hardware and office equipment $'000	Leasehold improvements $'000	Total $'000
As at 1 July 2011			
Gross book value	**1,060**	**6,491**	**7,551**
Accumulated depreciation	–	(1,387)	(1,387)
Net book value 1 July 2011	**1,060**	**5,104**	**6,164**
Additions:			
By purchase	398	242	640
By capital incentive or additional make good provision	–	1,063	1,063
Depreciation expense	(648)	(1,399)	(2,047)
Disposals:			
Write-off (at cost)	(76)	(110)	(186)
Write-off (accumulated depreciation)	65	93	158
Net book value 30 June 2012	**799**	**4,993**	**5,792**
Net book value as of 30 June 2012 represented by:			
Gross book value	**1,382**	**7,686**	**9,068**
Accumulated depreciation	**(583)**	**(2,693)**	**(3,276)**
Net book value 30 June 2012	**799**	**4,993**	**5,792**

Note 8C: Intangibles

	2013 $'000	2012 $'000
Computer software:		
– internally developed – in progress	**4,877**	3,375
– internally developed – in use	**23,521**	18,076
– purchased – in progress	**540**	–
– purchased – in use	**6,403**	6,501
– accumulated amortisation	**(19,217)**	(15,235)
Total computer software	**16,124**	12,717
Total intangibles	**16,124**	12,717

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

NOTE 8: NON-FINANCIAL ASSETS (CONTINUED)

Note 8D: Reconciliation of the opening and closing balances of intangibles – 2013

	Computer software internally developed $'000	Computer software purchased $'000	Total $'000
As at 1 July 2012			
Gross book value	**21,451**	**6,501**	**27,952**
Accumulated amortisation	(10,469)	(4,766)	(15,235)
Net book value 1 July 2012	**10,982**	**1,735**	**12,717**
Additions:			
By purchase	–	750	750
Internally developed	6,947	–	6,947
Amortisation	(3,422)	(741)	(4,163)
Disposals:			
Write-off (at cost)	–	(308)	(308)
Write-off (accumulated amortisation)	–	181	181
Net book value 30 June 2013	**14,507**	**1,617**	**16,124**
Net book value as of 30 June 2013 represented by:			
Gross book value	**28,398**	**6,943**	**35,341**
Accumulated amortisation	**(13,891)**	**(5,326)**	**(19,217)**
Net book value 30 June 2013	**14,507**	**1,617**	**16,124**

NOTE 8: NON-FINANCIAL ASSETS (CONTINUED)

Note 8D (Cont'd): Reconciliation of the opening and closing balances of intangibles – 2012

	Computer software internally developed $'000	Computer software purchased $'000	Total $'000
As at 1 July 2011			
Gross book value	**18,208**	**5,929**	**24,137**
Accumulated amortisation	(8,425)	(4,090)	(12,515)
Net book value 1 July 2011	**9,783**	**1,839**	**11,622**
Additions:			
By purchase	–	625	625
Internally developed	3,553	–	3,553
Amortisation	(2,354)	(729)	(3,083)
Disposals:			
Write-off (at cost)	(310)	(53)	(363)
Write-off (accumulated amortisation)	310	53	363
Net book value 30 June 2012	**10,982**	**1,735**	**12,717**
Net book value as of 30 June 2012 represented by:			
Gross book value	**21,451**	**6,501**	**27,952**
Accumulated amortisation	**(10,469)**	**(4,766)**	**(15,235)**
Net book value 30 June 2012	**10,982**	**1,735**	**12,717**

Note 8E: Other non-financial assets

	2013 $'000	2012 $'000
Prepayments	**2,043**	1,964
Lease incentives	**59**	31
Total other non-financial assets	**2,102**	1,995
Total other non-financial assets are expected to be recovered in:		
– less than 12 months	**2,012**	1,917
– more than 12 months	**90**	78
Total other non-financial assets	**2,102**	1,995

NOTE 9: PAYABLES

	2013 $'000	2012 $'000
Note 9A: Suppliers		
Operating lease rentals	**345**	373
Trade creditors	**338**	–
Total suppliers payables	**683**	373

Operating lease rentals payable relate to external parties and are expected to be settled in less than 12 months.

Note 9B: Unearned fees and charges		
Unearned revenue	**753**	1,036
Total unearned fees and charges	**753**	1,036

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

Note 9C: Other payables		
Accrued expenses	**3,062**	995
Salaries and wages	**2,428**	2,279
Lease incentives	**541**	552
Total other payables	**6,031**	3,826
Other payables are expected to be settled in:		
– less than 12 months	**5,587**	3,383
– more than 12 months	**444**	443
Total other payables	**6,031**	3,826

NOTE 10: PROVISIONS

	2013 $'000	2012 $'000
Note 10A: Employee provisions		
Leave	**27,566**	26,953
Bonus	**4,886**	4,693
Other	**128**	354
Total employee provisions	**32,580**	32,000
Employee provisions are expected to be settled in:		
– less than 12 months	**13,606**	13,520
– more than 12 months	**18,974**	18,480
Total employee provisions	**32,580**	32,000
Note 10B: Other provisions		
Provisions for make good	**2,900**	2,881
Total other provisions	**2,900**	2,881
Other provisions are expected to be settled in:		
– less than 12 months	**42**	44
– more than 12 months	**2,858**	2,837
Total other provisions	**2,900**	2,881

Reconciliation of other provisions:	Provision for make good $'000	Total $'000
Carrying amount 1 July 2012	2,881	2,881
Additional provisions made	47	47
Amounts used	(14)	(14)
Unwinding of discount or change in rate	(14)	(14)
Closing balance 30 June 2013	**2,900**	**2,900**

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

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

NOTE 11: RESTRUCTURING

Note 11A: Departmental restructuring

	2013 $'000	2012 $'000
Income		
Recognised by the receiving entity	–	2,710
Recognised by the losing entity - APRA	–	1,355
Total income	–	4,065
Expenses		
Recognised by the receiving entity	–	2,710
Recognised by the losing entity - APRA	–	1,355
Total expenses	–	4,065
Assets relinquished		
Cash paid (performance bonuses transferred to DHS)	–	178
Office equipment	–	6
Total assets relinquished	–	184
Liabilities relinquished		
Performance bonuses to staff transferred to DHS	–	178
Total liabilities relinquished	–	178
Net assets/(liabilities) relinquished	–	6

1 Responsibility for the early release of superannuation benefits on compassionate grounds was transferred to the Department of Human Services (DHS) from November 2011. To reflect this transfer, APRA's Special Appropriation was reduced by $2.71 million.

2 APRA transferred $216,720 in accrued annual and long service leave to DHS in 2010/11.

Note 11B: Administered restructuring

There was no administered restructuring in 2011/12 or 2012/13.

NOTE 12: STATEMENT OF CASH FLOWS RECONCILIATION

	2013 $'000	2012 $'000
Reconciliation of cash and cash equivalents as per *Balance sheet to Statement of cash flows*		
Cash as per:		
Statement of cash flows	**1,360**	1,739
Balance sheet	**1,360**	1,739
Difference	**–**	–
Reconciliation of net cost of services to net cash from operating activities		
Net cost of services	**(111,675)**	(116,199)
Add: revenue from Government	**116,777**	113,729
Adjustments for non-cash items		
Depreciation/amortisation	**5,855**	5,131
Loss on disposal of assets	**127**	26
Impairment of internally developed software	**–**	–
Make good	**16**	(868)
Lease incentives	**–**	(395)
Changes in assets / liabilities		
(Increase)/decrease in net receivables	**(9,991)**	(2,551)
Decrease in other non-financial assets	**(107)**	64
Increase in employee provisions	**580**	5,865
Increase/(decrease) in supplier payables	**310**	(15)
(Decrease) in unearned fees and charges	**(283)**	(97)
Increase/(decrease) in other payables	**2,205**	(568)
Increase/(decrease) in other provisions	**19**	856
Net cash from/(used by) operating activities	**3,833**	4,978

NOTE 13: CONTINGENT ASSETS AND LIABILITIES

	Claims for damages or costs	
	2013	2012
	$'000	$'000
Contingent assets		
Balance from previous period	**–**	–
New contingent assets recognised	**–**	–
Expired	**–**	–
Total contingent assets	**–**	–
Contingent liabilities		
Balance from previous period	**–**	–
New contingent liabilities recognised	**–**	–
Obligations expired	**–**	–
Total contingent liabilities	**–**	–
Net contingent assets (liabilities)	**–**	–

Quantifiable contingencies

APRA has no quantifiable contingencies as at balance date (2012: Nil).

Unquantifiable contingencies

APRA has no unquantifiable contingencies as at balance date (2012: One unquantifiable contingency).

Significant remote contingencies

APRA has no significant remote contingencies as at balance date (2012: Nil).

NOTE 14: REMUNERATION OF APRA MEMBERS

APRA Members are appointed by the Governor General under Part 3 of the *Australian Prudential Regulation Authority Act 1998* and remuneration is set by the Remuneration Tribunal under the *Remuneration Tribunal Act 1973*.
Total remuneration as determined by the Tribunal for 2012/13 was Chairman $800,000 (2011/12: $800,000); Deputy Chairman $640,000 (2011/12: $640,000); and Member $600,000 (2011/12: $600,000). Any difference between the Tribunal determination and the cost to APRA is due to changes in unused annual and long service leave entitlements accumulated in the year and funding changes to defined benefit superannuation schemes where relevant.

	2013	2012
The remuneration of APRA Members, measured in terms of the cost to APRA, is shown in the relevant remuneration bands:		
$600,000 to $629,999	**1**	1
$660,000 to $689,999	**–**	1
$690,000 to $719,999	**1**	–
$900,000 to $929,999	**1**	1
Total	**3**	3
Total remuneration of APRA Members	**$2,225,234**	$2,223,959

NOTE 15: REMUNERATION OF SENIOR EXECUTIVES

Note 15A: Remuneration expenses for senior executives[1]

	2013	2012
	$	$
Short-term employee benefits:		
Salary (including annual leave)	**7,263,672**	6,918,998
Movement in annual leave provision	**79,627**	125,739
Performance bonuses	**515,102**	413,601
Allowances	**365**	2,508
Total short-term employee benefits	**7,858,765**	7,460,846
Post-employment benefits:		
Superannuation	**740,431**	766,986
Total post-employment benefits	**740,431**	766,986
Other long-term benefits:		
Long-service leave accrued	**92,220**	817,801
Total other long-term benefits	**92,220**	817,801
Total senior executive remuneration expenses	**8,691,416**	9,045,633

1 Note 15A was prepared on an accrual basis (therefore the performance bonus expenses disclosed above may differ from the cash 'Bonus paid' in Note 15B). Note 15A excludes acting arrangements and part-year service where total remuneration expensed for a senior executive was less than $180,000.

NOTE 15: REMUNERATION OF SENIOR EXECUTIVES (CONTINUED)

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

2013

Average annual reportable remuneration[1]	Senior executives No.	Reportable salary[2] $	Contributed superannuation[3] $	Reportable allowances[4] $	Bonus paid[5] $	Total reportable remuneration[6] $
Total remuneration (including part-time arrangements):						
Less than $180,000	1	118,495	10,515	–	14,831	143,841
$180,000 to $209,999	3	154,111	16,270	–	26,671	197,053
$210,000 to $239,999	1	191,154	8,716	–	21,307	221,177
$240,000 to $269,999	3	224,421	21,279	122	12,010	257,832
$270,000 to $299,999	8	244,700	29,161	–	13,612	287,473
$300,000 to $329,999	5	258,023	29,122	–	21,056	308,200
$330,000 to $359,999	2	294,716	22,384	–	29,269	346,369
$360,000 to $389,999	1	343,565	23,583	–	11,064	378,213
$420,000 to $449,999	4	375,039	34,806	–	21,380	431,225
Total number of senior executives	28					

2012

Average annual reportable remuneration[1]	Senior executives No.	Reportable salary[2] $	Contributed superannuation[3] $	Reportable allowances[4] $	Bonus paid[5] $	Total reportable remuneration[6] $
Total remuneration (including part-time arrangements):						
Less than $180,000	5	117,779	8,556	–	4,070	130,405
$240,000 to $269,999	7	223,741	21,487	–	12,242	257,470
$270,000 to $299,999	13	243,890	27,512	–	11,614	283,016
$300,000 to $329,999	1	234,417	48,724	–	18,373	301,514
$360,000 to $389,999	1	302,063	31,027	–	38,935	372,025
$390,000 to $419,999	2	346,467	52,308	258	14,664	413,697
$420,000 to $449,999	1	376,226	35,274	1,992	15,709	429,201
Total number of senior executives	30					

NOTE 15: REMUNERATION OF SENIOR EXECUTIVES (CONTINUED)

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

2 'Reportable salary' includes the following:
(a) gross payments (less any bonuses paid, which are separated out and disclosed in the 'bonus paid' column);
(b) reportable fringe benefits (at the net amount prior to 'grossing up' for tax purposes);
(c) exempt foreign employment income; and
(d) salary sacrificed benefits.

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

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

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

6 Various salary sacrifice arrangements are available to senior executives including superannuation, motor vehicle and expense payment fringe benefits.

Senior executives have the following leave entitlements:

- annual leave 20 days (2011/12: 20 days) each full year worked (pro-rata for part-time senior executives);
- unlimited personal leave; and
- long service leave (LSL) in accordance with *Long Service Leave (Commonwealth Employees) Act 1976.*

NOTE 15: REMUNERATION OF SENIOR EXECUTIVES (CONTINUED)

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

2013

Average annual reportable remuneration[1,2]	Other highly paid staff No.	Reportable salary $	Contributed superannuation $	Reportable allowances $	Bonus paid $	Total reportable remuneration $
Total remuneration (including part-time arrangements):						
$180,000 to $209,999	**50**	**163,665**	**16,828**	**56**	**12,168**	**192,717**
$210,000 to $239,999	**36**	**187,089**	**22,079**	**14**	**12,710**	**221,893**
$240,000 to $269,999	**10**	**206,674**	**28,850**	**–**	**16,194**	**251,719**
$270,000 to $299,999	**1**	**217,874**	**22,544**	**–**	**31,754**	**272,172**
Total number of other highly paid staff	**97**					

2012

Average annual reportable remuneration[1,2]	Other highly paid staff No.	Reportable salary $	Contributed superannuation $	Reportable allowances $	Bonus paid $	Total reportable remuneration $
Total remuneration (including part-time arrangements):						
$180,000 to $209,999	45	168,089	17,159	57	9,874	195,179
$210,000 to $239,999	29	184,430	24,249	–	13,496	222,175
$240,000 to $269,999	6	209,400	27,561	162	12,803	249,926
Total number of other highly paid staff	80					

1 This table reports staff:
(a) who were employed by APRA during the reporting period;
(b) whose reportable remuneration was $180,000 or more for the financial period; and
(c) were not required to be disclosed in Notes 15A or 15B.
Each row is an averaged figure based on headcount for individuals in the band.

2 Disclosures for other highly paid staff in Note15C are aligned with disclosures for senior executives in Note 15B.

NOTE 16: REMUNERATION OF AUDITORS

	2013 $'000	2012 $'000
Financial statement audit services were provided free of charge to APRA in 2012/13.		
Fair value of the services provided by:		
The Australian National Audit Office	**131**	128
Total	**131**	128

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

NOTE 17: FINANCIAL INSTRUMENTS

	Notes	2013 $'000	2012 $'000
Note 17A: Categories of financial instruments			
Financial assets			
Loans and receivables:			
Cash		**1,360**	1,739
Trade receivables		**2,769**	2,704
Other receivables		**2**	48
Carrying amount of financial assets	18	**4,131**	4,491
Financial liabilities			
At amortised cost:			
Suppliers		**683**	373
Other payables		**6,031**	3,274
Carrying amount of financial liabilities		**6,714**	3,647

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

NOTE 17: FINANCIAL INSTRUMENTS (CONTINUED)

Note 17B: Credit risk

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

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

	Not past due nor impaired 2013 $'000	Not past due nor impaired 2012 $'000	**Past due or impaired 2013 $'000**	Past due or impaired 2012 $'000
Cash	**1,360**	1,739	**–**	–
Trade receivables	**2,612**	2,652	**157**	52
Other receivables	**2**	48	**–**	–
Total	**3,974**	4,439	**157**	52

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

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

Ageing of financial assets that were past due but not impaired for 2012

	0 to 30 days $'000	31 to 60 days $'000	61 to 90 days $'000	90+ days $'000	Total $'000
Trade receivables	1	10	2	39	52
Total	**1**	**10**	**2**	**39**	**52**

NOTE 17: FINANCIAL INSTRUMENTS (CONTINUED)

Note 17C: Liquidity risk

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

Note 17D: Market risk

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

NOTE 18: FINANCIAL ASSETS RECONCILIATION

	Notes	**2013** **$'000**	2012 $'000
Financial assets			
Total financial assets as per balance sheet		**57,912**	48,300
Less: non-financial instrument components:			
Other GST receivable		**22**	47
Appropriation receivable		**53,759**	43,762
Total non-financial instrument components		**53,781**	43,809
Total financial assets as per financial instruments note	17	**4,131**	4,491

NOTE 19: ADMINISTERED EXPENSES

	2013 $'000	2012 $'000
Note 19: Waivers		
Supervisory Levy waivers	3,536	963
Impairment allowance adjustment	–	(4)
Total waivers	3,536	959
Levies and late payment penalties waived by levy type		
Superannuation funds	3,536	890
General insurers	–	19
Other	–	50
Total	3,536	959

NOTE 20: ADMINISTERED INCOME

	2013 $'000	2012 $'000
Revenue		
Taxation revenue		
Note 20A: Financial Institutions Supervisory Levies		
Current year levies and penalties (see Table 1)[1]	273,932	131,949
Total Financial Institutions Supervisory Levies	273,932	131,949
Table 1: Financial Institutions Supervisory Levies revenue by type		
Levy:		
Superannuation funds	186,755	46,984
Authorised deposit-taking institutions	50,149	45,695
Life insurers and friendly societies	12,985	12,783
General insurers	23,955	26,267
Total levies	273,844	131,729
Late payment penalties:		
Superannuation funds	88	220
Total late payment penalties	88	220
Total current year levies and penalties	273,932	131,949

NOTE 20: ADMINISTERED INCOME (CONTINUED)

	2013 $'000	2012 $'000
Note 20B: Financial Assistance Levy		
Current year levies	**16,719**	–
Other – recoveries	**940**	–
Total Financial Assistance Levy	**17,659**	–
Late payment penalties:	**3**	20
Total late payment penalties	**3**	20
Total current year levies and penalties	**17,662**	20

1 Financial institutions supervisory levies are detailed in the annual consultation paper released by Treasury. The increase in superannuation fund levies for 2013 is largely attributable to the Government's SuperStream measure.

NOTE 21: ADMINISTERED FINANCIAL ASSETS

	2013 $'000	2012 $'000
Financial assets		
Receivables		
Financial Institutions Supervisory Levies	**267**	9
Financial Assistance Levy	**508**	2,192
Total receivables (gross)	**775**	2,201
Less: impairment allowance account		
Supervisory Levies	**–**	–
Total receivables (net)	**775**	2,201
Receivables were aged as follows:		
Not overdue	**482**	9
Overdue by:		
– 0 to 30 days	**274**	–
– 31 to 60 days	**19**	–
– more than 90 days	**–**	2,192
Total receivables (gross)	**775**	2,201
The impairment allowance account is aged as follows:		
– more than 90 days	**–**	–
Total impairment allowance account	**–**	–

NOTE 21: ADMINISTERED FINANCIAL ASSETS (CONTINUED)

Reconciliation of the impairment allowance account:

Movements in relation to 2013	Receivables $'000	Total $'000
Opening balance	–	–
Amounts written off	–	–
Closing balance	–	–

Movements in relation to 2012	Receivables $'000	Total $'000
Opening balance	(4)	(4)
Amounts written off	4	4
Closing balance	–	–

NOTE 22: ADMINISTERED STATEMENT OF CASH FLOWS RECONCILIATION

	2013 $'000	2012 $'000
Reconciliation of cash as per *Administered schedule of assets and liabilities* to *Administered statement of cash flows*		
Cash as per:		
Administered statement of cash flows	–	–
Administered schedule of assets and liabilities	–	–
Difference	–	–
Reconciliation of net cost of services to net cash from operating activities:		
Net cost of services	288,058	131,010
Changes in assets / liabilities		
(Increase) / decrease in net receivables	1,426	52,354
Net cash from operating activities	289,484	183,364

NOTE 23: APPROPRIATIONS

Table A: Annual appropriations ('recoverable GST exclusive')

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

	2012 Appropriations					
	Appropriation Act		*FMA Act*			
	Annual appropriation $'000	Appropriations reduced $'000	Section 31 $'000	Total appropriation $'000	Appropriation applied in 2012 (current and prior years) $'000	Variance $'000
Departmental						
Ordinary annual services[1]	13,289	–	5,602	18,891	18,882	9
Other services						
Government equity contribution	–	–	–	–	–	–
Total departmental	13,289	–	5,602	18,891	18,882	9
Administered						
Other services						
New administered outcomes	–	–	–	–	–	–
Total administered	–	–	–	–	–	–

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

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

There were no advances to the Finance Minister under the Appropriation Acts in 2013 or in 2012.
There were no transactions for section 30 or section 32 of the FMA Act in 2013 or in 2012.

NOTE 23: APPROPRIATIONS (CONTINUED)

Table B: Unspent annual appropriations ('recoverable GST exclusive')

Authority	**2013 $'000**	2012 $'000
Departmental		
Appropriation Act (No. 1) 2011-12	**–**	938
Appropriation Act (No. 1) 2012-13	**726**	–
Appropriation Act (No. 2) 2012-13	**3,197**	–
Total	**3,923**	938

Table C: Special appropriations ('recoverable GST exclusive')

			Appropriation applied	
Authority	Type	Purpose	**2013 $'000**	2012 $'000
Australian Prudential Regulation Authority Act 1998 – section 50, Departmental	Unlimited	To provide an appropriation for levy money received that exceeds the amount determined by the Minister under section 50(1) of the *Australian Prudential Regulation Act* 1998.	**116,639**	100,397
Financial Management and Accountability Act 1997 – section 28, Administered	Refund	To provide an appropriation for the repayment of overpaid levies and incorrect moneys received by APRA.	**–**	1
Total			**116,639**	100,398

Table D: Reduction in administered Items ('recoverable GST exclusive')

There were no reductions of administered items in 2013 or in 2012.

NOTE 24: SPECIAL ACCOUNTS

	APRA Special Account (Departmental)[1]		Financial Claims Scheme Special Account (Administered)[2]		Lloyd's Deposit Trust Special Account (Special Public Money)[3]		Services for Other Entities and Trust Moneys (Special Public Money)[4]	
	2013 $'000	2012 $'000	**2013 $'000**	2012 $'000	**2013 $'000**	2012 $'000	**2013 $'000**	2012 $'000
Balance brought forward from previous period	**44,552**	41,756	**293**	1,451	**2,000**	2,000	**–**	–
Increases:								
Departmental								
Special appropriation for reporting period	**116,639**	100,397	**–**	–	**–**	–	**–**	–
Appropriation Act No.1	**9,963**	21,390	**–**	–	**–**	–	**–**	–
Appropriation Act No.2	**4,810**	–	**–**	–	**–**	–	**–**	–
Appropriation Act No.3	**722**	–	**–**	–	**–**	–	**–**	–
Total departmental increases	**132,134**	121,787	**–**	–	**–**	–	**–**	–
Administered								
Special appropriation for reporting period	**–**	–	**–**	200	**–**	–	**–**	–
Total administered increases	**–**	–	**–**	200	**–**	–	**–**	–
Available for payments	**176,686**	163,543	**293**	1,651	**2,000**	2,000	**–**	–
Decreases:								
Departmental								
Payments made - employees	**(86,036)**	(83,584)	**–**	–	**–**	–	**–**	–
Payments made - suppliers	**(24,307)**	(30,589)	**–**	–	**–**	–	**–**	–
Payments made - purchase assets	**(9,022)**	(4,818)	**–**	–	**–**	–	**–**	–
Payments made - return of Government equity contribution	**(3,197)**	–	**–**	–	**–**	–	**–**	–
Total departmental decreases	**(122,562)**	(118,991)	**–**	–	**–**	–	**–**	–
Administered								
Repayments made from the Special Account	**–**	–	**(51)**	(1,358)	**–**	–	**–**	–
Total administered decreases	**–**	–	**(51)**	(1,358)	**–**	–	**–**	–
Total balance carried to the next period	**54,124**	44,552	**242**	293	**2,000**	2,000	**–**	–

NOTE 24: SPECIAL ACCOUNTS

1 Appropriation: *Financial Management and Accountability Act 1997*, section 21.
Establishing Instrument: *Australian Prudential Regulation Authority Act 1998*, section 52.
Purpose: To pay the costs and other obligations incurred by APRA in the performance of its functions or the exercise of its powers; to pay any remuneration or allowances payable to persons appointed or engaged under the APRA Act; and to make any other payments that APRA is authorised or required to make under the APRA Act or any other law of the Commonwealth.

2 Appropriation: *Financial Management and Accountability Act 1997*, section 21.
Establishing Instrument: *Australian Prudential Regulation Authority Act 1998*, section 54A.
Purpose: To meet account-holders' entitlements under Subdivision C (Payment of account-holders with declared ADI) of Division 2AA of Part II of the *Banking Act 1959*; meet persons' entitlements under Division 3 (Early payment of claims) of Part VC of the *Insurance Act 1973*; pay APRA's agents or delegates amounts equal to the entitlements the agents or delegates meet on APRA's behalf or in the performance of APRA's delegated functions; and repayment of principal, interest and other costs connected with the borrowings under Division 2 of the APRA Act.

3 Appropriation: *Financial Management and Accountability Act 1997*, section 20.
Establishing Instrument: *Financial Management and Accountability Determination 2006/26*.
Purpose: To disburse amounts in accordance with section 92Q of the *Insurance Act 1973*.
Responsibility for the administration of the Lloyd's Deposit Trust Special Account was transferred from the Department of Treasury to APRA with effect from 26 May 2008.
The market valuation as at 30 June 2013 for Lloyd's inscribed stock is $2,111,020 (2012: $2,078,380).

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

NOTE 25: COMPENSATION AND DEBT RELIEF

	2013	2012
	$	$
Compensation and debt relief – Departmental		
Nil payments were made during the reporting period (2012: Nil payments made).	**–**	–
Compensation and debt relief – Administered		
16 waivers of amounts owing to the Government were made pursuant to section 12 of the *Financial Institutions Supervisory Levies Collection Act 1998* (2012: 31 waivers).	**3,535,916**	958,856

No other debt relief was made during the reporting period (2012: Nil payments made).

NOTE 26: ASSETS HELD IN TRUST

Monetary assets

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

Non-monetary assets

APRA has no non-monetary assets held in trust.

	2013	2012
	$'000	$'000
Lloyd's inscribed stock		
Total amount held at the beginning of the reporting period	**2,000**	2,000
Receipts	**130**	130
Payments	**(130)**	(130)
Total amount held at the end of the reporting period	**2,000**	2,000
Total	**2,000**	2,000

The market valuation as at 30 June 2013 for Lloyd's inscribed stock is $2,111,020 (2012: $2,078,380).

NOTE 27: REPORTING OF OUTCOMES

Note 27A: Net cost of outcome delivery

APRA is structured to meet the following outcome:

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

	Outcome 1		Total	
	2013 $'000	2012 $'000	**2013 $'000**	2012 $'000
Departmental				
Expenses	**116,515**	121,119	**116,515**	121,119
Own-source Income	**4,840**	4,920	**4,840**	4,920
Administered				
Expenses	**3,536**	959	**3,536**	959
Own-source income	**291,594**	131,969	**291,594**	131,969
Net cost/(contribution) of outcome delivery	**(176,383)**	(14,811)	**(176,383)**	(14,811)

NOTE 28: COMPETITIVE NEUTRALITY AND COST RECOVERY

	2013 $'000	2012 $'000
Receipts Subject to Cost Recovery Policy		
Other cost recovery arrangements		
Statistical information provided to RBA	**502**	493
Statistical information provided to ABS	**307**	323
Assessment of models-based capital adequacy requirements for ADIs – Basel II	**2,200**	2,100
Total receipts subject to cost recovery policy	**3,009**	2,916

NOTE 29: COMPLIANCE WITH STATUTORY CONDITIONS FOR PAYMENTS FROM THE CONSOLIDATED REVENUE FUND

Section 83 of the Constitution provides that no amount may be paid out of the Consolidated Revenue Fund except under an appropriation made by law. The Department of Finance and Deregulation (DoFaD) provided initial guidance in March 2012 regarding the need for risk assessments in relation to compliance with statutory conditions on payments from Special Appropriations, including Special Accounts.

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

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

In May 2013, additional guidance was provided by DoFaD around generic payments, drawing upon advice provided by the Australian Government Solicitor (AGS). As a result, APRA also reviewed its compliance with section 83 of the constitution against certain payment scenarios arising from specified legislation as identified by the AGS; namely:

- *Remuneration Tribunal Act 1973* and associated determination *2012/24: Remuneration and Allowances for Holders of Full-time Public Office*;
- *Long Service Leave (Commonwealth Employees) Act 1976*; and
- *A New Tax System (Goods & Services) Act 1999*.

These reviews identified no issues of compliance with section 83.

Australian National
Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Assistant Treasurer

I have audited the accompanying financial statements of the Australian Prudential Regulation Authority for the year ended 30 June 2013, which comprise: a Statement by the Members and Chief Financial Officer; Statement of Comprehensive Income; Balance Sheet; Statement of Changes in Equity; Statement of Cash Flows; Schedule of Commitments; Schedule of Contingencies; Administered Schedule of Comprehensive Income; Administered Schedule of Assets and Liabilities; Administered Reconciliation Schedule; Administered Statement of Cash Flows; Administered Schedule of Commitments; Administered Schedule of Contingencies; and Notes to and forming part of the Financial Statements comprising a Summary of significant accounting policies and other explanatory information.

Chairman's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Independence

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

Opinion

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

(a) have been prepared in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, including the Australian Accounting Standards; and

(b) give a true and fair view of the matters required by the Finance Minister's Orders including the Australian Prudential Regulation Authority's financial position as at 30 June 2013 and of its financial performance and cash flows for the year then ended.

Australian National Audit Office

Carla Jago

Executive Director

Delegate of the Auditor-General

Canberra

3 September 2013

STATUTORY REPORT

- STATUTORY REPORTING REQUIREMENTS
- OTHER REPORTING

8

STATUTORY REPORTING REQUIREMENTS

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

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

APRA's financial arrangements are also subject to the *Financial Management and Accountability Act 1997*.

AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY ACT 1998 (APRA ACT)

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

- the activities of ADI statutory managers within the meaning of the *Banking Act 1959* and persons conducting investigations under Division 2 of Part II and section 61 of that Act;
- the operation of Division 2AA (Financial Claims Scheme for account-holders with insolvent ADIs) of Part II of the *Banking Act 1959*;
- the operation of Part VC (Financial Claims Scheme for policyholders with insolvent general insurers) of the *Insurance Act 1973*;
- the number of times during the year that APRA determined, under subsection 13(1) of the *Financial Sector (Collection of Data) Act 2001*, a reporting standard that is not a legislative instrument; and
- the exercise during the year of APRA's powers under Part 15 of the *Retirement Savings Accounts Act 1997* (RSA Act) and Part 29 of the *Superannuation Industry (Supervision) Act 1993* (SIS Act).

APRA did not appoint any ADI statutory managers or persons to conduct an investigation under Division 2 of Part II or section 61 of the *Banking Act 1959* during 2012/13. There were no continuing appointments during the year.

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

On 15 October 2009, the Minister made a declaration under section 62ZZC of the *Insurance Act 1973* that Division 3 of Part VC of that Act applied in relation to a general insurer.[1] Payments totaling $50,627.61 were made from the Financial Claims Scheme Special Account in 2012/13 to satisfy claims against the general insurer.

APRA did not determine any reporting standards under subsection 13(1) of the *Financial Sector (Collection of Data) Act 2001* during 2012/13 that were not legislative instruments.

APRA did not exercise its powers under Part 15 of the RSA Act in 2012/13.

1 Australian Family Assurance limited (in liquidation)

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

Exemption number	Date	Provision of SIS Act/regulations exempted
A8 of 2012	11/09/2012	Regulations 9.08, 9.09, 9.17, 9.23, 9.24, 9.29 and 9.30
A9 of 2012	30/07/2012	Regulations 9.04D(1) and 9.04I(1)
A11 of 2012	02/11/2012	Regulations 9.29A(2) and 9.30(2)
A12 of 2012	14/11/2012	Regulation 5.17
A13 of 2012	16/11/2012	Regulation 13.17A
A14 of 2012	21/12/2012	Section 93(3)(a)(ii)
A1 of 2013	09/04/2013	Regulation 7.04(3)
A2 of 2013	09/04/2013	Regulation 7.04
A3 of 2013	29/04/2013	Regulation 9.04D(1)
A4 of 2013	29/04/2013	Regulations 9.04D(1) and 9.04I(1)
A5 of 2013	06/05/2013	Regulation 9.29(1) and 9.30
A6 of 2013	28/06/2013	Section 93(4)

Modification declaration number	Date	Provision of SIS regulations modified
A15 of 2012	02/08/2012	Regulation 6.34
A18 of 2012	24/08/2012	Regulation 6.17(2)
A19 of 2012	26/10/2012	Regulation 1.07D
A20 of 2012	26/10/2012	Regulations 1.06(9A)(a) and 1.07D
A21 of 2012	14/11/2012	Regulation 1.07D
A22 of 2012	14/11/2012	Regulations 1.06(9A)(a) and 1.07D
A23 of 2012	14/11/2012	Regulations 6.20A, 7A.03J, 7A.03K, 7A.12 and 7A.13
A24 of 2012	27/11/2012	Regulation 6.17(2)(a)(i)
A1 of 2013	04/01/2013	Regulation 1.03
A2 of 2013	05/02/2013	Section 93(4)
A3 of 2013	05/02/2013	Section 89(2)
A4 of 2013	28/02/2013	Regulation 9.04D
No. 1 of 2013	28/06/2013	Regulation 9.29[2]

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

ENVIRONMENT PROTECTION AND BIODIVERSITY CONSERVATION ACT 1999

Ecologically sustainable development and environmental performance

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

APRA has an Environmental Issues Subgroup (EIS) that examines environmental issues in APRA's day-to-day operations referred to it by staff, as well as areas where APRA could reduce wastage and carbon emissions. During 2012/13, the EIS was active in encouraging recycling and continuing to provide education about environmental alternatives.

APRA will continue to make improvements in its environmental management and, where possible, adopt environmentally friendly options.

EEO staff data - staff diversity as at 30 June 2013[3]

Level	Female	Male	ATSI	NESB1	NESB2	PWD
Level 1	18	14	0	13	0	1
Level 2	65	32	0	17	1	1
Level 3	85	81	0	61	3	0
Level 4	77	144	1	48	2	3
Senior	22	73	0	10	2	3
Executive	1	6	0	1	0	0
Total	**268**	**350**	**1**	**150**	**8**	**8**

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

ATSI Aboriginal and Torres Strait Islander
NESB1 Non-English-speaking background, first generation
NESB2 Non-English-speaking background, second generation
PWD People with disability

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

Workplace diversity program report

APRA has maintained an active approach to meeting its responsibilities under the EEO Act through a comprehensive workplace diversity strategy. Female staff increasingly occupy senior positions and more than 25 per cent of APRA staff members come from a first generation non-English speaking background.

APRA encourages staff to balance their work and personal commitments. In line with this, APRA offers a range of flexible work arrangements to ensure that there is a culture supportive of a diverse workforce.

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

Responses to questions on diversity in APRA's 2013 Staff Engagement Survey highlighted that APRA continues to successfully foster a supportive and flexible workplace that values and utilises the contribution of people of different backgrounds, experiences, perspectives and abilities. The key questions on diversity were:

- *management of APRA supports diversity in the workplace* – 85 per cent of responses were favourable, which is seven per cent better than the overall norm for Australia and nine per cent better than the Australian public sector norm;
- *all employees are treated with respect, regardless of their role* – 79 per cent of responses were favourable, which is six per cent better than the overall norm for Australia and nine per cent better than the Australian public sector norm;
- *staff are encouraged to balance their work life and their personal life* – 83 per cent of responses were favourable, which is 23 per cent better than the overall norm for Australia; and
- *APRA provides a work environment free of discrimination and harassment* – 85 per cent of responses were favourable, which is 13 per cent better than both the overall norm for Australia and the Australian public sector norm.

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 2012/13, APRA dealt with 58 applications for access to documents under the FOI Act and six applications for internal review. Of the 58, 11 were on hand at the beginning of the period and the other 47 were new applications. Six applicants disagreed with nine of APRA's decisions on access to documents and applied to the Information Commissioner for review under Part VII of the FOI Act. Of the nine, one application was withdrawn, the Commissioner decided not to undertake a review of one other and has yet to determine the remaining seven applications. Of the four applications to the Commissioner that were outstanding from 2011/12, one was withdrawn and the Commissioner affirmed a decision made by APRA in another. The Commissioner has yet to determine the other two applications.

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

Granted in full	6
Granted in part	6
Access refused	35
Withdrawn	7
Transferred to another agency	0
On hand at 30 June 2013	4
Total	**58**

Charges collected were $48 and the estimated cost of handling initial FOI requests and internal review requests in 2012/13 was approximately $48,165.

Information Publication Scheme

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

WORK HEALTH AND SAFETY ACT 2011 (WHS ACT)

The financial year ended 30 June 2013 is the first full year of reporting under the WHS Act, which replaced the *Occupational Health and Safety Act 1988* on 1 January 2012.

Details of investigations and other matters as prescribed

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

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

Work, health and safety measures

APRA undertook a number of work, health and safety measures during 2012/13 to safeguard the health and safety of its staff and visitors. These measures included:

- availability of comprehensive health assessments for senior staff and staff aged over 40;
- availability of cardiac risk assessment for all other staff;
- an annual flu vaccination program;
- ergonomic assessments and presentations;
- employee assistance program;
- provision of first aid services in all APRA offices;
- the development of APRA's first Mental Health and Wellbeing Strategy;
- staff-elected Work Health and Safety Representatives; and
- an active and responsive Work Health and Safety Committee.

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

APRA has arrangements for consultation on all occupational health and safety issues, including maintenance of the WHS Committee with four staff and four management representatives.

The WHS Committee satisfies legislative requirements, including meeting at least every three months and providing all staff with access to minutes of the meetings.

Health and safety outcomes

The number of workers compensation claims submitted by current employees fell from four in 2011/12 to two in 2012/13. In addition, two retrospective claims were made during the year by former employees.

APRA's health and wellbeing program has helped to ensure that personal leave, which includes leave for personal illness and carer's leave, is not taken beyond a reasonable level. In the calendar year 2012, APRA staff were absent for an average of 6.9 days personal leave per person. This compares well to the overall public sector average of 10.3 days personal leave and the 'all industry' average of 8.8 days.

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

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

OTHER REPORTING

Advertising and market research

The *Commonwealth Electoral Act 1918* requires Commonwealth agencies to report annually on the amounts paid to advertising agencies, market research and media advertising organisations. In 2012/13, APRA paid $117,639 for recruitment advertising, of which $53,438 was paid to Adcorp Australia Ltd and $39,967 to Linkedin Australia Limited. APRA did not conduct any advertising campaigns during 2012/13.

APRA also paid $47,445 to Australian Survey Research Pty Ltd in 2012/13 for the Stakeholder Survey.

Agency resources and expenses by outcome

See pages 177-178.

Auditor-General's activities

The Australian National Audit Office (ANAO) undertook the required statutory financial audit of APRA for 2012/13. The ANAO also undertook a performance audit, *Determination and Collection of Financial Industry Levies: APRA and the Treasury* (see page 82). The report of this audit is expected to be tabled in the Spring 2013 session of Parliament.

Collective Agreements and common law contracts

As at 30 June 2013, 516 staff were covered by the terms of the *APRA Employment Agreement*, 2011. Ninety-nine senior staff were covered by common law agreements.

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

The TRP pay ranges for non-executive staff as at 30 June 2013 were:

Level 4	$116,500 – $194,100
Level 3	$82,100 - $136,800
Level 2	$54,912 - $91,520
Level 1	$38,272 - $63,752

The *APRA Employment Agreement*, 2011 expires on 30 June 2014. Preparation and negotiations for a new APRA employment agreement will commence in late 2013.

Commonwealth Fraud Control Guidelines

The Chairman of APRA certifies that he is satisfied that:

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

Commonwealth Ombudsman

In 2012/13, the Commonwealth Ombudsman did not conduct any investigation into APRA's conduct.

Commonwealth Procurement Rules

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

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

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

In 2012/13, APRA had no AusTender-exempt contracts and all APRA competitively tendered contracts over $100,000 provided for the Auditor-General to have access to the contractor's premises, as required under the CPRs.

Consultancies

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

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

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

During 2012/13, APRA entered into 14 new consultancy contracts involving total actual expenditure of $274,634. In addition, one ongoing consultancy contract was active during the year, involving total actual expenditure of $58,065.

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

Consultative arrangements

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

APRA complies with the Government's policy on best practice regulation. During 2012/2013, APRA fully met the requirements of the Office of Best Practice Regulation (OBPR) for Regulation Impact Statements (four in number). In addition, APRA completed 16 preliminary assessments, for three of which the OBPR advised that further regulation impact analysis was required.

Courts and tribunals

Over 2012/13, there were no judicial decisions that had or may have a significant effect on APRA's operations, or any court and tribunal decisions relating to enforcement action taken by APRA during the year.

Executive and consultative committees from 1 July 2012 to 30 June 2013

Executive Group

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

Management Group

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

Leadership Team

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

Steering Groups

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

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

Industry groups

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

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

These groups are important fora for identifying and seeking an APRA-wide assessment of emerging industry issues. Their main roles are to monitor industry so as to identify emerging trends and to act as a sounding board for prudential policy issues in the different industries, prior to presentation of these issues to the Executive Group.

Licensing Group

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

Enforcement Committee

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

International committees

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

Work Health and Safety Committee

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

Staff Consultative Group

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

Security Group

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

Grant programs

Grant programs, including discretionary grant programs, that APRA either jointly administered or participated in during 2012/13 are the:

- Brian Gray Scholarship;
- University of New South Wales (UNSW) Cooperative Actuarial Scholarship;
- Australian Research Council Linkage Grants with UNSW; and
- sponsorship of PhD research students through the Capital Markets Cooperative Research Centre.

The latter two programs have now closed.

Information on the Brian Gray Scholarship program and a list of previous recipients is on APRA's website at: www.apra.gov.au/AboutAPRA/WorkingAtAPRA/Pages/brian-gray-scholarship-program.aspx. Information on other grants awarded by APRA is available on APRA's website at: www.apra.gov.au/AboutAPRA/Pages/grants-and-scholarships.aspx. Information on grants awarded by APRA during 2012/13 is available at www.apra.gov.au/AboutAPRA/Pages/StatutoryReportingRequirements.aspx.

Indemnities and insurance premiums

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

Legal Services Directions 2005

The *Legal Services Directions 2005* require Commonwealth agencies to make available publicly information on records of their legal services expenditure for the previous financial year.

During 2012/13, APRA's total expenditure on external legal advice and litigation services was $1.90 million (including GST).

National Disability Strategy

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

The National Disability Strategy 2010 – 2020, which has applied since 2010/11, sets out a ten-year national policy framework to improve the lives of people with disability, promote participation and create a more inclusive society. A high-level two-yearly report will track progress against each of the six outcome areas of the Strategy and present a picture of how people with disability are faring. The first of these reports will be available in 2014 and will be available at www.fahcsia.gov.au. The Social Inclusion Measurement and Reporting Strategy agreed by the Government in December 2009 will also include some reporting on disability matters in the regular *How Australia is Faring* report. More detail on social inclusion matters can be found at www.socialinclusion.gov.au.

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

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

Parliamentary committees

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

During 2012/13, APRA Members and officers made themselves available for public hearings before the:

- Senate Economics References Committee in its inquiry into the effects of the global financial crisis on the Australian banking sector on 9 August 2012; and
- Senate Economics Legislation Committee (sitting as Senate Estimates) on 17 October 2012, 14 February 2013 and 4 June 2013.

Transcripts of APRA's appearances before, and copies of its submissions to, parliamentary committees may be downloaded from its website www.apra.gov.au.

Performance pay

APRA has a performance bonus system, designed in consultation with staff and management and covering all employees. For 2012/13, the aggregate bonus pool was $4.89 million. Under deferred bonus arrangements introduced in the APRA Employment Agreement, 2012/13 bonuses will be paid in December 2013 to eligible staff still in APRA's employ at that date.

Privacy Commission

There were no investigations by the Privacy Commissioner under section 40 of the *Privacy Act 1988* during 2012/13. No reports were served under section 30 of the Act. The Privacy Commissioner made no determinations under section 52, nor did APRA seek any under section 73.

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

Privacy inquiries relating to APRA should be addressed to:

The Privacy Officer
Legal Group
Australian Prudential Regulation Authority
GPO Box 9836
Sydney NSW 2001
Phone: 02 9210 3000
Fax: 02 9210 3424

Responsible Ministers

The Hon Joe Hockey MP, Treasurer of the Commonwealth of Australia, has portfolio responsibility for APRA.

He is assisted in this role by Senator Arthur Sinodinos AO, Assistant Treasurer.

The Hon Chris Bowen MP, then Treasurer of the Commonwealth of Australia, had portfolio responsibility for APRA from 27 June 2013 to 7 September 2013. He was assisted in this role by the Hon David Bradbury MP, then Assistant Treasurer, Minister for Competition Policy & Consumer Affairs, and Minister Assisting for Financial Services & Superannuation.

The Hon Wayne Swan MP, then Deputy Prime Minister and Treasurer of the Commonwealth of Australia, had portfolio responsibility for APRA until 27 June 2013. During this period he was assisted by the Hon Bill Shorten MP, then Minister for Financial Services and Superannuation and Minister for Employment and Workplace Relations.

Staff statistics

Staff by location and full-time/part-time as at 30 June 2013[4]

Location	Full-time	Part-time	Total
Adelaide	4	2	6
Brisbane	13	1	14
Canberra	4	0	4
Melbourne	58	8	66
Perth	4	1	5
Sydney	482	41	523
Total	**565**	**53**	**618**

Staff by division and full-time/part-time as at 30 June 2013[4]

Division	Full-time	Part-time	Total
Corporate	111	9	120
Diversified Institutions	118	9	127
Policy, Research and Statistics	76	10	86
Specialised Institutions	135	12	147
Supervisory Support	125	13	138
Total	**565**	**53**	**618**

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

Full-time equivalent (FTE) staff strength as at 30 June 2013

Permanent	588.0
Fixed-term	11.0
Casual	0.0
Total	**599.0**

Agency resources and expenses by outcome

Under the *Requirements for annual reports for departments, executive agencies and FMA Act bodies*, issued by the Department of Prime Minister and Cabinet, APRA must provide information outlining its various funding sources during the financial year and total expenses for each Agency outcome. To this end, APRA's Agency Resource Statement and Expenses by Outcome Statement for 2012/13 are set out below.

Agency Resources Statement

		Actual available appropriation $'000	Payments made $'000	Balance remaining $'000
		(a)	(b)	(a) – (b)
Ordinary annual services[5]				
Departmental appropriation		9,313	8,587	726
Total		**9,313**	**8,587**	**726**
Total ordinary annual services		**9,313**	**8,587**	**726**
Departmental non-operating				
Equity injections		4,810	1,613	3,197
Total		**4,810**	**1,613**	**3,197**
Total available annual appropriations and payments	**A**	**14,123**	**10,200**	**3,923**
Special Accounts				
Opening balance		44,552		
Appropriation receipts		15,495		
Special appropriation receipts		116,639		
Payments made			122,562	
Total Special Account	**B**	**176,686**	**122,562**	**54,124**
Total resources and payments				
A+B		190,809	132,762	58,047
Less appropriations drawn from annual or special appropriations above and credited to special accounts		14,123	10,200	3,923
Total net resourcing and payments for APRA		**176,686**	**122,562**	**54,124**

5 This combines Appropriation Bill (No.1) 2012/13, and relevant prior and current year receipts from independent sources.

Expenses by Outcome Statement

Outcome 1: Enhanced public confidence in Australia's financial institutions through a framework of prudential regulation which balances financial safety and efficiency, competition, contestability and competitive neutrality.	Budget $'000	Actual expenses $'000	Variation $'000
	(a)	(b)	(a) – (b)
Program 1.1: Australian Prudential Regulation Authority			
Departmental expenses			
Departmental appropriation[6]	8,288	8,288	–
Special Accounts	112,870	108,227	4,643
Expenses not requiring appropriation in the budget year	–	–	–
Total expenses for Outcome 1	**121,158**	**116,515**	
	2011/12	**2012/13**	
Average staffing level (number)	**606**	**598**	**8**

6 Departmental appropriation combines Ordinary annual services (Appropriation Bill No.1) and Revenue from independent sources'.

List of requirements

The following list of mandatory annual reporting requirements, as outlined in the *Requirements for annual reports for departments, executive agencies and FMA Act bodies* approved by the Joint Committee of Public Accounts and Audit, has been annotated with either 'not applicable' or the location of the information in this *Report*.

Part of *Report*	Description	Location or applicability
	Letter of transmittal	Page 2
	Table of contents	Page 4
	Index	Pages 186-187
	Glossary	Pages 184-185
	Contact officer(s)	Page 188
	Internet home page address and internet address for report	Page 188
Review by Chairman		Chapter 1
Overview of Authority	Overview	Chapter 6
	Role and functions	Page 3. Chapters 2-4
	Organisational structure	Pages 182-183
	Outcome and program structure	Chapter 5
Report on performance	Review of performance in relation to programs and contribution to outcomes	Chapter 5
	Actual performance in relation to deliverables and KPIs	Chapter 5
	Narrative discussion and analysis of performance	Chapters 2-4
	Trend information	Chapters 2-4
	Performance against service charter customer service standards	Not applicable
	Discussion and analysis of the Authority's financial performance	Chapter 5
	Discussion of any significant changes from prior year, from budget or anticipated to have a significant impact on future operations	Not applicable
	Authority's resource statement and summary resource tables by outcomes	Chapter 8
	Developments since the end of the financial year that have affected or may significantly affect the Authority's operations or financial results in future	Not applicable
Corporate governance	Compliance with the *Commonwealth Fraud Control Guidelines*	Chapter 6
	Statement of the main corporate governance practices in place	Chapter 8

Part of *Report*	Description	Location or applicability
External scrutiny	Significant developments in external scrutiny	Chapter 8
	Judicial decisions and decisions of administrative tribunals	Chapter 2 and Chapter 8
	Reports by the Auditor-General, a Parliamentary Committee or the Commonwealth Ombudsman	Chapter 8
Management of human resources	Assessment of effectiveness in managing and developing human resources to achieve the Authority's objectives	Chapter 5
	Statistics on staffing	Chapter 5 and Chapter 8
	Enterprise or collective agreements, determinations and common law contracts	Chapter 8
	Performance pay	Chapter 8
Assets management	Assessment of effectiveness of assets management	Not applicable
Purchasing	Assessment of purchasing against core policies and principles	Chapter 8
Consultants	Summary statement detailing consultancy arrangements and confirming that information on contracts and consultancies is available through the AusTender website.	Chapter 8
Australian National Audit Office access clauses	Absence of provisions in contracts allowing access by the Auditor-General	Chapter 8
Exempt contracts	Contracts exempt from the AusTender process	Chapter 8
Financial statements		Chapter 7
Other information	Occupational health and safety (section 74 of the *Occupational Health and Safety Act 1991*) and Schedule 2 Part 4 of the *Work Health and Safety Act 2011*	Chapter 8
	Advertising and market research (Section 311A of the *Commonwealth Electoral Act 1918*) and statement on advertising campaigns	Chapter 8
	Ecologically sustainable development and environmental performance (Section 516A of the *Environment Protection and Biodiversity Conservation Act 1999*)	Chapter 8
	Grant programs	Chapter 8
	Correction of material errors in previous annual report	Not applicable
	Information Publication Scheme statement	Chapter 8

ORGANISATIONAL CHART

- Executive General Manager Diversified Institutions — **Keith Chapman**
  - General Manager Branch 1 — **Robyn McMahon**
  - General Manager Branch 2 — **Paul Tattersall**
  - General Manager Branch 3 — **Adrian Rees**
  - General Manager Branch 4 — **Stuart Bingham**
  - General Manager Industry Analysis — **Heidi Richards**
- Executive General Manager Specialised Institutions — **Brandon Khoo**
  - General Manager Central Region — **Nigel Boik**
  - General Manager South West Region — **Stephen Glenfield**
  - Head of Northern Region — **Clayton Osborne**
  - General Manager Supervision Framework Team — **David Lewis**
- Executive General Manager Supervisory Support — **Vacant**
  - General Manager Industry Technical Services — **Puay Sim**
  - General Manager AMIRS[1] — **Greg Brunner**
  - General Manager CORS[2] — **Pat Brennan**
  - General Manager Legal — **Warren Scott**
  - General Manager Enforcement — **Louis Serret**
  - General Manager Crisis Resolution and Support — **David Rush**

Executive Group
Dr John Laker (Chairman)
Mr Ian Laughlin (Deputy Chairman)
Mrs Helen Rowell (Member)

Risk Management and Audit Committee

Secretary
Thea Rosenbaum

Executive General Manager
Policy, Statistics and Intenrational
Charles Littrell

General Manager
Policy Development
Neil Grummitt

General Manager
Statistics
Steve Davies

Head of International Relations
Chris Gaskell

Chief Financial Officer
Steve Matthews

General Manager
Human Resources
Peter Vodicka

Chief Information Officer
Leslie Howatt

General Manager
Risk Management and Internal Audit
Greg Plummer

[1] AMIRS – Actuarial, Market and Insurance Risk Services
[2] CORS – Credit and Operational Risk Services

GLOSSARY

AASB	Australian Accounting Standards Board
ADI	Authorised deposit-taking institution
ANAO	Australian National Audit Office
APEC	Asia-Pacific Economic Cooperation
APRA	Australian Prudential Regulation Authority
APRA Act	*Australian Prudential Regulation Authority Act 1998*
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
AUSTRAC	Australian Transaction Reports and Analysis Centre
CRF	Consolidated Revenue Fund
D2A	Direct to APRA
EAFD	Early Access Facility for Depositors
EEO	Equal Employment Opportunity
FCS	Financial Claims Scheme
FMA Act	*Financial Management and Accountability Act 1997*
FMO	Finance Minister's Order
FOI Act	*Freedom of Information Act 1982*
FSAP	Financial Sector Assessment Program (of the IMF)
FSB	Financial Stability Board
IAAust	Institute of Actuaries of Australia

IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
IMF	International Monetary Fund
IOPS	International Organisation of Pension Supervisors
IOSCO	International Organisation of Securities Commissions
MoU	Memorandum of Understanding
OECD	Organisation for Economic Co-operation and Development
OHS	Occupational Health and Safety
OPA	Official Public Account
OBPR	Office of Best Practice Regulation
PAIRS	Probability and Impact Rating System
PER	Performing Entity Ratio
PHIAC	Private Health Insurance Administration Council
RBA	Reserve Bank of Australia
RBNZ	Reserve Bank of New Zealand
RSA Act	*Retirement Savings Accounts Act 1997*
RSE	Registrable Superannuation Entity
SEANZA	South-East Asia New Zealand and Australia (Forum of Banking Supervisors)
SIS Act	*Superannuation Industry (Supervision) Act 1993*
SOARS	Supervisory Oversight and Response System

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DIRECTORY

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