Australian Prudential Regulation Authority

Annual Report 2008

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 approximately $3.4 trillion in assets for 21 million Australian depositors, policyholders and superannuation fund members.

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

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 the national statistical agency for the Australian financial sector and play a role in preserving the integrity of Australia's retirement incomes policy.

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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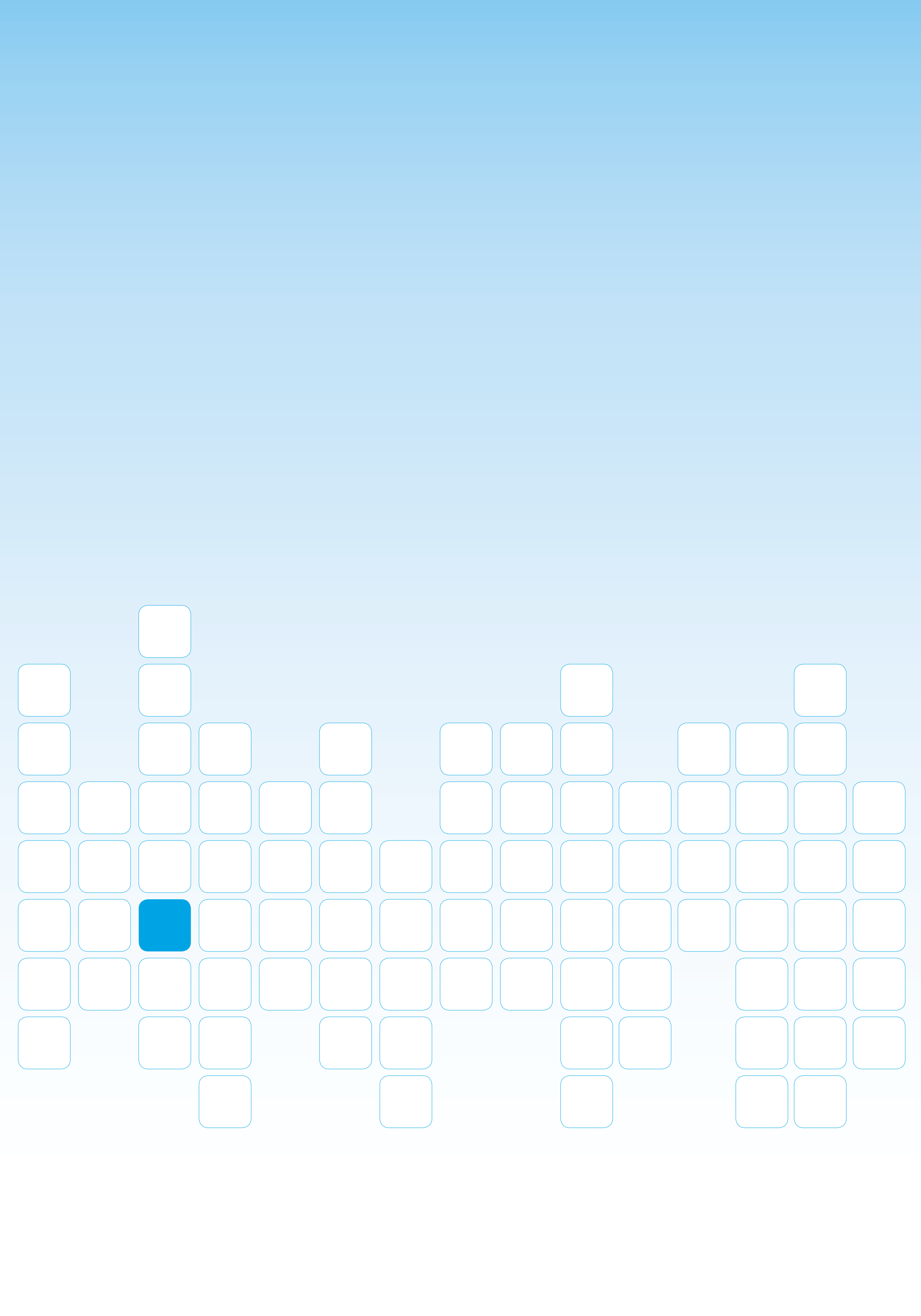


Chapter 1

From the chairman

The Australian financial system faced a challenging external environment in 2007/08, which is yet to settle. The favourable tailwinds of previous years, sustained by a robust domestic economy, ready availability of low-cost funding and strong investor appetite for risk, gave way to buffeting headwinds as, around the globe, investors retreated from risk, losses mounted in major financial institutions overseas and global credit and equity markets adjusted sharply. A slowing global and domestic economy compounded these challenges as the year progressed. Financial institutions supervised by APRA have, on the whole, weathered this adversity well. The challenging environment has also been a significant test of the resilience of Australia's supervisory framework and of APRA's mettle as a prudential regulator.

Turbulent times

The origins of the current financial dramas – the emergence of large losses on US sub-prime mortgages – seem remote to Australia. And the root causes – lax credit standards in the US sub-prime mortgage sector and poor risk management of exposures to complex structured securities collateralised by sub-prime mortgages – have no close parallel for financial institutions supervised by APRA. Nonetheless, Australia is an active participant in global financial markets and has not been immune from their recent protracted bouts of turbulence.

Among the supervised industries, authorised deposit-taking institutions (ADIs) have felt the impact most and this sector has been subject to intense APRA scrutiny over 2007/08. For life insurance companies and superannuation funds, the substantial deterioration in global and domestic equity markets reduced the value of the large equity portfolios they hold and delivered negative returns to superannuation fund members for the first time in five years; flows into superannuation products were also subdued after record inflows the previous year. The fortunes of the general insurance industry, in contrast, were tied more to storms that were physical in character, not financial.

ADIs in Australia (banks, building societies and credit unions) have only minimal direct exposures to the US sub-prime mortgage market but some ADIs have exposures to institutions such as US bond insurers and to complex structured securities tainted by US sub-prime problems. Although these exposures are relatively modest, their disclosure has attracted a significant market sanction. Global financial market turbulence has affected ADIs mainly through higher wholesale funding costs. Over recent years, a number of ADIs have become more dependent on offshore wholesale funding to augment traditional retail deposit bases and some ADIs have also made extensive use of securitisation markets to fund their residential mortgage lending. The global souring of confidence in banks and in structured credit arrangements resulted in significant increases in wholesale funding costs, particularly for longer maturities, and much reduced access to longer-term funding sources other than for the more highly rated banks. Securitisation markets virtually dried up.

In addition, some ADIs have exposures to certain high-profile domestic corporates under stress because of their reliance on short-term debt to fund their businesses. Again, though not large relative to total balance sheets, these exposures have weighed heavily on market sentiment.

APRA's activities

Since the global financial market turbulence first erupted in August 2007, APRA has been on a heightened state of alert. Consistent with its risk-based approach, it has been targeting its attention and supervisory resources on those institutions likely to be at greater risk and, as well, has been analysing broader industry impacts. Though its resources have been stretched through this period, APRA has been able to meet its supervisory objectives without compromising a 'baseline' coverage of all supervised institutions. Supervisory intervention in individual cases to remediate serious problems arising out of the turbulence has not been necessary to date.

The range of APRA's supervisory activities over 2007/08 is outlined in the following pages of this Report. In brief, APRA has been closely monitoring the liquidity positions and funding plans of ADIs and, in the case of the larger institutions, their problem and 'watchlist' exposures; it has also been reviewing capital management plans to ensure all ADIs are holding adequate capital against risks. It has maintained close scrutiny of the lenders mortgage insurance industry, an industry with significant exposures to credit risk on housing lending in Australia and under considerable stress in the United States. APRA has tested the sensitivity of capital buffers held by life and general insurance companies to adverse movements in equity markets and interest rates. Finally, it has been emphasising to superannuation fund trustees the importance, particularly in volatile times, of maintaining adequate liquidity to meet potential member demands.

Although funding conditions in global markets had begun to improve towards the end of 2007/08, a renewed bout of market turbulence has been triggered, at the time of writing, by the sharp deterioration in the financial condition of some major US financial institutions. Investor concerns about the toxic effects of US sub-prime mortgages on balance sheets have also broadened into concerns about the impact of a global economic slowdown on credit quality and earnings of financial institutions. With the domestic economy also slowing, the challenging environment for the Australian financial system is set to continue for some time. Institutions supervised by APRA will need to maintain the prudent focus on risk that has served them well to this point, and protect their underlying capital strength. They should not be lulled into relaxing their guard at any early signs that the environment might be returning to something more familiar.

Financial system coordination arrangements in Australia and, in particular, the relationship between APRA and the Reserve Bank of Australia (RBA) faced their first serious test during the market turbulence. When established a decade ago, these arrangements acknowledged the importance of close cooperation and effective information exchange between APRA and the RBA and a number of coordination mechanisms were put in place to achieve this. However, such mechanisms, formal and otherwise, will not work as intended if agencies pay them only lip service, jealously guard their territories and their information or try to second-guess each other and duplicate effort. This has not been the experience in Australia.

The relationship between APRA and the RBA has remained close, supportive and effective for a decade now, and especially so during the episodes of market turmoil in 2007/08 and subsequently when, as they say, 'the phones ran hot'. The relationship has been underpinned by two key strengths. Firstly, there are longstanding professional and personal relationships across the two agencies that ensure that each agency has a good understanding at the operational level of the role, perspective and functions of the other. It is crucial that these personal linkages continue to be nurtured as familiar faces disappear over time. Secondly, there is a clear delineation of responsibilities between the two agencies. The RBA does not shadow APRA in its supervisory role and APRA, in turn, relies on regular and detailed briefings on financial stability issues from the RBA so as not to duplicate effort and resources. Of course, this broad delineation can become a little blurred in periods of market pressure when the need for timely and comprehensive information from all relevant sources is paramount, but this reality has not proven a practical barrier to sensible and, where necessary, coordinated decision-making by the two agencies.

Regulatory responses

Over recent years, APRA has undertaken a major strengthening of Australia's supervisory framework aimed at reinforcing standards of risk management and prudent business behaviour in the Australian financial system and improving its resilience. APRA's 2006 Annual Report noted that "[t]hese benefits are easy to lose sight of when favourable economic times persist ... but will stand Australia in good stead if and when the tide turns." So it has proven. Australia's supervisory framework is widely acknowledged to have performed well during the market turbulence and, operating within this framework, supervised institutions largely avoided the financial market temptations to which some of their global peers succumbed. APRA has not had to take immediate action to patch up any regulatory gaps.

Necessary reforms to the functioning of the global financial system are now gathering momentum internationally. The reforms involve strengthened prudential oversight of capital, liquidity and risk management; enhancing transparency and valuation; changes in the role and uses of credit ratings; strengthening the authorities' responsiveness to risks; and robust arrangements for dealing with stress in the financial system. These reforms respond to a series of recommendations by the Financial Stability Forum, an overarching body of national authorities in key financial centres (including Australia) and major international organisations. The Australian Government has announced its full support for these reforms, which will involve all of the major regulatory agencies in Australia.

In APRA's case, the reforms are proceeding on three fronts. A key recommendation of the Forum is that the Basel II Capital Framework, a fundamental reform of regulatory capital for deposit-taking institutions that addresses significant shortcomings of the 1988 Basel Accord, be implemented in a timely manner. Australia is well placed on this point, having introduced Basel II from 1 January 2008 and among the first wave of countries to do so. However, Basel II was never intended to be a final product and its capital treatment of complex structured products and securitisation activities needs to be strengthened. APRA intends to implement the proposed enhancements to Basel II once their suitability to Australian conditions has been tested.

Secondly, the Forum has recommended that liquidity risk management practices and their supervision be enhanced. Somewhat presciently as it turns out, APRA had begun to review its prudential approach to liquidity risk management before the market turbulence erupted. It is now moving to complete that work, taking into account updated global principles in this area and the hard lessons to be learned from recent experience. One lesson is that the liquidity modelling that APRA previously required and that the larger ADIs have conducted did not adequately capture the possibility of a protracted period of market disruption. The challenge will be to develop a more comprehensive and robust prudential approach but one that does not have APRA and the industry 'fighting the last war'.

Thirdly, the Forum recommended that deposit insurance arrangements be reviewed and, where necessary, strengthened as part of more robust arrangements for dealing with financial system stress. Australia does not have deposit insurance arrangements as such. However, in response to the Forum's recommendations and an earlier review by the Council of Financial Regulators, the Australian Government has announced that it will establish a Financial Claims Scheme to provide timely access to funds for depositors and general insurance claimants in the event that their financial institution were to fail. APRA will be the administrator of the Scheme and has begun to prepare for the role. In this context, the Government has also agreed to strengthen APRA's powers to deal with a distressed financial institution. APRA welcomes this support.

APRA's participation in the coordinated international response to global turbulence will add to a longish 'to do' list in its prudential policy work. The implementation of the Basel II Framework completed APRA's major reform agenda but prudential regimes are not set-and-forget; rather, they need to be attuned to changing market realities and responsive to government initiatives. Two such initiatives – a new regulatory regime for insurance provided by offshore foreign insurers and a simplification of the legislative regime for life insurers – were priorities for APRA during 2007/08 and provided impetus for more principles-based approaches to prudential regulation in general and life insurance. Looking ahead, other important items on APRA's prudential policy list include the development of a prudential framework for conglomerate groups, aimed at limiting the risks to a supervised institution from its membership of such a group (particularly from contagion, reputation and operational risks); the use of internal models to determine a general insurer's regulatory capital requirement; and clarification of audit requirements for ADIs.

APRA's resourcing

For APRA, it has been a case of all-hands-on-deck since the global market turbulence began. APRA's risk-based approach gives it flexibility to direct its resources to areas of greatest need but no resources in reserve to draw on;

APRA Members in 2007/08 – (left to right) **Mr Ross Jones, Dr John Laker** and **Mr John Trowbridge**.

inevitably, experienced and senior staff bear a heavier load in hectic periods. APRA has tried to anticipate pressures of this type by building and retaining a skilled and seasoned workforce, now drawn predominantly from industry and the professions. Though APRA needs no reminder, the Financial Stability Forum has emphasised the importance of supervisory agencies having the requisite resources and expertise to oversee an increasingly complex financial system. The market for financial and risk management skills has not become any easier (and, if anything, market turbulence has put a premium on these skills) but APRA held its staff numbers (574 at the end of 2007/08) close to target and brought staff turnover in its operational divisions back to earlier levels after a spike in 2006/07.

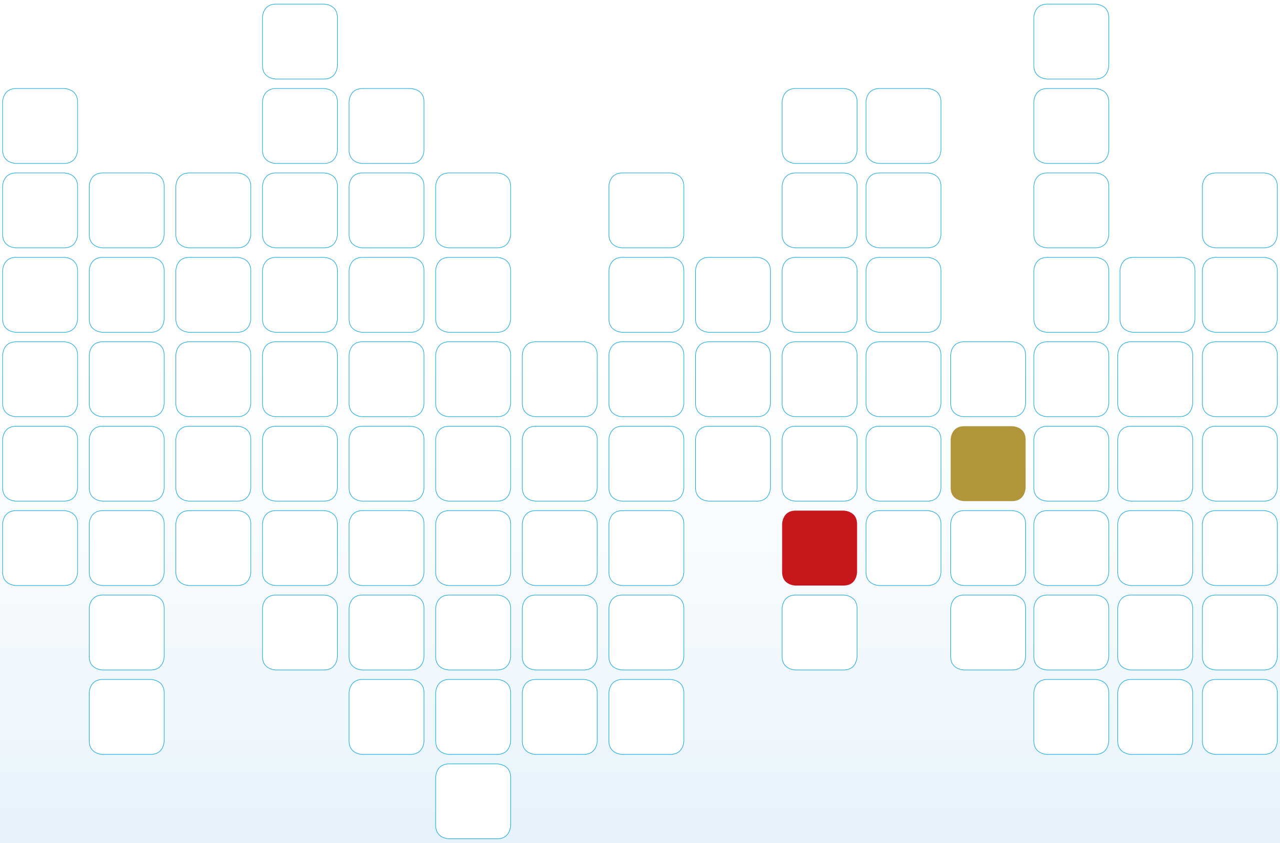
This outcome owed much to the additional funding provided in the 2007/08 Commonwealth Budget to enable APRA to better attract and retain qualified staff. This funding was used to address salary relativities in areas where APRA remuneration had fallen well behind market and to bolster APRA's extensive training programs. Funding provided in the 2008/09 Commonwealth Budget will enable APRA to maintain its staffing complement, other than for a modest and foreshadowed reduction to reflect consolidation in the superannuation industry post licensing.

A milestone

On 1 July 2008, APRA celebrated its first decade. In addition to outlining APRA's main activities over 2007/08, the following chapters of this Report provide a brief retrospective on APRA's achievements in building a cohesive, world-class prudential regulator from its predecessor bodies and in upgrading Australia's supervisory framework. APRA's evolution over the decade has not been without its set-backs but the organisation has emerged with greater market savvy and a sharper edge, and with a clear sense of what the Australian community expects from it. Some 67 staff have been with APRA since its inception and they, and the other staff members who have teamed up with these pioneers, have the strong appreciation of the APRA Members for their tireless efforts.

J. F. Laker

Dr John F Laker
Chairman



Chapter 2

APRA's supervisory activities in 2007/08

Authorised deposit-taking institutions

Authorised deposit-taking institutions (ADIs) have, to this point, successfully negotiated an unprecedented period of global financial market turbulence, triggered by a pronounced decline in credit quality in the US sub-prime mortgage market. ADIs have only minimal direct exposures to that market although some ADIs have exposures to financial institutions and vehicles caught in the fall-out from US sub-prime problems. ADIs have not, however, been immune from higher wholesale borrowing costs and the greater risk-aversion of investors, nor from the recent domestic and global economic slowdown. ADIs experienced solid growth in demand for credit for much of 2007/08, particularly from larger corporates switching from difficult debt markets, but growth in both business and housing lending eased significantly in the latter part of the year in response to the tightening in domestic financial conditions. That tightening and some high-profile corporate stress also had an impact on arrears rates, although business and housing loan portfolios continued to perform well in the main. Notwithstanding the market turbulence, ADIs were able to meet their funding needs in 2007/08 through more aggressive pursuit of retail deposits and through wholesale market raisings, despite ADIs previously reliant on securitisation markets finding that source of funding largely moribund.

Overall, ADI profitability and capital levels remained sound and ADIs that sought to strengthen their capital base were able to access capital markets without difficulty. A number of ADIs enjoyed another year of record profits in 2007/08 but, for others, higher levels of provisioning against distressed borrowers resulted in profit falls. The change in funding conditions, which has favoured the more highly rated ADIs and those with well-established retail deposit franchises, has also had an impact on the competitive environment, with the larger ADIs gaining market share in housing lending at the expense mainly of unregulated lenders dependent on securitisation markets. A number of credit unions were absorbed by others during the year and two regional banks completed their merger. At the time of writing, two of the largest Australian banks have agreed to merge, subject to regulatory and shareholder approval.

Liquidity and funding

The immediate and most intense focus of APRA's supervisory activities during 2007/08 was the management of liquidity and funding by ADIs in the face of substantial disruptions to global funding markets. The emerging US sub-prime crisis and the resulting loss of confidence in many global financial institutions led to significant increases in interest spreads on funds raised by banks, particularly at the longer end, and much reduced access to longer-term funding sources other than for highly rated institutions. Securitisation markets also shut down because of concerns about the credit quality of securitised assets containing US sub-prime mortgages.

These global developments quickly spilled over into local funding markets. A number of ADIs had over recent years become increasingly reliant on wholesale funding, including short-term commercial paper regularly issued offshore as well as longer-term debt and residential mortgage-backed securities (RMBS). The major Australian banks and some branches of foreign banks also provide liquidity facilities to asset-backed commercial paper (ABCP) conduits. In early August 2007, when global market turbulence first emerged, ADIs found that they could not access their normal offshore funding sources and some banks were also called on to meet their contracted liquidity support to conduits.

At this point, APRA stepped up considerably its oversight of ADI liquidity management and a dedicated team of frontline supervisors and specialist treasury risk staff was established to maintain daily contact with the treasurers of ADIs, both large and small. APRA also began a regime of weekly (and in some cases more frequent) collection of information on liquidity positions and forward cash flows from a range of institutions and developed some standard metrics for liquidity stress. This allowed APRA to understand funding maturity profiles and compare liquidity positions across ADIs in some detail. Over the following months, APRA remained in close touch with the Reserve Bank of Australia (RBA) to compare notes on market developments and on the amount and type of funding that ADIs were able to obtain. The two agencies discussed institutions that appeared to be outliers in facing funding difficulties or that were likely to come under stress from what APRA knew of their overall credit, market and funding exposures. Where APRA has had concerns that an ADI was not managing its liquidity or funding profile as conservatively as would be expected given the difficult market conditions, supervisors have worked with that institution to address the concerns. APRA has also kept the Reserve Bank of New Zealand apprised of any matters involving the funding positions of the New Zealand subsidiaries of the Australian banks.

Towards the latter part of 2007/08, as funding market conditions improved, APRA stepped back from its close monitoring of ADI short-term liquidity positions but continued its review of longer-term funding plans. APRA has been seeking to ensure that each ADI has a realistic approach to funding its planned asset growth looking 12 months ahead, and that its plan is responsive to changing market conditions.

During the period, some ADIs took unusual measures to obtain liquidity and APRA worked with them to ensure that these measures were consistent with prudential requirements. A number of ADIs issued substantial amounts of 'back-to-back' negotiable certificates of deposit (NCDs) to one another in order to generate securities eligible for repurchase agreements with the RBA. These amounts had been wound back by mid-2008 in line with improved conditions in short-term funding markets. A number of ADIs also set up contingent securitisation structures, in which a special securitisation vehicle is created but the residential mortgages to be held by the vehicle effectively remain on the ADI's balance sheet until the issues are needed for repurchase with the RBA. The ADI continues to hold regulatory capital against these mortgages. The structures provide ADIs with large mortgage portfolios a timely means of accessing contingent liquidity support from the RBA at times of extreme market disruptions.

With investors shunning securitisation markets both domestically and overseas, ABCP conduits found it difficult to roll over their short-term debt and have drawn on the liquidity facilities provided by the major Australian banks and some branches of foreign banks. APRA has been closely monitoring the level of these drawings and has required regular reporting from banks providing the facilities. In general, the credit quality of these conduits has remained sound, particularly those domestic programs used by Australian lenders to warehouse their loans. In most circumstances, APRA's securitisation rules do not permit assets to be brought back onto an ADI's balance sheet once securitised and this requirement has been enforced throughout the period of market turbulence. However, APRA expects banks providing liquidity facilities to ABCP conduits to hold appropriate provisions against the assets held as security for these facilities where there is any doubt about the quality of those assets.

Many medium-sized ADI participants in securitisation markets have traditionally made use of warehouse facilities, which are short-term funding arrangements designed to hold mortgages or other loans pending market issuance of the securitisation. Market dislocations during 2007/08 have made warehouse funders reluctant to renew these facilities or to renew them on existing terms. APRA has encouraged ADIs using warehouse facilities to make sure they understand the terms of these facilities and their compliance with APRA's securitisation rules, and to closely monitor the capacity of these facilities to meet planned lending growth. Some ADIs have needed to restrict their new lending activities because of uncertainty about the refinancing of warehouse facilities.

In the early part of 2008/09, global funding markets showed further signs of settling. There have also been some early signs of a possible thawing in the domestic RMBS market (where investors acknowledge the underlying high quality of mortgages originated by ADIs) though spreads on RMBS issues will need to fall further if this form of funding is to again be economically feasible. At the time of writing, however, a renewed bout of financial market volatility was triggered by a collapse of confidence in some major US financial institutions.

Moreover, interest spreads over risk-free rates remain well above their pre-August 2007 levels, particularly at the longer end, and access to longer-term funding continues to be difficult for more lowly rated and smaller ADIs. In this environment, ADIs are focusing much more attention on managing their liquidity and funding and have built up good liquidity buffers, but APRA believes there is more to be done by ADIs in planning and monitoring their funding across different markets and in setting appropriate targets and benchmarks for their funding maturity profile and concentrations.

Before the global financial market turbulence emerged, APRA had begun a broad-ranging review of its prudential framework for ADI liquidity risk management, to take into account financial market developments and changing ADI practices since the current prudential standard was introduced in 1998. APRA held a conference on this topic in May 2007 to provide an initial opportunity for industry input. The market turbulence has highlighted the need for ADIs to have adequate levels of liquidity and robust liquidity risk management systems, and has provided considerable insights into good (and bad) practice in this area. Internationally, regulators are revisiting supervisory approaches in response to the recommendations of the Financial Stability Forum in its April 2008 Report, *Enhancing Market and Institutional Resilience*. APRA has been participating in a working group of the Basel Committee on Banking Supervision, which in June 2008 issued for consultation a proposed revised set of principles for sound liquidity risk management.

APRA's current approach, which offers considerable scope for flexibility, requires larger ADIs to establish and maintain an appropriate liquidity management strategy, including regular scenario modelling. This strategy is agreed with and regularly reviewed by APRA. Experience over the past year has confirmed that liquidity requirements focussed on a loss in market confidence in an individual ADI must be supplemented with a broader focus on the risk that key funding markets cease to operate smoothly, even when the individual ADI remains sound.

APRA intends to maintain the broad flexibility of its liquidity approach while strengthening it to ensure more thorough and robust liquidity risk management. This is likely to require the modelling of a wider range of scenarios, involving the longer-term closure of certain funding markets as well as institution-specific problems. APRA will also be looking for more detailed and forward-looking reporting on liquidity and funding through its regular data collection, and will strengthen its ability to get an appropriate 'snap-shot' of an ADI's liquidity position at short notice. APRA has established an industry consultation group to provide feedback on its proposed approach, and expects to issue a discussion paper in late 2008.

Credit quality

The US sub-prime mortgage crisis and the substantial asset write-downs and losses of many global financial institutions have sharpened market and regulatory attention on credit quality in banks. This is not a new area of interest for APRA. Credit standards, particularly in housing lending, have been a major focus of APRA's research and on-site supervision of ADIs for some years.

As noted, US sub-prime developments have had only minimal direct impact on the asset quality of ADIs. The quality of ADI housing lending continues to be among the strongest in the world, notwithstanding a modest increase in arrears rates on housing lending over 2007/08 as domestic financial conditions tightened. ADIs are generally well secured for housing loans in arrears. Arrears rates on business lending, which had been largely flat for several years, also rose over the past year. Some larger ADIs have exposures to companies that are facing difficulties because their business models relied excessively on short-term debt. In addition, a few ADIs have taken write-downs and increased provisions on other activities hit by the global financial market turbulence, including wholesale margin lending, offshore collateralised debt obligations (CDOs) and exposures to US monoline insurance companies. However, these problem corporate exposures and rising provisions are not reflective of the general quality of ADI business lending and provisions have, to date, been readily offset by strong cash earnings. APRA continues to monitor these areas for signs of any further emerging weakness but, overall, arrears rates on ADI lending remain low by historical and international standards.

APRA has been working with ADIs to ensure that they apply appropriate risk grading, valuation and provisioning against problem assets. It has also requested internal 'watchlists' from larger ADIs on a regular basis. Watchlist exposures are those that have not become impaired but are considered by the ADIs themselves to be most vulnerable to problems and requiring close scrutiny. The watchlists indicate a pick-up in the number and level of exposures in the latter part of 2007/08 but do not reveal any worrying concentration of exposures. This is consistent with the general assessment that business balance sheets are in sound condition overall. In addition, APRA's survey of private equity exposures in 2007 provided comfort that ADIs did not, in general, take on large or unsecured exposures to companies engaged in leveraged buy-outs in Australia and offshore, some of which have struggled.

During 2007/08, APRA also wrote to the larger ADIs to flag the need for a prudent approach to valuation and provisioning for assets held in trading portfolios. Regulatory capital concessions for trading book positions are based on assumptions that trading assets are liquid and can be quickly sold if an ADI wishes to limit its losses, and that the assets are marked-to-market so that unrecognised losses cannot accumulate. Where a current market value simply cannot be determined and there is no reasonable prospect that the assets can be sold in the near future, such assets are unlikely to qualify as trading book assets for capital adequacy purposes. APRA also asked ADIs to pay particular attention to valuations and provisioning for assets provided with credit protection by US monoline insurers, some of which have come under considerable stress.

Each year, APRA undertakes a thematic 'tripartite' review in which external auditors undertake a detailed examination of a particular component of ADIs' risk management. In 2007/08, APRA requested that the largest ADIs review their use of fair value accounting and the impact of valuations on capital. The preliminary results suggest that fair value changes in financial instruments can have a material impact on reported capital. APRA and ADIs will need to understand the implications of this potential additional capital volatility.

Covered bonds

APRA has been consulting with ADI industry participants on covered bonds over recent years, and it received another approach from industry in 2007/08. Covered bonds are debt instruments secured by a segregated 'cover' pool of ADI assets that are held by the ADI or in a separate vehicle for the benefit of the bond investors, in the event the ADI is unable to meet its obligations on the instruments. Covered bonds are a long-established funding vehicle in Europe and US regulators are currently considering whether to facilitate their use as a means by which banks could diversify their funding sources.

The legislative framework in Australia, however, does not support covered bond issuance. The *Banking Act 1959* requires that, if an ADI becomes unable to meet its obligations or suspends payment, the assets of the ADI in Australia are to be available to meet that ADI's deposit liabilities in Australia prior to all its other liabilities. In substance, covered bond structures subordinate the interests of depositors of ADIs to the interests of the covered bond holders. For this reason, APRA has an in-principle objection to such structures and confirmed this objection in its revised prudential standard on securitisation, released in November 2007. Similar 'synthetic' or structured secured borrowing transactions create the same concerns.

More generally, APRA has been advising ADIs to consider carefully the implications of any proposed new forms of financing. In the current market environment, it is unlikely that more complex, opaque or legally untested structures will ultimately increase an ADI's funding resilience or meet with market or APRA acceptance.

General insurance

The general insurance industry faced a more difficult year in 2007/08 as a result of severe weather events and strong market competition in some market segments. Storms and other weather events caused losses that contributed to a halving of industry underwriting profits compared to the previous year, nothwithstanding a further release of claims reserves set aside in earlier years. Nonetheless, the industry remained very well capitalised, with aggregate capital being maintained at twice APRA's minimum requirement.

In contrast to the experience of the other APRA-regulated industries, global financial market turmoil had little impact on the Australian general insurance industry due to its conservative approach to investment. Insurers authorised by APRA have progressively reduced their equity portfolios in recent years and have no material exposures to US sub-prime mortgages or other impaired asset classes. As a consequence, the industry achieved positive average returns on investments in 2007/08, though somewhat below the results of the previous year.

While adverse claims experience, including losses from severe weather events in 2007/08, have led insurers to seek increases in premiums, strong competition has continued to put downward pressure on premium rates in most segments of the commercial market. Against this background, APRA has been emphasising to industry the need to maintain strong pricing discipline and to closely monitor emerging experience. The need for such discipline is reinforced by indications of declining capacity for continued reserve releases to support future profitability.

One sector of the industry that has been under close APRA scrutiny has been lenders mortgage insurers (LMIs). LMIs have significant exposures to credit risk on mortgage lending in Australia and the two major market participants are, at the time of writing, wholly-owned subsidiaries of US companies that have come under market pressure from the deterioration in the US sub-prime mortgage market (in August 2008, a major Australian insurer agreed to acquire one of the two foreign-owned LMI subsidiaries, subject to regulatory approval). Recent claims experience in Australia has been readily manageable and the LMIs continue to report solid underwriting profits that support the strong capital base of the industry in Australia. While the major rating agencies have downgraded the two foreign-owned LMIs and their parents due to reported group losses, the agencies have also acknowledged the strength of the Australian subsidiaries and of APRA's prudential framework for lenders mortgage insurance.

Looking ahead, an important influence on industry composition will be Government reforms, discussed in Chapter 3, that prevent (with limited exemptions) direct offshore foreign insurers (DOFIs) from selling or marketing insurance business in Australia from 1 July 2008 unless they are authorised and prudentially supervised by APRA. A number of DOFIs have submitted licence applications and six had been approved by end-June 2008. A further eight applicants have the benefit of transitional arrangements that allow them to continue writing business up to 31 December 2008 while their applications are processed.

Internal models

During 2007/08, two general insurers approached APRA with a view to gaining approval to use an internal model for determining their minimum capital requirements. While APRA's prudential standards have, since 2002, allowed APRA to approve the use of such models, these were the first such approaches it has received.

As well as developing further its prudential requirements for internal models (see Chapter 3), APRA released an information request setting out the initial information it needed from insurers in order to consider the adequacy of their internal models. This request included a pre-application self-assessment. A preliminary application from each of the two interested insurers along with their self-assessments were submitted in January 2008 and, following both off-site and on-site analysis by APRA during the year, both groups are likely to submit their final applications during 2009.

Financial Condition Reports

From 1 October 2006, APRA has required that the Appointed Actuary of a general insurer prepare an annual Financial Condition Report (FCR). The FCR is an important source of financial information, risk assessment and performance analysis, for both APRA and the institution's board. Despite some resistance to this requirement when first proposed, industry feedback on experience with FCRs has been generally positive. The majority of insurers appear to have found the process useful and independent directors in particular have commented that the FCR provides them with a single document in which all facets of the insurer's operations are brought together.

APRA has now had the opportunity to review the FCRs of a large number of general insurers. On the whole the standard of FCRs has been very good, with most of the areas on which actuaries are required to comment addressed well. Areas identified for improvement or where practice varied widely included analysis and commentary on loss ratios by line of business and accident year, case estimate methods and practices, asset/liability management, scenario testing and adequacy of premiums. Risk management was the most controversial of the required topics in the FCR. While variable in quality and still evolving, the general response by actuaries has been better than expected.

APRA also introduced the requirement in 2006 that a general insurer's insurance liability valuation report (ILVR) be reviewed by an external actuary to provide a high-level view of the appropriateness of the methods and assumptions used by the insurer's actuary in assessing outstanding claims liabilities. APRA sees peer review as important given the pivotal role of the ILVR in the determination of an insurer's liabilities and capital. Implementation of this requirement has been useful but APRA's assessment is that while some have pointed out areas for genuine improvement or ways in which the actuary's valuation could be brought up to better practice, most reports have added limited value. APRA will continue to liaise with industry on ways to achieve effective peer review.

National Claims and Policies Database

The fourth set of annual reports from the National Claims and Policies Database (NCPD), covering the year 2007, will be released in the fourth quarter of 2008. These aggregate industry reports include data on claims and policies submitted by all APRA-regulated general insurers providing public and product liability insurance or professional indemnity insurance. The reports give an indication of trends in the levels of premiums and claims costs across the industry, at a national and state level.

APRA has also been working to develop additional NCPD reports that will enable more detailed analysis to be undertaken by risk factors such as occupation groups and variations to product or policy coverage. The development of these more detailed reports has delayed the aggregate industry report for 2007. The detailed reports have not yet been released because of industry concerns over data confidentiality; at the same time, APRA and its IT service provider have encountered considerable technical difficulties in releasing data that are simultaneously useful and protective of insurer confidentiality. Applying the confidentiality requirements agreed with industry would lead to around half the premium data and two-thirds of the claims data being masked, significantly reducing the usefulness of the reports for pricing and reserving.

APRA has met with industry representatives to gauge their receptiveness to some relaxation of the confidentiality requirements so that more data can be made available to NCPD contributors and other stakeholders. Though no solution has yet emerged, APRA will continue to search for ways to release the more detailed reports and thereby render worthwhile the investment made by APRA and the industry in establishing the NCPD.

Life insurance and friendly societies

The main influences on the profitability and financial position of the life insurance industry in 2007/08 were the Government's 'Better Super' reforms and the sharp deterioration in domestic and global equity markets. The superannuation reforms provided, *inter alia*, tax-free benefits for certain policyholders if they transferred their assets from superannuation accumulation policies into allocated pension or annuity products. These changes resulted in a significant flow of funds (both inflows and outflows) between different products offered by life insurers in the first half of the year which settled down in the second half. Over the year, life insurance assets fell for the first time since 2002/03, mainly due to lower asset values associated with falls in equity prices and rises in interest rates.

Despite record inflows into superannuation products, the market share of the life insurance industry in superannuation has continued to decline, to around half its level of a decade ago. However, risk insurance business has thrived over recent years. The proportion of risk insurance written as group business, largely through superannuation plans, has increased steadily and now accounts for over 30 per cent of all risk insurance. During the year, a number of life companies introduced automated underwriting systems to streamline the process of underwriting and accepting risk business. Though the impact on claims experience will take time to emerge, this investment in improved processes is long overdue and APRA considers it a positive move by the industry provided appropriate underwriting controls remain in place.

The life insurance industry continues to consolidate, largely through intercompany rationalisation of APRA licences and the acquisition of life companies and product portfolios. Market share of life insurance assets is concentrated in those life companies with large superannuation business as risk insurance business operates with relatively small levels of assets.

The friendly society industry continued to experience a decline in membership numbers, resulting in further consolidation in the industry, particularly among smaller societies. On the other hand, a small number of friendly societies have successfully established products, particularly education and prepaid funeral products, that have generated strong asset growth.

The capital position of life insurers and friendly societies remains strong notwithstanding the difficult investment environment over 2007/08.

Investments

Over the past year, the management of investment risk has been a particular focus of APRA's supervisory activities in the life insurance industry. In general, the management of investment risk and asset/liability management are well controlled but investment activity has become more complex. Previously, the management of the investment funds of a life insurer was the sole province of its investment department. Nowadays, this department is likely to have become a separate funds management company often seeking external mandates, and in some cases the life insurer itself has turned to external funds managers to manage part of its portfolio.

These more complex structures need close oversight, especially in periods of market volatility. Boards and management of life insurers may not have full information about the underlying investments in many of these structures and may be relying instead on broadly-based mandates, with limited look-through to the actual investments in the portfolio. APRA has been emphasising that boards and management of life insurers need to understand the underlying investment risks they are assuming, beyond simply reviewing the mandate of the fund, and to carry out their own assessment of external fund managers rather than rely on rating agencies.

The persistence of recent market turbulence led APRA to seek information from life insurers and friendly societies in March 2008 on the sensitivity of their capital buffers to adverse movements in equity markets and interest rates. Generally speaking, this information confirmed that equity markets would need to fall significantly below their 2007/08 lows, and interest rates rise significantly, before regulatory capital requirements of life insurers would be threatened. This result reflects earlier decisions by many life insurers to reduce risks in investment portfolios, particularly those related to products with guaranteed benefits. APRA's survey also confirmed that friendly societies were relatively well-placed notwithstanding some reallocation of investment portfolios over recent years from debt instruments to equities. APRA will continue to monitor closely the capital portfolios of life insurers and friendly societies into 2008/09 as investment markets remain under pressure.

Legacy products and systems

Efforts to develop a more effective mechanism for product rationalisation within the life insurance and superannuation industries gathered momentum in the past year. In response to an issues paper published by the Treasury in June 2007, a panel of industry members and representative organisations was established to advise the Treasury on options; APRA has been working closely with this panel. The issues are complex but pressing. The level of costs and operational risk from multiple old products and systems will inevitably increase over time. The challenge is to find a solution that is practical for industry without weakening the protection for policyholders and superannuation fund members.

Whatever the ultimate solution, any improvements in the mechanism for rationalisation of legacy products ought to be accompanied by industry efforts to reduce product complexity in the future. Some providers of life insurance and investment products continue to sow the seeds of future legacy product problems by competing through adding 'bells and whistles' to products while some have developed techniques for upgrading policies when new versions are released.

Unit pricing

Unit pricing issues in the life insurance and superannuation industries remain on APRA's radar, although the level of new unit pricing errors brought to APRA's attention has reduced significantly. Many institutions have established strong control frameworks over unit pricing but management, boards and trustees need to keep this area under close watch. In August 2008, APRA and ASIC released an updated version of their joint publication *Unit pricing – guide to good practice*. The update provides further guidance on materiality thresholds for compensation payable as a result of unit pricing or crediting rate errors.

Experience studies

For some time now, APRA has been in discussions with the life insurance industry over the need to undertake continuing industry-based mortality and morbidity experience studies. These studies provide a critical input into life insurance pricing, valuation and experience reviews; they also represent an important source of information of significant public interest. The industry has responded positively to these discussions and has established a project to collect, analyse and publish data on experience studies. Though the project is still in its early stages, the level of response and support from industry participants is encouraging and APRA welcomes the initiative.

APRA has separately commissioned a research project with the University of New South Wales on longevity issues, and this study will also assist in defining the national data sources necessary for mortality and morbidity studies.

Superannuation

The substantial decline in domestic and global equity markets over 2007/08 had a pronounced impact on the superannuation industry. Most superannuation funds experienced negative returns over the year, for the first time since 2002/03. Nonetheless, fund members generally understand that superannuation is a long-term investment and the poor investment returns were preceded by several years of high returns. After record inflows the previous year in response to the Government's 'Better Super' reforms, assets held by APRA-regulated superannuation funds fell over 2007/08 with negative returns outweighing further contributions. Over the year, the number of trustees with Registrable Superannuation Entity (RSE) licences fell by 14 to 292 and the number of registered funds under their trusteeship by 391 to 6,166, a continuation of the industry's long-term consolidation.

APRA's major supervisory focus has been the robustness of trustees' governance practices and risk management systems in the face of sustained financial market volatility. This volatility provided the first significant test of the enhanced prudential framework introduced as part of the superannuation licensing regime from 1 July 2006.

Governance

Trustees are required to adhere to the 'fit and proper' operating standards under the licensing regime and, as part of its review of board structures, APRA has been liaising with trustees on how they monitor their fit and proper policies in substance as well as form. APRA welcomes the increase in the number of independent directors appointed to trustee boards to provide additional expertise on investment and governance issues.

In May 2008, APRA released the results of its research into the governance practices of APRA-regulated superannuation funds. The research, based on a detailed survey of superannuation trustees, found that there was little difference between the corporate, public sector, industry and retail sectors in many areas of trustee policies and practices. In the case of large funds, trustee directors were typically well-qualified, experienced and reasonably well-trained in their trustee duties.

During the year, APRA continued to review the currency and adequacy of trustees' conflict of interest policies, including their application in practice and how trustees monitor their performance and that of service providers against the policies. Some of the issues raised with trustees concerned registers of interests not being up-to-date, conflicts not being adequately declared and instances where trustees have not sought appropriate independent advice in conflict situations. APRA has raised the potential for conflicts of interest in the provision of actuarial advice on defined benefit funds with industry and the actuarial profession. APRA has also consulted on its proposed prudential practice guide on conflicts of interest.

Risk management

In its supervisory activities, APRA has observed a general strengthening of risk management systems under the licensing regime but notes there is still room for progress in encompassing all relevant risks within risk management frameworks, in making risk management forward-looking and in developing an appropriate risk management culture within organisations. APRA expects risk management systems to be comprehensive, actively monitored and refined in the light of experience and changes in the operating environment, and it works with trustees to that end.

A major inherent risk of superannuation funds is operational risk, which arises mainly from the administration function – this can be complex and involve a high volume of transactions, an increasing amount via the internet. Many trustees outsource the administration function and rely on the administrator's expertise, systems and infrastructure to manage their operations and to meet their prudential requirements.

The outsourcing operating standard provides for APRA to have access to material service providers. APRA has begun to review a selection of superannuation administrators to gain a better understanding of their business operations and risk management processes; the focus is on governance, the internal control environment, IT risk and business continuity and disaster recovery. APRA has a close interest in the integrity of member data and the data management practices of administrators, particularly in view of the ongoing consolidation in the industry and the long-term nature of superannuation. Further reviews will take place in 2008/09 as part of this project.

Investments

Recent market volatility has underscored the importance of trustees continuing to test the reasonableness of their investment strategies. While superannuation legislation does not impose any quantitative controls over superannuation investments, other than in-house assets, trustees are required to implement investment strategies that take into account the returns and risks of investments as well as the ability of a fund to meet its liabilities, including having sufficient liquidity to meet benefit payments. The advent of member investment choice does not in any way lessen trustees' obligations to develop menu options prudently. Trustees must also have a formal risk management plan for the fund to address the risks arising from its investment strategies and must review that plan at least annually.

In its supervisory activities, APRA monitors the setting of investment strategies, particularly where the large majority of members are covered by the fund's default investment strategy. This includes reviewing the due diligence undertaken when trustees have increased their exposure to alternative and/or structured investments and trustees' understanding of the underlying investments and their attendant risks. It also involves assessment of whether the default investment strategy and investment objectives are consistent with the membership profile of the fund. In addition, APRA examines the risk models and valuation policies and practices used by trustees and how these interact with the trustees' unit pricing or crediting rate processes.

In an environment of market volatility and poor investment returns, APRA has highlighted the need for trustees to focus on the management of liquidity risk when implementing investment strategies. Fund choice, member investment choice, reduced time limits for transferring benefits between funds (the 30-day portability rule), more flexible draw-downs for account-based pensions and removal of the requirement to cash benefits on ceasing gainful employment from age 65 are other factors that exacerbate liquidity risk. In May 2008, APRA sent a questionnaire to trustees seeking further information on fund liquidity, to assist in assessing current liquidity management practices and whether trustees are undertaking appropriate liquidity stress-testing. APRA has also sought information on investment options which trustees have classified as 'illiquid investments', a requirement if trustees wish to avail themselves of the legislative carve-out from the 30-day portability rule.

Reserves

During 2007/08, APRA undertook a preliminary assessment of the reserving policies of trustees. This entailed a review of statistical data provided to APRA and of reserving policies and practices as part of APRA's ongoing supervision. Reserves can be used in the management of fund earnings (e.g. an investment fluctuation reserve) and/or of fund expenses (e.g. an administration or contingency reserve). With fund choice, member investment choice and mandatory portability of benefits, it is unlikely to be in members' interests for an accumulation fund to use an investment fluctuation reserve to smooth investment returns. A trustee that maintains reserves is required to have a strategy for their prudential management, consistent with the trustee's investment strategies and its capacity to discharge its actual and contingent liabilities.

APRA expects trustees to define clearly the purpose of each reserve, to determine its appropriate level and how it is to be funded, to develop a policy to ensure each reserve is used for its intended purpose and to review the policy to ensure it remains appropriate to the changing circumstances of the fund. APRA has noted an increasing use of contingency reserves as a buffer against operational risk. Though a welcome development, such reserves should not be considered as a replacement for a robust risk management framework, particularly the risk management of outsourced service providers. This would involve due diligence before engagement, clear contractual terms for service standards, default and liability provisions, ongoing monitoring of compliance and timely enforcement.

Breach reporting

In March 2008, APRA and ASIC released a new online breach reporting system for institutions regulated by both agencies. This was in response to the recommendations of the Taskforce on Reducing Regulatory Burdens on Business, and will reduce duplication faced by dual-regulated institutions. The online system simplifies the process for reporting breaches of an Act, standard or rule by institutions in APRA-regulated industries and ASIC-regulated Australian Financial Services licensees. The system is an expansion of an existing web-based arrangement used by the superannuation industry to report breaches to APRA.

Introduction of the system followed the enactment of the *Financial Sector Legislation Amendment (Simplifying Regulation and Review) Act 2007*, which introduced a consistent definition of reportable breaches as well as a materiality test. Previously, for example, superannuation entities were required to report to APRA all breaches of the *Superannuation Industry (Supervision) Act 1993*, irrespective of materiality. Since the materiality test was introduced, the number of breaches notified to APRA by superannuation entities has fallen by around 80 per cent.

Early release of superannuation benefits

Under the Superannuation Industry (Supervision) Regulations 1994, APRA can approve the early release of superannuation benefits on specified compassionate grounds. These grounds are limited in the legislation and include instances where the applicant faces financial difficulties as a result of their (or their dependant's) medical condition, transport for medical attention, modifications to a home or vehicle because of a severe disability, palliative care, funeral and burial expenses, or a forced sale of an applicant's principal place of residence by their mortgagor. APRA assesses applications against the legislative criteria and makes recommendations to superannuation funds to release the required amount. An applicant not satisfied with the decision may request review by an internal independent APRA delegate or a review of process by the Commonwealth Ombudsman.

Eligible Rollover Funds

APRA has completed a review of the operation of Eligible Rollover Funds (ERFs). It is currently finalising its recommendations to the Government on issues identified in the review, with the aim of aligning policy intent with practical implementation.

Enforcement activities

APRA seeks to take a collaborative approach to resolving prudential issues with boards and management of supervised institutions but it is also empowered by legislation to take enforcement actions to safeguard the interests of depositors, policyholders and members of superannuation funds (APRA's 'beneficiaries'). APRA considers enforcement to be an important part of its supervisory activities since it provides the 'end game' ability to ensure that beneficiaries are appropriately safeguarded.

Financial year	Number of applications received	Applications approved in part or full	Amount approved for release $	Average amount released per application $
2003/04	11504	8556	55,459,704	6,482
2004/05	11653	9444	77,680,070	8,225
2005/06	15027	12761	120,824,292	9,468
2006/07	18245	15412	156,905,338	10,181
2007/08	19291	14153	165,210,380	11,673

Enforcement options available to APRA include instigating formal investigations into the affairs of a financial institution, imposing conditions on an institution's licence or issuing directions related to particular matters, appointing a third-party manager or trustee to manage an institution's affairs, or accepting enforceable undertakings. APRA can seek to disqualify individuals from holding senior roles within supervised institutions, or take action to prevent unlicensed entities from conducting business that can only be conducted by an authorised financial institution.

Passage of the *Financial Sector Legislation Amendment (Review of Prudential Decisions) Act 2008* in May 2008 changed APRA's disqualification process. To that point, disqualification decisions were made administratively by an APRA delegate, with the individual concerned having the right to a second review by an APRA delegate and an ultimate right of appeal to the Administrative Appeals Tribunal (AAT). Under the revised process, the disqualification decision will be made by the Federal Court of Australia, on application by APRA. In addition, the Federal Court will have the capacity to impose a conditional ban on an individual. Previously, the only option available to APRA was a ban prohibiting an individual from holding a senior role in a particular industry that continued in force unless and until the individual sought, and received, APRA's agreement to revoke the ban. APRA welcomes the move to a court-based process, which aligns APRA's disqualification framework with that used by ASIC. It is expected to improve the efficiency, transparency and consistency of the disqualification process.

During 2007/08, APRA undertook 447 enforcement actions. This is a significant increase on the 159 actions reported the previous year, a rise in part explained by a change in reporting. The large number of actions relating to superannuation was attributable to an ongoing investigation into a single superannuation trustee that has responsibility for a number of funds.

APRA has continued its enforcement actions arising from the failure of HIH Insurance. Following the High Court's decision, in February 2007, allowing APRA to rely on evidence presented to the HIH Royal Commission for disqualification purposes, APRA recommenced its actions against nine individuals. One has since been determined and APRA's decision to disqualify the individual was upheld by the AAT. APRA has disqualified 29 individuals because of their involvement in the collapse of HIH; two of the disqualifications have been set aside by the AAT and a further six were under review by the AAT at the time of writing.

The improper reporting of financial reinsurance arrangements identified in the HIH Royal Commission was the subject of two subsequent APRA investigations, into General Reinsurance Australia Limited (part of the General Reinsurance Corporation group) and Zurich Australia Insurance Limited. Both investigations have been completed but enforcement action has continued against senior personnel from General Reinsurance Group, Zurich Australia Insurance Limited, New Cap Reinsurance Corporation Ltd (in liquidation) and the HIH Insurance Group. APRA has disqualified eight senior personnel for their involvement in the transactions considered in these two investigations, five of whom have appealed to the AAT. (A further six individuals from the General Reinsurance Group were disqualified following the HIH Royal Commission.)

One of the APRA disqualifications in the general insurance industry, of an individual for his involvement in a financial reinsurance arrangement, was revoked in 2007/08 following a review by an APRA delegate. While the delegate agreed that the individual's involvement warranted disqualification, the delegate was satisfied that the individual no longer posed a serious prudential risk, on the basis of the individual's acknowledgment of wrong-doing and his professional conduct since the events in question. Two other disqualifications were revoked over the year, both related to the superannuation industry. One case concerned an automatic disqualification relating to a conviction against the applicant for a misdemeanour that had occurred over 40 years ago. In another, APRA's delegate was satisfied that the applicant, who was disqualified in 2004, had served a sufficient period of disqualification; the delegate noted that the nature and severity of the conduct for which he was disqualified did not pose a continuing prudential risk to any superannuation entity, having regard to the enforceable undertaking offered in conjunction with the application for revocation.

In the superannuation industry, APRA's investigation into the Wall and Ceiling Superannuation Fund, conducted with the assistance of the Australian Federal Police, came to a close in July 2007. The investigation resulted in the disqualification of 11 people. Among them, four were convicted of criminal offences for conduct involving the backdating and falsification of documents to avoid restrictions imposed by in-house asset rules on investments in purpose-built commercial factories leased to the employer sponsors. Importantly, all fund member entitlements were met. In another superannuation matter, the trustee for the Motor Trades Association of Australia Superannuation Fund, the Motor Trades Association of Australia Superannuation Fund Limited, took APRA to court under the *Administrative Decisions (Judicial Review) Act 1997*, seeking to obtain from APRA documents provided to it by the former Chairman of the trustee. In June 2008, the Federal Court found that it had no jurisdiction because APRA's refusal to release the documents was not a 'decision' that could be reviewed by the Court. The Court also noted that, while it was by no means certain that APRA was required to return documents compulsorily obtained, any return would be to the person who provided them (in this case, the former Chairman) rather than to the trustee itself.

APRA has been investigating allegations that two directors of a superannuation trustee company were victimised because of assistance they had given APRA in relation to the fund. It is a criminal offence under the *Superannuation Industry (Supervision) Act 1998* to threaten or cause detriment to a responsible officer of an employer sponsor because of the way in which that officer exercises its trustee powers or fulfils its legal obligations.

As a follow-up to the introduction of the new superannuation licensing regime, APRA has taken action against 49 superannuation entities that failed to apply to APRA to be licensed, asking them to show cause why they should not be wound up with the appointment of an Acting Trustee.

The past year has seen an increase in allegations received by APRA in respect of improper access to superannuation, which APRA has shared with ASIC and the Australian Taxation Office. There has also been a significant increase in complaints about employers not paying voluntary superannuation contributions. APRA has no specific prudential powers in this area but when faced with the potential for criminal prosecution, the employers concerned have honoured their obligations.

In the banking area, APRA took further action against Mr David Siminton, self-proclaimed Governor of the 'Principality of Camside' in South Yarra, Victoria. Mr Siminton was involved in operating an unauthorised bank named Terra Nova Cache, including accepting over $5 million from more than 100 depositors and using the word 'bank' illegally. APRA was successful in obtaining orders preventing Mr Siminton and entities associated with him from operating, or holding themselves out as operating, a bank. Those orders were upheld on appeal. Mr Siminton had previously been convicted of breaching interim court orders preventing Terra Nova Cache from acting like and calling itself a bank and preventing him from dealing with the entity's money. Mr Siminton further breached these orders and, in November 2007, was sentenced to 12 months' imprisonment on application by APRA to the Federal Court. The decision was upheld on appeal. The Full Court refused to grant a stay of his sentence and Mr Siminton is currently in jail. Mr Siminton has filed applications to the High Court for special leave to appeal all decisions in APRA's favour. APRA has taken other actions to stop unauthorised entities from using words or terms restricted under the *Banking Act 1959*, particularly the word 'bank'.

Enforcement actions[1]

	ADIs		Superannuation		General insurance		Life insurance		Friendly societies		Other[2]		Total	
	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008
AAT/Federal Court review			1	1	5	10					1		7	11
Appointment of Acting Trustee			11	2									11	2
Appointment of liquidator/Inspector				19									0	19
Civil litigation	3		3	1	2						4		12	1
Directions and contravention notices[3]		12	4	132		13					17	45	21	202
Disqualification of auditors/directors			7	2	6	6			1		2		16	8
Enforceable undertaking				2									0	2
Follow-up delayed contributions			18	89									18	89
Investigation action			4	24							4		8	24
Other actions[4]	3	8	26		5						3		37	8
Prosecution	1		2	1									3	1
Refer to other agency/police	3	2	6	12	1	2					3	7	13	23
Removal, withdrawal or revocation of licence		3											0	3
Show cause letter	1		11	49	1	2							13	51
Revocation/waiver of disqualification				2		1							0	3
Total	**11**	**25**	**93**	**336**	**20**	**34**	**0**	**0**	**1**	**0**	**34**	**52**	**159**	**447**

[1] Year ending 30 June.

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

[3] Includes consents to use restricted words.

[4] Includes monitoring of representative offices.

Chapter 3

The prudential supervision framework

The development of a robust and comprehensive prudential supervision framework for Australia has been a major reform priority for APRA over its first decade. It has also been a significant challenge, not least because the prudential regimes that APRA inherited were industry-centric and varied greatly because of factors such as history, terminology, risk management approaches and accounting requirements. APRA's goal has not been a 'one-size-fits-all' prudential supervision framework, which would inevitably be complex and inflexible, but one that acknowledges industry differences while ensuring that like risks are treated in a like manner across industries. This broad perspective is one of the main strengths of an integrated prudential regulator.

APRA's reform initiatives, on which it has worked closely with the Government, have been guided by two key considerations.

Firstly, APRA is committed to a 'principles-based' approach to prudential regulation that recognises the complexity and diversity that exists among financial institutions. It is not APRA's role to prescribe detailed rules on how institutions should be run but to identify the key principles that underpin sensible and prudent conduct. A principles-based approach is likely to prove most constructive in dealing with behavioural matters, such as risk management and the calibre and decision-making processes of boards and management. APRA's prudential standards in these areas acknowledge that the particular circumstances of well-run institutions can vary significantly. In technical matters such as capital adequacy requirements and the valuation of assets and liabilities, where detailed rules may be needed for clarity and consistency, APRA will nonetheless determine these rules within over-arching principles. As one example, it requires capital to be held for both on- and off-balance sheet exposures, by both deposit-taking institutions and insurers.

Secondly, APRA is also committed to harmonising its prudential standards across its regulated industries where appropriate. Again, behavioural standards in particular lend themselves to a harmonised approach for the simple reason that prudence should be a fundamental attribute of boards and management across all these industries. Prudential standards for governance, the fitness and propriety of directors and senior management, outsourcing and business continuity management are now harmonised across the deposit-taking and insurance industries. They are also aligned, as much as is possible, with the operating requirements applying in superannuation.

To varying degrees, APRA's reform agenda has embraced all of its regulated industries. The major reform planks have been the introduction of a unified prudential framework for all ADIs, i.e. banks, building societies and credit unions (2000); a substantial overhaul of an outmoded prudential framework for general insurance, in two stages (2002 and 2005); revisions to prudential standards to reflect International Financial Reporting Standards (2006); and the completion of the new superannuation licensing regime (2006). With the implementation of the Basel II Framework for ADIs in 2007/08, the last major plank of the reform agenda fell into place. In pursuing these reforms, APRA consulted widely and transparently to ensure that all relevant views were properly considered; it also provided sensible transition arrangements.

In addition to the Basel II Framework, APRA's main changes to its prudential requirements in 2007/08 were a series of refinements in general insurance, which were made largely to give effect to Government reforms in the industry. There were also legislative changes in life insurance but these had no substantive impact on the prudential regime.

The hard work is not over, however. Prudential frameworks need to be kept alive and responsive to constantly changing industry landscapes and newly emerging risks. The coordinated international regulatory response to recent global financial market turmoil will obviously shape APRA's prudential policy development work over the coming period. Other areas of attention will be conglomerate supervision, regulatory capital requirements in life and general insurance, and audit requirements for ADIs.

New Basel Capital Framework

The Basel II Framework, a global initiative designed to strengthen risk management and provide more risk-sensitive capital requirements for deposit-taking institutions, was implemented in Australia on 1 January 2008. The achievement of this milestone was the culmination of a substantial effort, by both APRA and industry, over a nine-year period while the proposals of the Basel Committee on Banking Supervision (Basel Committee) were in gestation, and intensifying over the past four years.

Basel II came into effect through APRA's prudential standards. In all, nine new and seven amended prudential standards, along with seven new prudential practice guides and associated reporting standards, were issued after extensive consultation. The consultation process sought to ensure that the adoption of Basel II in Australia maintained the integrity of APRA's prudential framework, was appropriately tailored to local circumstances and took into account practical implementation issues. The final standards mostly mirrored the Basel II Framework but APRA did exercise its national discretion where there were sound prudential reasons to do so.

All ADIs in Australia are subject to Basel II. Under Pillar 1 (minimum capital requirements), these institutions must continue to hold capital for credit and market risks and must now hold capital for operational risk. For each risk type, an ADI may use a standardised approach in determining its capital requirement or an advanced approach with approval from APRA.

The great majority of ADIs have chosen to use the standardised Basel II approaches in determining their regulatory capital charge. For these ADIs, some changes have been required to risk management and reporting systems but the changes have not been onerous and the implementation of Basel II has been relatively straight-forward.

ADIs wishing to adopt the more sophisticated approaches under Basel II, which allow them to use some of their own quantitative risk estimates in calculating regulatory capital, require APRA approval. An initial round of applications was received by September 2005 and subjected to rigorous assessment so that APRA could satisfy itself that the risk estimates of each applicant were credible and robust. In December 2007, APRA announced approvals for four ADIs to adopt an internal ratings-based approach for both credit and operational risk from 1 January 2008. Two other ADIs were granted approvals for the advanced approach for operational risk, one of which has since received full accreditation to use the advanced approaches. APRA has commenced a second round of assessments of ADIs seeking approval to use the advanced approaches.

ADIs approved to use the advanced Basel II approaches must also hold capital against interest rate risk in the banking book (IRRBB). In keeping with the Basel II development timetables of those ADIs, the implementation of this particular capital charge was delayed until 1 July 2008.

ADIs approved to use the advanced Basel II approaches are continuing to review the adequacy of some of their risk estimates and the robustness of their underlying systems and governance processes. Reflecting this, APRA has established certain interim boundaries on the Pillar 1 calculations to ensure ADIs hold sufficient regulatory capital at all times. A floor of 20 per cent applies to loss-given-default estimates for residential mortgage exposures and the overall reduction in capital requirements from the Basel II changes is subject to a cap of 10 per cent for 2008, continuing during 2009. APRA takes a conservative approach to capital requirements and will need to be convinced of the robustness of capital calculations before such boundaries are reduced or removed.

In December 2007, APRA released its approach to Pillar 2 (supervisory review process). The review process is intended to ensure that ADIs have adequate capital to support all the risks in their business and to encourage them to develop and use better risk management and monitoring techniques. Consistent with its existing processes for determining capital adequacy, APRA will set a prudential capital ratio (PCR) for each ADI that must be met at all times. These PCRs, which remain confidential, will be set at a level commensurate with APRA's assessment of each ADI's overall risk profile, but subject to the internationally agreed minimum capital ratio of eight per cent. The main inputs into determining PCRs are APRA's PAIRS risk assessment model (see Chapter 4) and each ADI's internal capital adequacy assessment process (ICAAP), which gives its own view on the amount of capital it must hold to cover risks from its activities. During 2008, APRA has been discussing with ADIs how they develop, document and maintain a comprehensive ICAAP, proportionate to the complexity of the institution. APRA has determined PCRs for ADIs approved to use the advanced Basel II approaches and is finalising PCRs for ADIs using the standardised approaches as part of its routine supervision activities.

Pillar 3 of Basel II addresses disclosure requirements. ADIs will begin publishing their disclosures under Pillar 3 for the period ending 30 September 2008. ADIs using the standardised approaches are required to disclose some basic information on a quarterly and annual basis, while ADIs approved to use the advanced approaches must disclose a range of quantitative and qualitative information at various intervals. The Australian Bankers' Association has set up an industry working group to develop a consistent interpretation and delivery of Pillar 3 disclosures. APRA supports this industry initiative.

The statistical reporting requirements for Basel II, which were largely developed in parallel with the prudential standards, were released in February 2008. For ADIs adopting the standardised approaches, the reporting requirements broadly replicate the previous capital reporting requirements, with some additions in areas such as operational risk and securitisation. For ADIs approved to use the advanced Basel II approaches, the bulk of the reporting requirements are new. APRA has processed the first round of the new returns, covering the period 1 January 2008 to 31 March 2008, and teething problems were not significant.

The Basel Committee has announced its intention to strengthen certain aspects of the Basel II Framework in response to the recommendations in the April 2008 Report of the Financial Stability Forum, *Enhancing Market and Institutional Resilience*. This is expected to involve a tightening of the capital treatment of structured credit and securitisation activities, further Pillar 2 guidance to sharpen risk management practices and enhanced Pillar 3 disclosure requirements. APRA's intention is to follow suit, but it will first need to study the details of the Basel Committee's proposals and consult with industry.

General insurance

Refinements to the general insurance prudential framework

During 2007/08, APRA's main policy focus in general insurance was on refinements to the prudential framework necessary to give effect to the Government's decision, announced in May 2007, to extend prudential regulation to all insurers (subject to limited exemptions) offering insurance to Australian policyholders. These reforms were aimed at enhancing the integrity of the general insurance industry and the protection provided to policyholders. Since the reforms amended the definition of 'carrying on insurance' in Australia, they had an effect not only on direct offshore foreign insurers (DOFIs) that wished to continue to offer insurance to Australian policyholders but also on all existing APRA-regulated general insurers.

After informal discussions on its proposed approach, APRA began an extensive formal consultation process with the release, in July 2007, of a discussion paper proposing that the prudential framework recognise five different categories of insurers, based on their risk profiles. APRA's objective was to provide a more hospitable environment for smaller insurers and for captives, as well as a clearer picture of prudential requirements for foreign insurers and reinsurers, whether branch or subsidiary. Proposed refinements to the prudential framework also addressed foreign reinsurance recoverables and investment capital factors. These latter proposals attracted a strong industry response. To assess the quantitative impact of its proposals, APRA subsequently sought data submissions from insurers on a voluntary basis. After weighing up industry views, APRA decided to move to a more risk-based approach to the recognition of foreign reinsurance recoverables under new reinsurance arrangements; existing arrangements will be grandfathered. The introduction of these changes was deferred to 31 December 2008.

Amendments to prudential standards addressing other proposals in the consultation package became effective from 1 July 2008. They cover:

- the recognition of five different categories of insurer with modifications to the prudential framework tailored to the risk profiles of each category;
- changes to investment capital factors on equity and property investments (scaled back from the original proposals);
- harmonisation of the definition of capital between general insurers and ADIs;
- clarification of the conditions necessary for 'kangaroo bonds' to be recognised as assets in Australia; and
- changes consequential to numerous legislative amendments to the *Insurance Act 1973* enacted in September 2007.

Direct offshore foreign insurers

The amendments to the *Insurance Act 1973* require, *inter alia*, that all insurers operating in the Australian general insurance market, including any that may be located offshore, be authorised and subject to APRA's prudential supervision from 1 July 2008. The Act also provides a limited exemption to enable insurance business that cannot be appropriately placed in Australia to be placed with offshore foreign insurers. Following extensive discussion with stakeholders, including APRA and the Australian Securities and Investments Commission (ASIC), the Treasury released details of the limited exemption arrangements in April 2008.

Transition arrangements have also been put in place for foreign insurers that had applied for authorisation from APRA but did not receive authorisation by 1 July 2008. Those foreign insurers that had submitted their applications and paid the application fee by 30 June 2008 are allowed to continue to operate in the Australian market for up to six months while their application is processed. APRA has published on its website a list of applicants to which transition arrangements apply.

Discretionary mutual funds

Discretionary mutual funds (DMFs) are not considered to be insurance companies on the grounds that they have discretion to pay claims, and are therefore not required to be authorised by APRA. They are, however, now required to provide data to APRA under the *Financial Sector (Collection of Data) Act 2001*. APRA released draft reporting forms and instructions for industry feedback in September 2007 and final reporting requirements in December 2007; the first returns relating to the financial year ending 30 June 2008 will be received in October 2008. The reporting requirements are less detailed than those for APRA-regulated insurers but, in APRA's view, are sufficient to enable a proper understanding of the business of DMFs. The data will assist the Government to assess, during the next three years, whether DMFs warrant prudential regulation.

Consolidated supervision

In April 2008, APRA released a consultation package setting out its draft prudential framework for the supervision of conglomerate groups involving general insurers. This has brought closer to fulfilment a process that began in May 2005 and involved two further consultation rounds with industry in 2006 and 2007.

APRA's proposed prudential framework is focussed on contagion risk: the risk that adverse developments in activities conducted by other group members could affect the soundness of the regulated insurer (or insurers) in the group. APRA is committed to applying prudential supervision at the group level in a way that minimises this risk. The proposed framework would enable APRA to supervise consolidated general insurance groups, including those with foreign-based businesses, such that each group would meet prudential requirements equivalent to those currently applying to individual APRA-regulated general insurers. In particular, the group as a whole would need to meet essentially the same minimum capital requirements as apply to individual general insurers. These principles are consistent with those currently applied by APRA to the supervision of conglomerate groups involving ADIs and should eventually lead to greater mobility of capital within general insurance groups.

APRA envisages that the final prudential standards implementing general insurance group supervision will be released in the fourth quarter of 2008 and will become effective from 1 January 2009.

APRA will introduce streamlined reporting requirements for consolidated general insurance groups, in response to industry concerns about the possible reporting burden on such groups. Group reporting will be less detailed than that for APRA-regulated insurers within the group and will be based on the consolidated financial statements already prepared by groups.

Internal models

Since 2002, APRA's prudential standards have allowed APRA to grant approval to general insurers to use an internal model for determining their minimum capital requirement but it was not until 2007 that any insurers approached APRA to seek such approval. As a result, in July 2008 APRA released a consultation package setting out its draft prudential requirements for the use of the Internal Model-based Method for regulatory capital calculations. APRA sees merit in the use of internal models if they encourage stronger risk management and contribute to capital requirements better reflecting the nature and extent of risks in the insurer's business.

APRA's proposed approach follows the principles and concepts developed for ADI internal models under the Basel II Framework. There are, however, differences of detail and emphasis because of the differing nature and significance of the risks in the ADI and general insurance industries. The proposed approach is also consistent with the guidelines issued by the International Association of Insurance Supervisors.

Once the consultation is complete and the prudential requirements finalised, APRA will be in a position to finalise its evaluation of applications to use internal models.

Life insurance

Streamlining prudential regulation

The *Life Insurance Act 1995* (Life Act) was earmarked for simplification by the Government in its response to the recommendations of the Taskforce on Reducing Regulatory Burdens on Business in 2006. This involved removing certain provisions from the Life Act that were better placed in APRA's prudential standards. The intention was to align the Life Act with the legislative approaches applying in the ADI and general insurance industries, and increase APRA's flexibility to adapt its prudential standards to developments in the life insurance industry.

The necessary amendments to the Life Act were enacted in September 2007 through the *Financial Sector Legislation Amendment (Simplifying Regulation and Review) Act 2007*. The legislation also transferred responsibility for actuarial standards from the Life Insurance Actuarial Standards Board (LIASB), which has been disbanded, to APRA. APRA subsequently released a suite of new prudential standards, including actuarial standards, for life companies (including friendly societies), that came into effect from 1 January 2008. Given the goal of simplification and the tightness of the timetable, APRA was mindful not to introduce, in this process, any new requirements for, or impose additional costs on, the industry. APRA took the approach of maintaining the *status quo* as much as possible pending the preparation of plans to review some aspects of the prudential standards. Any such review will involve full industry consultation.

Responses to legislative and other initiatives

Financial Claims Scheme

In June 2008, in response to the recommendations of the Financial Stability Forum, the Government announced its intention to establish a Financial Claims Scheme (FCS) that would provide depositors in ADIs with timely access to funds and policyholders in APRA-regulated general insurers with timely claims payments in the event that such a financial institution should fail. The FCS will not cover products issued by superannuation funds, life insurers, friendly societies and managed funds.

The new arrangements give effect to recommendations of the Council of Financial Regulators, which has had this matter under detailed consideration for some time, as well as recommendations made by the HIH Royal Commission. The Government has also accepted recommendations of the Council that APRA's powers to manage a failing financial institution be strengthened.

The Government, through APRA, will fund payments under the FCS, with costs to be recovered through the liquidation of the failed institution and, if necessary, a levy on surviving financial institutions in the same industry. APRA will be responsible for administering the FCS and has begun to prepare for this role.

APRA's powers

The *Financial Sector Legislation Amendment (Review of Prudential Decisions) Act 2008*, passed in May 2008, amended the various prudential Acts administered by APRA – namely, the *Banking Act 1959*, the *Insurance Act 1973*, the *Life Insurance Act 1995* and the *Superannuation Industry (Supervision) Act 1993* – as well as the *Financial Sector Collection of Data Act 2001*. As discussed in Chapter 2, the amendments introduced a court-based process for disqualifying an individual from operating an entity regulated by APRA. They also streamlined APRA's directions powers where appropriate and removed ministerial consent from, and expanded the availability of merits review for, certain administrative decisions made by APRA, such as decisions on authorisations, licence conditions and the appointment of actuaries and auditors by general insurers.

During 2007/08, APRA made minor changes to its 'fit and proper' prudential standards as a consequence of legislative amendments. It also made minor changes to its prudential standards on governance following changes to the Australian Securities Exchange (ASX) Corporate Governance Council's *Corporate Governance Principles and Recommendations* dealing with the independence of directors.

First Home Saver Accounts

In February 2008, the Government confirmed its intention to establish First Home Saver Accounts (FHSAs). These accounts aim to provide a simple, tax-effective way for Australians aged 18 and over to save a larger deposit for the purchase of their first home through a combination of lower taxes and a Government contribution. APRA has worked closely with the Government and other agencies, including the Australian Taxation Office and ASIC, to implement this initiative.

The *First Home Saver Accounts Act 2008* (FHSA Act), passed in June 2008, allows public offer and extended public offer superannuation licensees (known as RSE licensees), life insurers and ADIs to provide FHSA accounts from 1 October 2008. APRA's prudential standards currently applying to the operations of life insurers and ADIs are adequate for the provision of FSHAs by these institutions but they must notify APRA of their intention to provide FHSAs.

RSE licensees, however, will not automatically be able to offer these accounts. Under the FHSA Act, RSE licensees have to establish a separate trust for this purpose and the *Superannuation Industry (Supervision) Act 1993* will not apply to this new trust. RSE licensees must demonstrate that risks arising from this trust have been properly considered and addressed. In July 2008, after public consultation, APRA introduced a prudential standard relating to the provision of FHSAs by RSE licensees, an application form for RSE licensees and a reporting standard for all institutions that offer FHSAs.

APRA-regulated institutions

	Number			Assets ($ billion)[1]		
	30 Jun 07	**30 Jun 08**	% change	30 Jun 07	**30 Jun 08**	% change
ADIs[2]	220	**211**	-4.1	1,945.5	**2,409.0**	23.8
Banks	55	**58**	5.5	1,876.9	**2,334.5**	24.4
Building societies	14	**12**	-14.3	20.4	**22.1**	8.3
Credit unions	143	**133**	-7.0	38.7	**42.5**	9.8
Other ADIs, including SCCIs	8	**8**	0.0	9.3	**9.9**	6.5
Representative offices of foreign banks	19	**18**	-5.3			
General insurers	131	**130**	-0.8	90.5	**91.0**	0.6
Life insurers	34	**32**	-5.9	251.4[3]	**232.9[3]**	-7.4
Friendly societies	25	**24**	-4.0	6.9	**6.6**	-4.3
Licensed trustees	306	**292**	-4.6			
Superannuation entities[4]	6,823	**6,252**	-8.4	707.9	**673.6**	-4.8
Public offer funds	223	**217**	-2.7	544.7	**518.9**	-4.7
Non-public offer funds	309	**252**	-18.4	153.5	**144.8**	-5.7
Small APRA funds	6,017	**5,537**	-8.0	3.7	**4.1**	10.8
Approved deposit funds	156	**140**	-10.3	0.3	**0.3**	0.0
Eligible rollover funds	17	**16**	-5.9	5.7	**5.5**	-3.5
Pooled superannuation trusts[5]	101	**90**	-10.9	83.7	**82.5**	-1.4
Non-operating holding companies	14	**18**	28.6			
TOTAL	**7,572**	**6,977**	**-7.9**	**3,002.2**	**3,413.1**	**13.7**

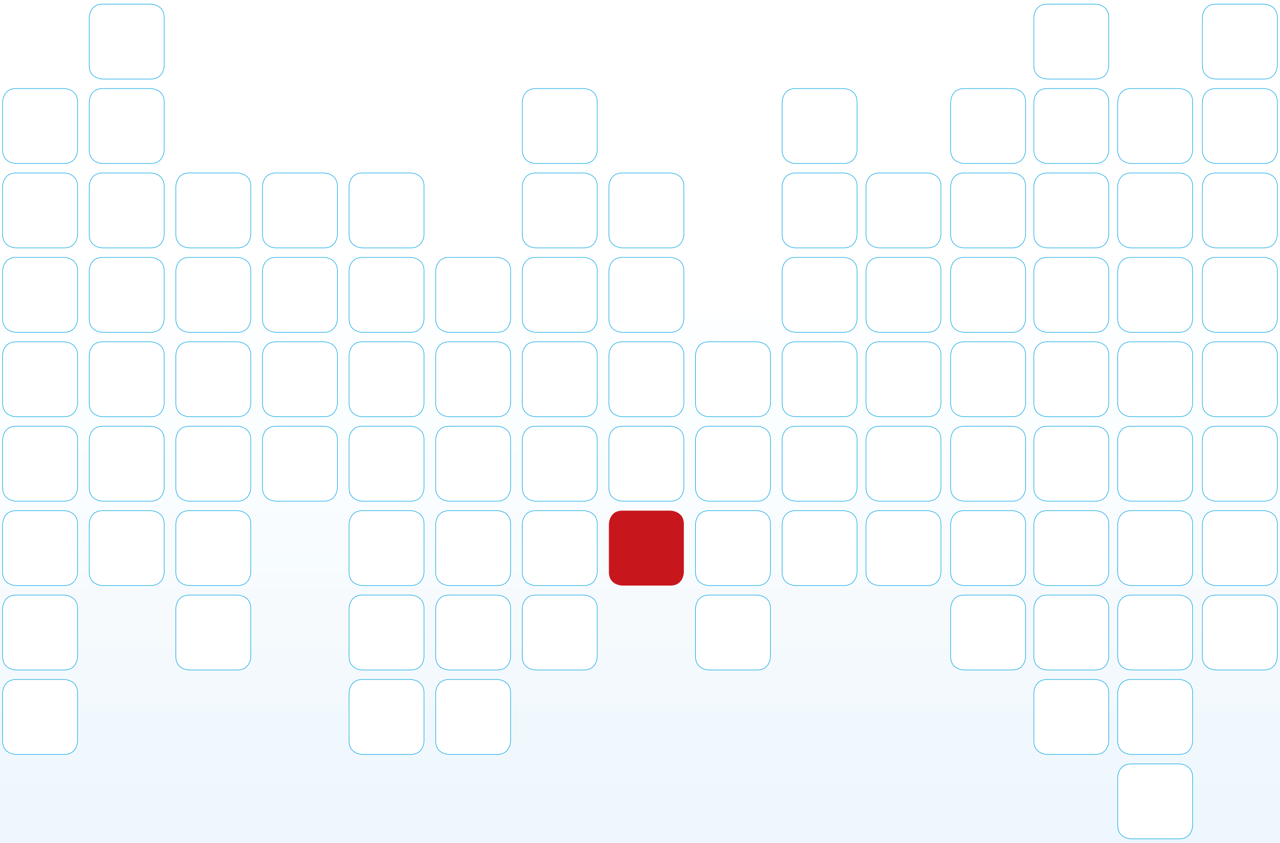
1. Asset figures for end June 2008 are based on most recent returns. Asset figures for end June 2007 have been revised slightly from APRA's *2007 Annual Report* in line with the audited returns received during the year.

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

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

4. Does not include uncontactable funds that are in the process of being formally wound-up or transferred to the Australian Taxation Office. As at the end of June 2008, there were 44 such funds, down from 45 funds as at the end of June 2007. Figures include unregistered funds.

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



Chapter 4

APRA's supervisory capabilities

In parallel with upgrading the prudential supervision framework in Australia, APRA's other major priority over its first decade has been the development of a rigorous, risk-based approach to the supervision of individual financial institutions. The starting point for this task, as well, posed its challenges. APRA inherited a range of supervisory methods and procedures from its predecessor agencies (11 in total) as well as staff with a variety of experience and backgrounds. APRA has drawn on the most useful ideas from these earlier industry-based practices, from its regulatory counterparts overseas and from its experiences over the decade, in building a 'best of breed' supervisory process and melding a cohesive supervisory cadre.

A risk-based approach requires supervisory activity to be directed at risk issues of highest priority. In APRA's case, attention and supervisory resources are targeted on those regulated institutions that have higher risk profiles or identified risk management weaknesses, or that are systemically important. Over the past decade, the key foundations for APRA's risk-based approach have included:

- the introduction of a structured risk assessment and response system (PAIRS/SOARS) in 2002;
- the implementation in 2004/05 of a set of structured and consistent prudential review modules for performing and documenting on-site and off-site activities;
- the build-up of specialist risk expertise to assist frontline supervisors in preparing risk assessments and undertaking on-site reviews; and
- the enhancement of APRA's statistical and research capabilities.

APRA understands the importance of keeping its supervisory methods, tools and procedures relevant and responsive to changing demands, and evaluating their effectiveness regularly in the light of experience. During 2007/08, APRA undertook a comprehensive review of its supervisory approach that has culminated in the production of a best practice supervision 'blueprint'.

Supervisory approach

A core element of APRA's risk-based approach is a supervisory action plan for each regulated institution. The plan addresses the key risk areas for the institution and any broader industry issues; it reflects supervisory judgments about the financial soundness of the institution and its ongoing ability to meet its financial promises to beneficiaries. The plan is tailored to the institution and is intended to establish desired supervisory outcomes and the activities necessary to achieve them.

APRA is committed to providing a level of 'baseline' supervision for all regulated institutions to ensure that risk assessments and supervisory action plans remain current and appropriate. Supervisory action plans aim to spell out supervisory activities to be completed over the 12-month plan period and significant activities to be pursued beyond that period, consistent with baseline supervision requirements. Above and beyond these requirements, however, supervisors must have the flexibility and capability to respond to emerging risk at an early stage; hence, plans must be kept up-to-date and in line with changing risk assessments.

The centrepiece of APRA's risk-based approach is its risk assessment and supervisory response tools known as the Probability and Impact Rating System (PAIRS) and Supervisory Oversight and Response System (SOARS). These supervisory tools assist APRA in making better risk judgments, taking necessary supervisory action quickly and consistently, and improving oversight and reporting on problem institutions.

PAIRS is APRA's risk assessment model, incorporating both the probability and the impact of the failure of an APRA-regulated institution. The original PAIRS model allowed APRA to progress from the various risk assessment tools used by its predecessor agencies to an APRA-wide model covering all regulated industries. Aside from the retention of a probability rating scale, PAIRS introduced three new concepts:

- a common set of rating components for the inherent risk facing the institution, the effectiveness of management and control in mitigating these risks, and the extent of capital support to meet unexpected losses;
- a structured process for combining these component ratings into a probability of failure rating; and
- an impact rating scale (based primarily on total resident Australian assets but with allowance for senior management to override this in special circumstances).

A subsequent move to a common IT platform ensured that all PAIRS risk assessments are maintained within a common database to enable analysis of trends in the level of perceived risk in particular segments and across APRA-regulated institutions over time.

In keeping with good practice in risk modelling, APRA continuously reviews PAIRS and it introduced an enhanced version of the original PAIRS model in 2007/08. This version retains the key components of inherent risk, management and control, and capital support and the structured process for combining these components, but improves upon the original model by considering management and control aspects by risk type. It allows supervisors to assess the net risk position for each of the key risk types including strategy and planning, liquidity, operational, market and investment, credit and insurance risks. It also better reflects the manner in which APRA conducts its supervision activities. Research on a further upgrading of PAIRS is underway, with assistance from the Australian Mathematical Science Institute.

The enhanced version applies to all APRA-regulated institutions, regardless of size, except for Small APRA Funds (SAFs) operating under a licensed trustee (which would itself be rated) and single member approved deposit funds (ADFs).

SOARS is used to determine how supervisory concerns based on PAIRS risk assessments should be acted upon. It aims to ensure that supervisory interventions are targeted and timely, and are matched consistently to the signals on probability and impact of failure coming out of PAIRS. All APRA-regulated institutions subject to PAIRS assessment are assigned to one of four SOARS supervision stances, which range from routine supervision for Normal institutions to supervisory intervention of increasing vigour for Oversight, Mandated Improvement and Restructure institutions. SOARS has been set so that the larger the regulated institution, the earlier and more proactively APRA responds to a given risk of failure.

At end-June 2008, around 69 per cent of risk-rated institutions were in the Normal stance, 30 per cent in Oversight, one per cent in Mandated Improvement and less than one per cent in Restructure.

The PAIRS and SOARS supervisory tools are supported by a series of APRA-wide prudential review modules that assist supervisors to undertake structured, consistent and well-documented supervisory reviews irrespective of the size, nature and complexity of the institution. There are 10 core modules that provide a framework for reviewing the board, management, risk governance, strategy and planning, capital support and the main types of risks facing regulated institutions. The modules deal with on-site and off-site components of prudential reviews.

While providing greater structure around the conduct of supervision, the review modules do not stifle or restrict supervisory judgment and innovation, or the ability to adapt supervision activities to particular cases. Regulated institutions range from large, complex financial conglomerates operating across a diversity of business lines to small specialised institutions with a single business line in a market niche. Reflecting this, a degree of flexibility has been built into the review modules to allow supervisors to tailor their supervision work to individual institutions. Supervisors exercising such judgment must consider and, in significant instances, document why a particular aspect of the review modules was not relevant to their assessment. Equally, supervisors need to consider what other activities, over and above those set out in the review modules, need to be undertaken to enable them to get a full understanding of the risk profile of a particular institution.

The enhancement to the original PAIRS model in 2007/08, mentioned above, was part of a major project to better align the PAIRS and SOARS supervisory tools with the prudential review modules and with the work performed in frontline divisions. The enhanced PAIRS model is supported by a new IT platform that more directly aligns to the information flowing from on-site prudential reviews. The review modules themselves have also been updated and streamlined to eliminate some elements of repetition and provide increased guidance and a more practical 'look and feel' where necessary. These changes, reinforced by a round of intensive training, are already delivering improvements in APRA's efficiency and effectiveness.

Separate to these detailed changes, another important project for APRA in 2007/08, also mentioned above, was the production of the APRA supervision blueprint. The blueprint provides strategic direction for the development and enhancement of APRA's supervisory approach. Its production followed a comprehensive and high-level review of supervisory methods, tools and procedures, and a benchmarking of APRA's approach against overseas regulatory peers. The blueprint sets out the essential elements of APRA's supervisory approach, including supervisory practices, the systems and tools that support them, relevant guidance material and ongoing training and on-the-job support for supervisors. It establishes the key principles that underpin each element of the approach. The blueprint is designed to ensure that the elements are managed holistically and that developments to systems and processes are well coordinated and consistent with APRA's supervisory objectives.

The blueprint will be a living document, supported by a team of experienced supervisors who will be responsible for the maintenance and development of APRA's supervisory approach and ensuring that it remains relevant to the Australian financial environment and in line with international best practice. The team will also provide training and support for supervisors in all aspects of the approach.

APRA's staffing

A risk-based supervisory approach requires astute judgment on the part of supervisory staff and confidence borne of experience. For this reason, building and retaining a workforce with the necessary blend of industry nous and supervisory instincts has been a major priority for APRA from the outset. APRA must have staff who, collectively, understand as much about the identification and management of risk as do the leading APRA-regulated institutions in this area.

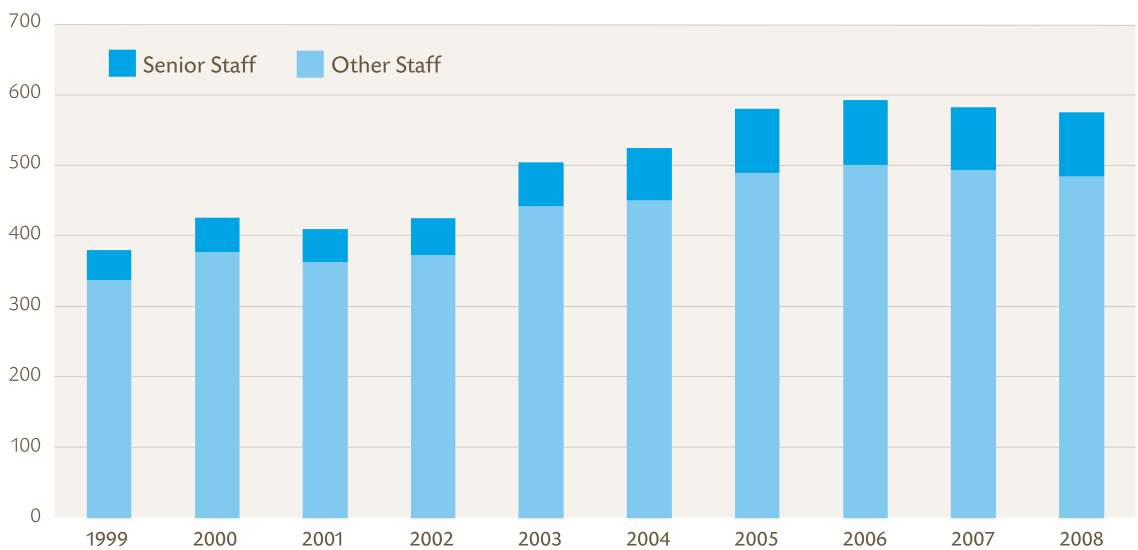
With support from Government and industry, APRA has increased its staffing numbers from below 400 in its early years, when it was exposed as being clearly undermanned, to staffing levels of around 580 over the past three years. At end-June 2008, total staffing was 574. In a very competitive labour market where the skills APRA wants are in strong demand across-the-board, this strengthening in APRA's staff resources is a considerable achievement. Of the current total, around 17 per cent have come from predecessor agencies and 12 per cent from APRA's highly regarded graduate program; the remainder have joined through an active recruitment program.

APRA has also recruited senior staff from industry and the professions, both in Australia and overseas, to sharpen its specialist risk and industry technical areas and to raise overall levels of experience. Around 90 of APRA's staff growth over the decade has been in these areas. These additions and the promotion of strong internal candidates has seen APRA's senior cadre rise from around 10 per cent of total staffing in APRA's early years to around 15 per cent.

Senior staff average some 23 years combined industry and prudential supervision experience, giving APRA considerable 'bench strength' to deal with developments such as the recent global financial market turbulence.

In the 2007/08 Commonwealth Budget, the Government approved a New Policy Proposal to assist APRA in recruiting and retaining qualified staff. Part of this additional funding was committed to enhancing APRA's staff training and development programs as a key retention initiative. A number of staff were able to participate in secondments, training courses and conferences, both in Australia and overseas, designed to strengthen their supervisory capabilities and provide career and development opportunities. APRA has always invested heavily in its training and development programs. Its training expenditure is in the 90th percentile of organisations when benchmarked across all industries and it also looks to assign staff to major in-house projects such as the implementation of Basel II, enhancements to supervisory systems and tools, and changes to the prudential framework as valuable development opportunities.

APRA Staffing (as at June 2008)



Other initiatives to improve retention include career progression and mobility programs, which resulted in nearly 200 staff being promoted, transferred or acting in another role in 2007/08; enhanced recognition and rewarding of performance in the new APRA Employment Agreement 2008; and the implementation of 360 degree feedback and a 'manager-as-coach' initiative for all staff with staff management responsibilities, the first phase of a revamped leadership and management development program. APRA is also well aware of the importance of workplace flexibility as a key to attracting and retaining valued staff, and is a recognised leader in this area.

Over 2008/09, APRA has planned for a modest reduction in its staffing levels as a consequence of the consolidation of the superannuation industry post licensing.

APRA's statistical capabilities

Over the past decade, APRA's evolution as a statistical agency for the Australian financial sector followed a similar path, and faced many of the same challenges, as the development of the prudential supervision framework and APRA's supervisory approach. APRA did not commence with an integrated statistical team; rather, it inherited a variety of statistical collections and reporting systems – some of them still paper-based – from predecessor agencies as well as a number of staff with varying levels of experience in this area. At an early stage, APRA recognised the need to establish a stand-alone statistical unit and to modernise and integrate APRA's statistical collections so that supervisors had access to relevant, timely and accurate data on APRA-regulated institutions.

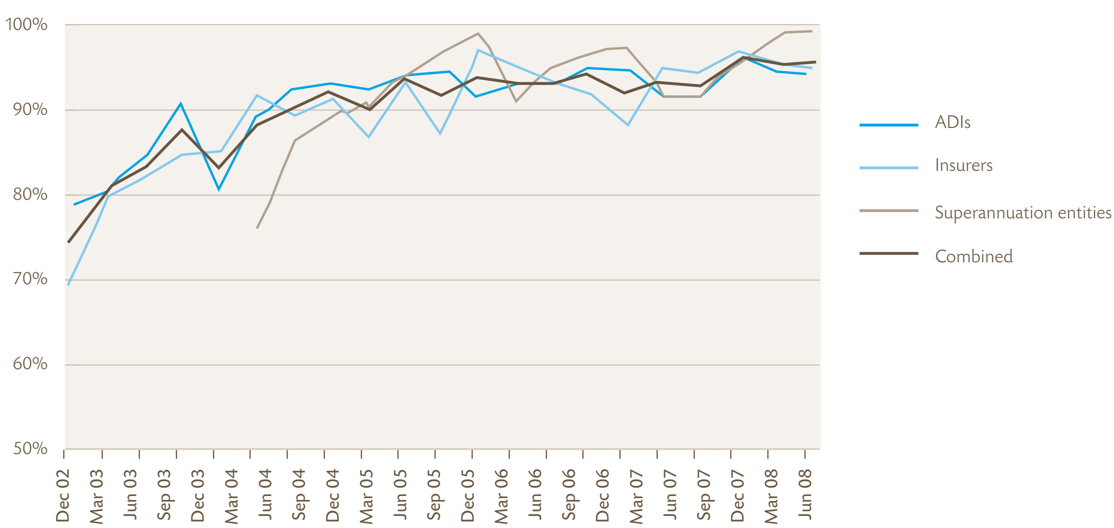
In 1999/2000, APRA began an extensive review of its data collection powers, systems and reporting requirements. From 2001, the *Financial Sector (Collection of Data) Act 2001* provided APRA with increased data collection powers, harmonised across the regulated industries. In the same year, APRA introduced its electronic data collections system – Direct to APRA (D2A) – and became the first regulator globally to use the eXtensible Business Reporting Language (XBRL) for the electronic communication of data. The new system was first used in 2002 to collect data from ADIs. Since then, APRA has modernised the general insurance and superannuation collections, enhanced the ADI collection and, in 2007/08, updated and streamlined the life insurance and friendly society data collection. APRA also moved life insurers and friendly societies to the D2A framework, completing the transition of APRA's statistical collections to a world-class financial data system. The new life collection, which was developed in consultation with industry, included 13 new forms that replaced 53 forms for life insurers and 31 different forms for friendly societies.

In 2007/08, APRA also introduced new reporting requirements for ADIs as part of the implementation of the Basel II Framework, and for discretionary mutual funds (DMFs); these developments are discussed in Chapter 3. In addition, at the request of the RBA, APRA encouraged wholesale funders to provide it with monthly statistical data on a voluntary basis. Wholesale funders are non-deposit-taking institutions that rely primarily on securitisation to fund the provision of loans. Wholesale funders are not regulated by APRA and are not required to register under the *Financial Sector (Collection of Data) Act 2001*. However, their data are of general interest to the RBA as one gauge of housing lending conditions.

Over recent years, and working with regulated institutions, APRA has been able to achieve a considerable improvement in the timeliness and accuracy of data collected across all industries. As part of this process, APRA's statistical collections are now almost all received via encrypted online transmission. APRA targets a rate of 95 per cent for submission of returns by the statutory due dates, with the remainder usually submitted within the following week. Over 99 per cent of APRA returns are now submitted on time or within one week of the due date. In 2007/08, over 95 per cent of all errors uncovered through APRA's data quality assurance work on quarterly forms were resolved within two weeks of the due date.

APRA produces a suite of 12 statistical publications that provide regular updates on the financial performance of APRA-regulated industries. APRA follows international standards aimed at ensuring that users can have confidence in the integrity of the data and that statistics are made available on an impartial basis. In July 2007, APRA released a special edition of its *Insight* publication, *Celebrating 10 years of superannuation data collection 1996-2006*. The publication contains statistics on trends in superannuation in Australia over that decade and provides an authoritative reference for the superannuation industry and for the general public. It highlighted the transformation of the superannuation industry into a largely professionally managed industry that now wields significant investment might and global reach. During the year, APRA's statistics unit also developed new internal publications, including a compliance report and several analytical papers. The compliance report identifies those APRA-regulated institutions whose reporting performance and/or adherence to deadlines needs to be targeted by supervisors and the statistics unit for improvement. The analytical papers focus on topical issues and assist supervisors to identify possible prudential concerns and track trends across industries.

Returns submitted by the due date



During 2007/08, APRA continued its active involvement, along with other agencies, in the development of the Government's Standard Business Reporting (SBR) program. This whole-of-government initiative, a recommendation of the Taskforce on Reducing Regulatory Burdens on Business, seeks to eliminate duplication and reduce reporting burdens by streamlining and automating reporting between businesses and government agencies. The Chairman of APRA is on the SBR Board and the General Manager – Statistics is a member of the SBR Steering Group. Separately to this initiative, APRA and ASIC reviewed their administrative practices to remove minor instances of reporting overlap, inconsistency or duplication.

APRA's statistics unit continued to expand its links with industry bodies and its counterparts overseas to ensure that APRA's statistical collections are aligned with market realities and best practices. In July 2008, APRA held a one-day forum for over 70 industry representatives to provide feedback on its statistical collections and publications on superannuation. Contacts with counterparts overseas provide important input into APRA's continuous improvement program and, in the process, confirm the high standing with which Australia's prudential data collection framework is held globally.

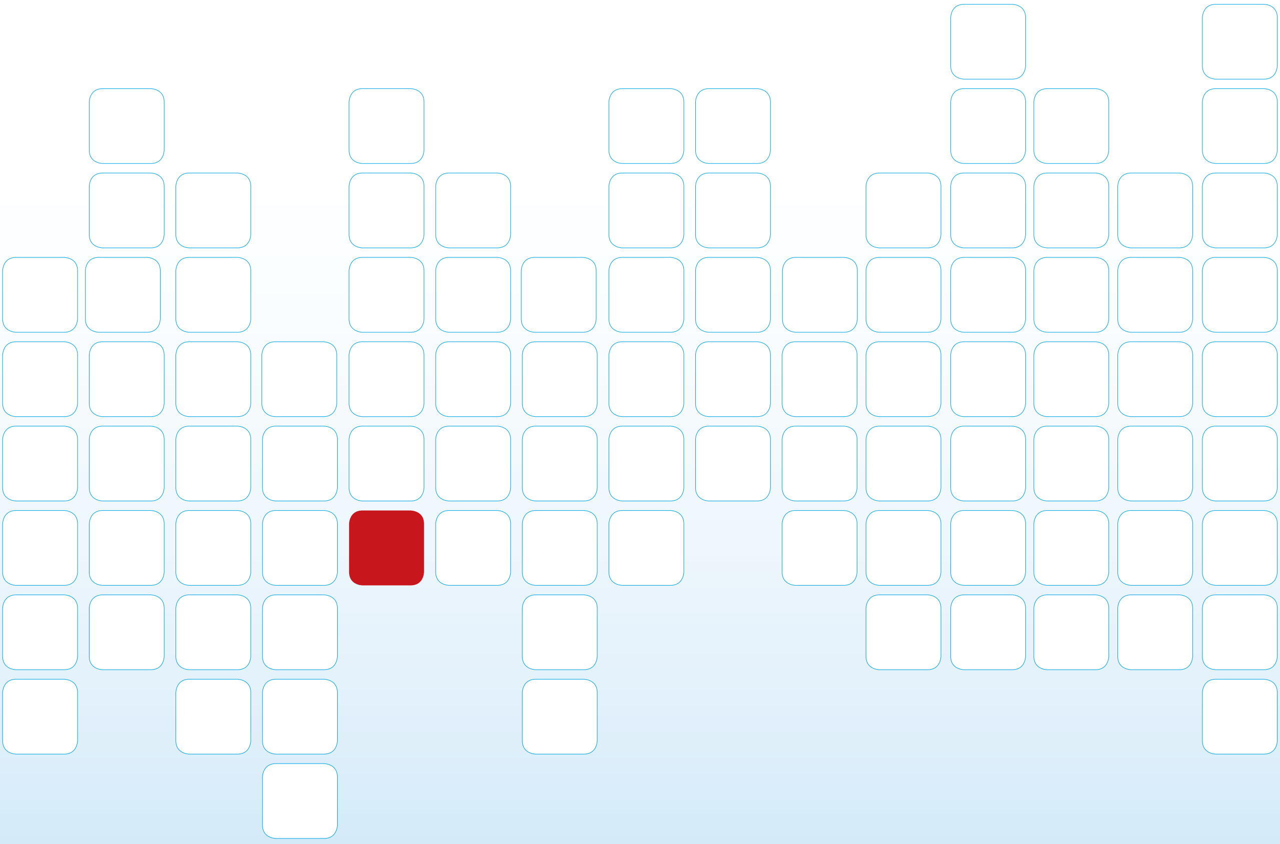
APRA's statistics unit fulfilled around 500 requests for customised statistics over the past year. These statistics give more detailed insight into particular aspects of the financial system than APRA's regular publications. The statistics are provided to APRA staff and to external users such as other government agencies, financial institutions, market analysts, researchers and universities. Customised statistics are also provided to international agencies such as the Organisation for Economic Co-operation and Development (OECD), IMF and Bank for International Settlements, to facilitate comparisons of various aspects of the Australian financial system with those of other countries.

APRA's research capabilities

A small research unit supports APRA's mission by identifying emerging prudential issues that benefit from rigorous theoretical and applied analysis. The unit publishes papers in APRA's *Insight* and in refereed journals of reputable standing, and presents research results at conferences.

Over 2007/08, the unit analysed the results of two superannuation surveys that were undertaken the previous year. The analysis on superannuation fund governance was published in APRA *Insight* (Issue 1, 2008) after presentation at the October 2007 Conference of the International Centre for Pension Management in Maastricht, Netherlands. Analysis of the investment performance survey is nearing completion. The unit also analysed the results of APRA's 2006 survey of ADI housing lending portfolios and published additional results in APRA *Insight* (Issue 1, 2008). Other areas of research involved the development of a theoretical model of credit default to assist in analysis of home loan default risk, and the development of a model that will provide a warning of potential PAIRS ratings downgrades in general insurance; in the latter case, the research findings were published in the *Journal of Risk and Insurance*. During the year, five working papers were published on APRA's website, three of which were authored by staff of the research unit.

APRA continues to support university research relevant to prudential regulation. In 2007/08, Dr. Harald Scheule from the University of Melbourne published his work on credit risk in the *Journal of Risk Model Validation* and the *Journal of Credit Risk*. Dr. Elizabeth Sheedy from Macquarie University published her work on market risk stress testing in the *Journal of Banking and Finance*. APRA's research unit also engaged academic staff on three major projects. An Australian Research Council (ARC) Linkage Grant application on longevity risk with researchers from the University of New South Wales was successful in the 2008 round of funding and APRA will sponsor this research for the next four years. An ARC Linkage Grant with researchers from the Australian National University on dynamic portfolio selection is underway. The third project involved a partnership with the Capital Markets Cooperative Research Centre to co-sponsor four PhD students. These students started their PhD studies in 2008 and will be working on thesis topics that are relevant to prudential regulation.



Chapter 5

Cooperation and liaison

The global financial market turbulence over the past year has highlighted the importance of robust and effective coordination arrangements between regulatory authorities for dealing with threats to financial stability. Domestically, full and timely sharing of information between the prudential regulator and the central bank is essential if the two agencies are to identify and respond appropriately to emerging stress. Globally, well-established coordination arrangements are needed for managing a potential crisis in a financial institution operating across borders. From the beginning, APRA has invested substantially in building its links with domestic and overseas regulatory agencies and international fora. This investment has proven its value during the recent turbulence and it will gain renewed attention as part of a coordinated international regulatory response to the turbulence, in line with the recommendations of the Financial Stability Forum.

Australia

Australia has a 'twin peaks' regulatory model. APRA as one peak stands alongside the Australian Securities and Investments Commission (ASIC), which has responsibility for administration of the Corporations Law, disclosure and market conduct of Australian companies and financial services providers, and consumer protection in the financial system. The other main agency involved in the regulation of the Australian financial system is the Reserve Bank of Australia (RBA), which has responsibility for monetary policy, stability of the financial system and the safety and efficiency of the payments system. All three agencies are independent statutory agencies.

Cooperation among these three agencies, and with the Australian Treasury, takes place at the highest level through the Council of Financial Regulators. The Council, a non-statutory body, operates as a forum for discussing regulatory issues and sharing information and views. Its main focus is to ensure that there are appropriate arrangements between the four agencies for coordinating their responses to potential threats to financial stability, and to advise the Government on the adequacy of Australia's financial system architecture. The Council's main activity over 2007/08 has been gaining a detailed understanding of the causes of the turmoil in global financial markets and its implications for regulatory arrangements in Australia, drawing in particular on the crisis management and supervisory issues arising from the Northern Rock 'run' in the United Kingdom. This work was an essential input into the Council's review of the suite of powers available to Australian regulators for managing financial instability and distressed financial institutions. Other matters considered by the Council included a Memorandum of Understanding (MoU) between Council members on financial crisis management, a pandemic stress test for the insurance industry, policy responses to the failure of a number of property investment companies, the implementation of the Basel II Framework, superannuation statistics and superannuation fund governance, and regulatory issues arising from recent equity market developments. The Council also met with senior officials from the Reserve Bank of New Zealand and the NZ Treasury to discuss trans-Tasman crisis management arrangements.

As part of the review of crisis management arrangements, a working group under the auspices of the Council has been undertaking the task of ensuring that APRA is able to respond quickly to emerging financial distress in one or more regulated institutions. The work involves clarifying APRA's legal and regulatory powers to intervene and resolve financial crises, and developing formal protocols to guide APRA's decision-making and its interactions with other Council members and with the Government in a crisis situation. As noted earlier, the Government has accepted the recommendations of the Council to strengthen APRA's powers to manage distressed financial institutions.

APRA also meets regularly with the individual members of the Council under the terms of relevant MoUs. The close working relationship between APRA and the RBA during the financial market turbulence has been described elsewhere in this Report. The turbulence was also a recurring theme of meetings of the RBA/APRA Coordination Committee during 2007/08. Other matters discussed included credit derivatives, equity market developments, lenders mortgage insurance, contingency planning and stress testing, the Basel II Framework, statistical issues and liaison activities with industry.

APRA and ASIC meet at various levels to discuss current and emerging issues affecting industries regulated by both agencies, as well as operational and enforcement matters. These formal meetings, complemented by regular informal liaison, help to ensure early and effective communication between the two agencies. During 2007/08, issues under discussion included the fall-out from the global market turbulence, margin and securities lending, and First Home Saver Accounts. APRA and ASIC have also collaborated through a working group responding to recommendations made by the Taskforce on Reducing Regulatory Burdens on Business. The working group has dealt with financial and regulatory reporting, data collection, licensing and breach reporting; as noted in Chapter 2, a new online breach reporting system for institutions regulated by both APRA and ASIC was introduced in March 2008.

On a bi-annual basis, the APRA Members and ASIC Commissioners meet jointly with the Finance Industry Council of Australia (FICA), an umbrella body for a number of finance industry associations, to discuss significant regulatory and industry issues. This is in response to the Government's *Statement of Expectations* of APRA, which encouraged APRA and ASIC to explore mechanisms for joint consultation with industry. FICA is comprised of the Australian Bankers' Association (ABA), Abacus – Australian Mutuals, Australian Finance Conference (AFC), Australian Financial Markets Association (AFMA), Financial Planning Association (FPA), Investment and Financial Services Association (IFSA) and the Insurance Council of Australia (ICA). The Association of Superannuation Funds of Australia (ASFA) and the Australian Friendly Societies Association (AFSA) also participate in these meetings.

APRA and the Treasury worked constructively during the year on a number of legislative initiatives, particularly those related to direct offshore foreign insurer (DOFIs) and discretionary mutual fund (DMFs) and the development of the Financial Claims Scheme. Other significant areas of coordination were proposals for product rationalisation and APRA's crisis management powers. Senior APRA and Treasury officials also hold regular liaison meetings.

APRA has built a good working relationship with the Australian Transaction Reports and Analysis Centre (AUSTRAC) since the legal barriers that restricted the sharing of information between the two agencies were removed. The two agencies have a MoU in place as well as guidelines for information-sharing to ensure the appropriate use of protected information. The AUSTRAC/APRA Coordination Committee, co-chaired by a senior executive from each agency, meets regularly to exchange information on jointly regulated institutions and regulatory developments of interest. Day-to-day communication channels also exist between the two agencies to ensure visit schedules to regulated institutions are well coordinated. During the year, presentations to promote a better understanding of each agency's activities were organised and were well attended by staff. APRA provided four speakers to AUSTRAC's inaugural banking course and an AUSTRAC supervisor attended an APRA on-site review of a major bank.

Under its MoU on superannuation, APRA and the Australian Taxation Office (ATO) liaised on a range of superannuation administration and policy issues over 2007/08, including ATO rulings and determinations on the application of superannuation legislation for self-managed superannuation funds, illegal early access to superannuation benefits, Tax File Numbers (TFNs) for superannuation purposes and the public register of superannuation funds maintained by the ATO. The regular interaction between APRA and ATO staff is augmented by quarterly operational liaison meetings. APRA continues to participate in the ATO's Superannuation Consultative Committee and the superannuation technical sub-committee of the National Tax Liaison Group.

APRA meets regularly with other official and industry organisations. It cooperates closely with the Private Health Insurance Administration Council (PHIAC), which has responsibility for supervising providers of health insurance. Over the year, APRA provided support to

PHIAC in applying a risk-based supervision methodology to health insurance funds, by making specialist insurance supervisors available to assist in the review of PHIAC-regulated institutions and through access to APRA training. There is regular exchange of information on jointly supervised institutions. APRA works closely, as well, with State regulatory bodies for compulsory third-party (CTP) motor vehicle insurance (the Motor Accidents Authority of New South Wales and the Motor Accident Insurance Commission of Queensland) and has commenced discussions on liaison arrangements with authorities in the Australian Capital Territory (ACT), following the introduction of CTP legislation in the ACT in January 2008.

APRA also liaises with the Financial Reporting Council and the two Boards it oversees: the Australian Accounting Standards Board (AASB) and the Australian Auditing and Assurance Standards Board (AuASB). In July 2008, the Government appointed APRA Member Mr John Trowbridge to the Council for a three-year term. APRA also contributed to the AASB's work on reporting by superannuation funds and to the AuASB's development of guidance for auditors of ADIs and general insurers.

APRA is a permanent member of the Banking and Finance Infrastructure Assurance Advisory Group (BFAG) and currently provides the Deputy Chair. Established under the Government's Trusted Information Sharing Network, BFAG aims to strengthen the financial system's ability to respond to an industry-wide operational disruption; it operates under an umbrella public-private partnership framework for sharing security-related information that affects critical infrastructure. Membership comprises representatives from many major financial institutions, financial markets, industry associations and State and Australian Government agencies. Key areas of recent focus have been improving sector-wide crisis communications capabilities, developing more robust cyber security arrangements and fostering the development of disaster response and recovery capabilities. During the year, BFAG also conducted a pandemic preparedness exercise to enable participating institutions to test their pandemic plans and to help identify any additional information requirements for managing a human influenza pandemic.

Industry organisations with which APRA liaises directly include the ABA, Abacus – Australian Mutuals, the AFC, IFSA, ICA, AFSA, the Corporate Superannuation Association, the Australian Institute of Superannuation Trustees and ASFA. APRA also liaises with professional associations and institutes such as those for accountants, actuaries, administrators, auditors, company directors, financial planners, managers and trustees. APRA's regional offices also have wide-ranging liaison programs with regional offices of ASIC, industry bodies and professional associations.

The actuarial profession has historically played an important role in financial management and prudent risk management in the general insurance, life insurance and superannuation industries, both in its statutory role of Appointed Actuary and through providing advice on financial and risk management issues to boards and management of institutions with which they are involved. In life insurance particularly, the importance of actuarial input into the financial management of the business was recognised in the establishment of the Life Insurance Actuarial Standards Board (LIASB), under the *Life Insurance Act 1995*, to determine standards in relation to valuation and capital management of life insurance business. With effect from 1 January 2008, the standard-setting powers of the LIASB were transferred to APRA (see Chapter 3). Since its establishment, APRA has built up its in-house actuarial skills and resources but it is also conscious of the need, in fulfilling these additional responsibilities, to have continued access to actuarial expertise beyond its own resources. Hence, it is looking to enhance the level and scope of its dialogue on matters of mutual interest with the Institute of Actuaries of Australia (IAAust) and the profession generally. In addition to the regular meetings previously held with representatives of the relevant practice committees of the IAAust and with its Executive, APRA is looking to establish more formal dialogue on a regular basis with Appointed Actuaries as a group. The active involvement of APRA's actuarial staff in the committees and task forces of the IAAust will also continue.

International liaison

APRA's links with overseas regulatory agencies provide important input into its risk assessment of APRA-regulated institutions that also operate in other jurisdictions and of foreign financial institutions for which APRA is 'host' supervisor. The value of such links has been acknowledged by the Financial Stability Forum, which has recommended that supervisory 'colleges' of relevant supervisors and central banks be formed for the largest cross-border banks and insurance companies. APRA has been invited to participate in some of these colleges. Following the signing of a MoU with the Monetary Authority of Singapore during the year, APRA now has information-sharing arrangements (which can be viewed on the APRA website) with 16 overseas regulators and several other MoUs are under discussion. APRA has also been involved in work by the International Association of Insurance Supervisors to put in place a multilateral MoU template and vetting mechanism. APRA was among the first agencies to submit an application for accession to these arrangements and it has also provided staff resources to assist in validation of applications from other jurisdictions, 12 of which have been lodged to date.

Because of the high degree of interdependency between the Australian and New Zealand banking markets, APRA's closest links with an overseas regulatory agency are with the Reserve Bank of New Zealand (RBNZ), the bank regulator in New Zealand. The four major Australian banking groups have around a 90 per cent share of New Zealand banking systems assets and New Zealand banking assets comprise around 14 per cent of the groups' total assets. APRA and the RBNZ have built an open and cooperative relationship, best evidenced by the coordinated approach to the implementation of the Basel II Framework in both countries under the Terms of Engagement signed in March 2005. Extensive dialogue and information-sharing culminated in simultaneous approvals to certain trans-Tasman banks to adopt the advanced Basel II approaches in both Australia and New Zealand from 1 January 2008 (and one subsequent approval from 1 July 2008). APRA's relationship with the RBNZ also involves regular information exchange on ongoing supervisory issues, frequent meetings between supervisory staff, staff secondments, shared training and joint supervisory visits to trans-Tasman banks.

APRA and the RBNZ, together with the RBA and the Treasuries of Australia and New Zealand, are also members of the Trans-Tasman Council on Banking Supervision. The Council was established in February 2005 with the aim of enhancing cooperation and information-sharing between respective supervisors of trans-Tasman banks, promoting and regularly reviewing trans-Tasman crisis response preparedness relating to events that involve banks common to both countries, and guiding the development of policy advice to both governments. During 2007/08, the work program of the Council included strengthening cooperation on crisis management, promoting seamless service provision for customers and sharing experiences on improving the quality of insurance regulation. On the issue of seamless services, consultation with industry has suggested that, after recent legislative reforms in both countries, regulation was no longer a significant barrier although there was scope to align product disclosure and anti-money laundering requirements.

APRA's international liaison activities also aim to give Australia a strong voice in global reform initiatives and APRA is actively involved in a range of international groups and fora that have carriage of these initiatives. These include:

- **International Association of Insurance Supervisors (IAIS).** This group develops and issues global insurance principles, standards and guidance papers, provides training and support on issues related to insurance supervision and organises meetings and seminars for insurance supervisors. Its work in promoting financial stability, in conjunction with other standard-setting bodies and international organisations, is particularly relevant in the current climate. APRA has had a significant involvement with the IAIS since its formation, through continued representation on the IAIS Executive and Technical Committees and active participation in the Accounting, Insurance Contracts, and Solvency sub-committees. In September 2007, APRA hosted meetings of each of these sub-committees in Sydney. Over 2007/08, the main priorities for the IAIS have been finalising a risk-based solvency framework for insurers and working with the International Accounting Standards Board (IASB) on insurance liability valuation and reporting. The IAIS has also made further progress in the areas of disclosure, corporate governance, market conduct, reinsurance and risk transfer, and supervision of financial conglomerates; it is also looking to revise its Insurance Core Principles in the coming year. Even when not directly represented on the relevant IAIS sub-committee, APRA contributes to the development of standards, guidance and other papers in areas of particular relevance to Australia.

- **Basel Committee on Banking Supervision.** Although Australia is not a member of the Basel Committee, APRA is represented on a number of its working groups and sub-committees. APRA is a member of the International Liaison Group (ILG), which is the major vehicle for consultation between the Basel Committee and non-member countries, and of the ILG's Working Group on Capital. APRA also participates in various sub-groups involved in the implementation of the Basel II Framework, including the Validation and Operational Risk sub-groups of the Accord Implementation Group. The Validation sub-group (AIGV) explores issues related primarily to the validation of rating systems that serve as inputs into the internal ratings-based approaches to credit risk, while the Operational Risk sub-group (AIGOR) investigates issues related primarily to the implementation of the advanced measurement approaches for operational risk. APRA will be one of the key participants in a loss data collection exercise, set up by AIGOR in 2008 as the first collaborative effort to collect major data elements relevant to the advanced measurement approaches.

  APRA participates as an observer on the Basel Committee's Accounting Task Force (ATF) and contributes to the work of various ATF sub-groups. The ATF engages with global accounting and auditing standard-setters on international financial reporting and auditing standards and assesses their impact on prudential regulation. It is currently working on a range of issues relating to risk disclosures and valuation in response to the recommendations of the Financial Stability Forum. APRA also participates in two Basel Committee subsgroups dealing with the definition of capital and with liquidity. The latter sub-group has developed two Basel Committee papers on liquidity risk management in 2008, and APRA's participation has provided it with excellent insights into international policy developments on liquidity.

  A senior officer of APRA is on secondment to the Basel Committee Secretariat.

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

  The work of the Joint Forum encompasses issues relating to financial conglomerates and other issues that are common across the banking, insurance and securities sectors. The main focus of current activities is an update, requested by the Financial Stability Forum, on credit risk transfer markets, to supplement the original report on these markets by the Joint Forum in 2005. This update will be published during 2008. Further work on credit rating agencies will also be undertaken. In addition, the Joint Forum is carrying out a review of the implementation of its 1999 principles of conglomerate supervision; APRA is participating in this review. Recent publications by the Joint Forum deal with the assessment of customer suitability in the sale of retail financial services and products, and a cross-sector review of the identification and management of risk concentrations across financial conglomerate groups.

- **International Organisation of Pension Supervisors (IOPS)**. This is an independent body representing agencies involved in the supervision of private pension arrangements. It was formed in 2004 to become the global standards-setter for the pensions industry, to promote international cooperation on pension supervisory issues and to provide a global forum for policy dialogue and exchange of information on these matters. IOPS now has around 60 members and observers representing more than 50 countries at different levels of economic development and with a variety of pension and supervisory systems.

  APRA is on the foundation board of IOPS and a member of the Technical Committee. In late 2007, the Deputy Chair of APRA, Mr Ross Jones, was elected President of IOPS for a three-year term. During the year, APRA finalised its contribution to the licensing guidelines produced jointly by IOPS and the Organisation for Economic Cooperation and Development (OECD), which have now been published, and provided input to work on supervisory structures and processes, governance matters and risk-based supervision. APRA is currently participating in the development of guidelines for the use of intervention, enforcement and sanctions powers, and modules for a risk-based supervision 'toolkit'.

- **OECD Insurance and Private Pensions Committee (IPPC)**. APRA is represented on the IPPC, which focuses 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. The Deputy Chair of APRA, Mr Ross Jones, is Vice-Chairman of the IPPC Working Party on Private Pensions.

- **International Actuarial Association (IAA).** The IAA is dedicated to research, education and development of the actuarial profession and national actuarial associations. It oversees development of guidance notes relating to areas of international actuarial practice; those of most relevance to APRA relate to the measurement of liabilities for insurance contracts and the development and management of internal models. This work is now close to finalisation. Over the year, the direct involvement of senior APRA staff in IAA activities has reduced as APRA has re-focussed its international involvement on matters of more direct prudential relevance and as the terms of APRA participants as chairs or members of IAA committees concluded. Going forward, APRA staff will continue to have some indirect involvement through the Institute of Actuaries of Australia (IAAust).

APRA meets annually with integrated supervisory agencies from a number of countries to discuss issues arising out of the integrated supervisory model. At the 10th such conference, in May 2008, the subjects considered included cross-sector and cross-border aspects of recent global financial market turmoil, performance indicators for supervisors, media communication policies, organisational challenges (such as cooperation with the central bank and information-sharing within the organisation), and corporate governance.

Together with the RBA, APRA is a member of the Working Group on Banking Supervision of the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), which brings together central banks, monetary authorities and banking supervisors within the region. The Working Group provides a forum to discuss regional financial and prudential developments, which over the year included financial stability issues and implementation of the Basel II Framework. EMEAP facilitates a number of training initiatives to which APRA provides speakers from time to time. In November 2007, APRA and the RBA jointly hosted the Financial Stability Institute/EMEAP High Level Meeting on Regulatory Capital and Issues in Financial Stability in Sydney.

Technical assistance

APRA continues to support the deepening of institutional capacity among its Asian and Pacific regulatory counterparts through a series of tailored technical assistance programs, principally funded by AusAID. These programs seek to assist regulators 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. The importance of APRA's contribution of technical and other assistance is recognised in the Government's *Statement of Expectations* of APRA.

In the Pacific, APRA administers two distinct but complementary programs under the auspices of the Government's multilateral Pacific Governance Support Program (PGSP). The Pacific Prudential Regulator Internship Project places staff from Pacific prudential regulators within APRA's frontline supervisory divisions for a period of between four to 17 weeks to learn about prudential supervision techniques. 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 2007/08, APRA hosted 10 Pacific interns, seven from Papua New Guinea and one each from Samoa, Fiji and the Federated States of Micronesia, while APRA supervisors undertook five on-site training programs in Papua New Guinea and Fiji. APRA is confident that the two programs in tandem make a worthwhile contribution to deepening capacity and improving prudential supervision across the Pacific region.

In Asia, APRA's engagement is primarily focussed on, but not limited to, technical assistance activities with BAPEPAM-LK, Indonesia's integrated regulator of securities markets and non-bank financial institutions. A multi-year initiative funded under the auspices of the Government Partnership Fund (GPF) aims to assist BAPEPAM-LK to improve economic governance and public sector management as part of the Australia-Indonesia Programme for Reconstruction and Development. APRA hosted eight interns from Indonesia during the past year to build their skills in developing a risk-rating and supervisory oversight model and to understand APRA's statistical collection procedures. A notable achievement in 2007/08, the fourth year of a planned five-year engagement, was the launch of a new risk-rating model (based on APRA's PAIRS framework) by the Pensions Directorate of BAPEPAM-LK in Jakarta in June, attended by 500 local industry representatives. APRA's assessment that the GPF program has contributed significantly to improving standards of prudential supervision in Indonesia has been supported by the findings of an independent review of the program conducted on behalf of AusAID. APRA also continues to support capacity-building efforts at Bank Indonesia, including providing a market risk workshop for Bank Indonesia staff in Jakarta.

The Association of Financial Supervisors of Pacific Countries facilitates cooperation between regulators in the region. 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 workshop and providing administrative support for training initiatives when conducted in Australia.

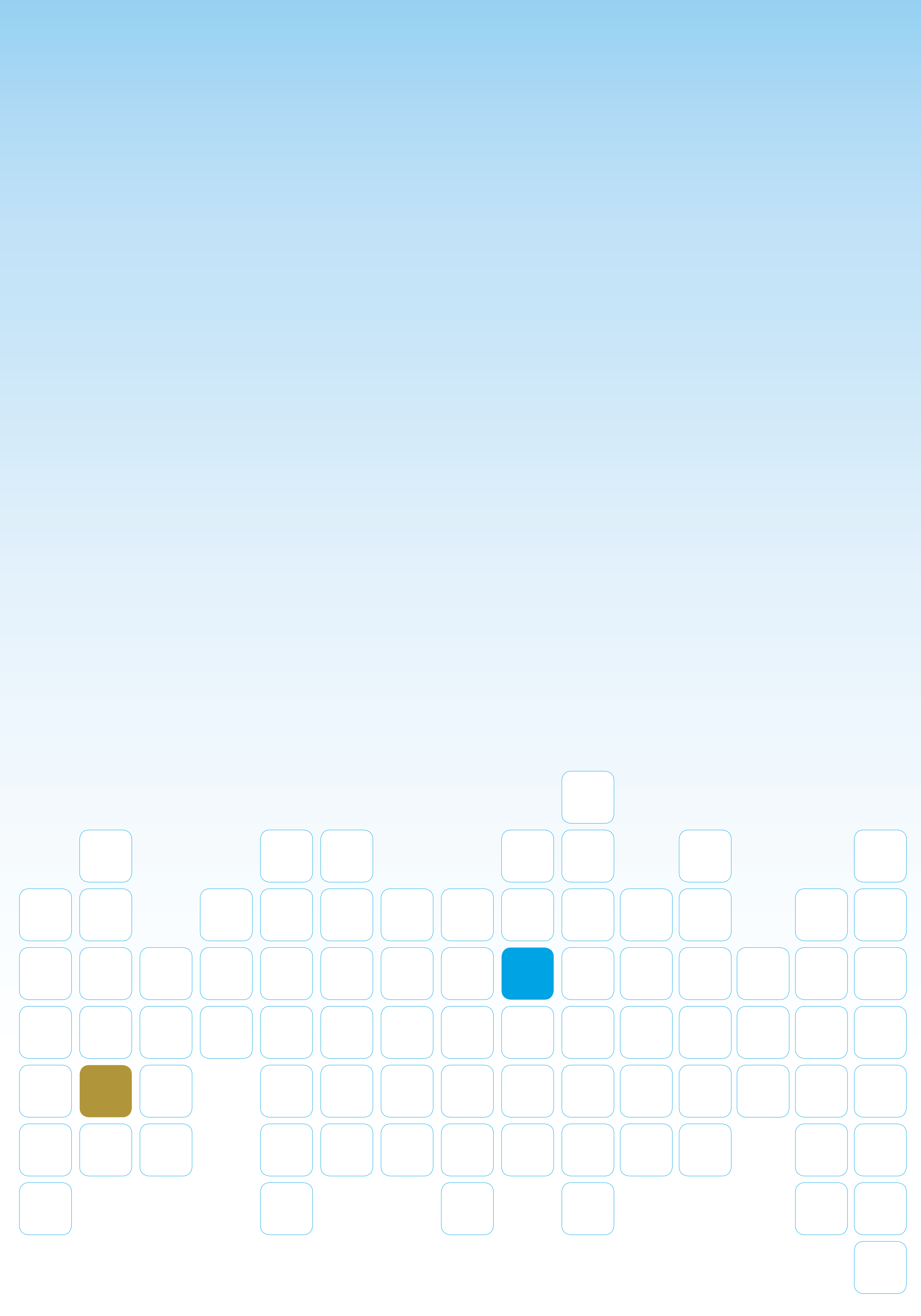
APRA is also a member of:

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

APRA also participates as an observer in the South-East Asian Central Banks (SEACEN) Conference of Directors of Supervision.

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 APEC Study Centre at Monash University and the SEACEN Institute. During 2007/08, APRA provided 10 speakers to conferences organised by the Financial Stability Institute, which are often co-hosted with other regional bodies.

During the year, APRA hosted 85 international delegations from regulatory agencies, central banks, multilateral organisations, industry bodies and private sector organisations. Almost two-thirds of the delegations were from developing countries and more than a quarter from China. Areas of interest were wide-ranging and included APRA's functions and operations, prudential policy development, the stability of global financial markets, risk-based supervision, and superannuation prudential policy and supervisory practice. There were a significant number of inquiries about the requirements for establishing operations in Australia.



Chapter 6

APRA's costs and performance

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

Financial performance

APRA's expenditure

APRA's total operating expenditure in 2007/08 was $101.5 million. This included costs of $1.1 million in relation to the HIH Royal Commission, costs of $0.2 million for the Government's Standard Business Reporting program and costs of $0.7 million that are covered by additional revenue sources. Excluding these amounts, operating expenditure was $99.5 million, compared with the budget of $96.7 million.

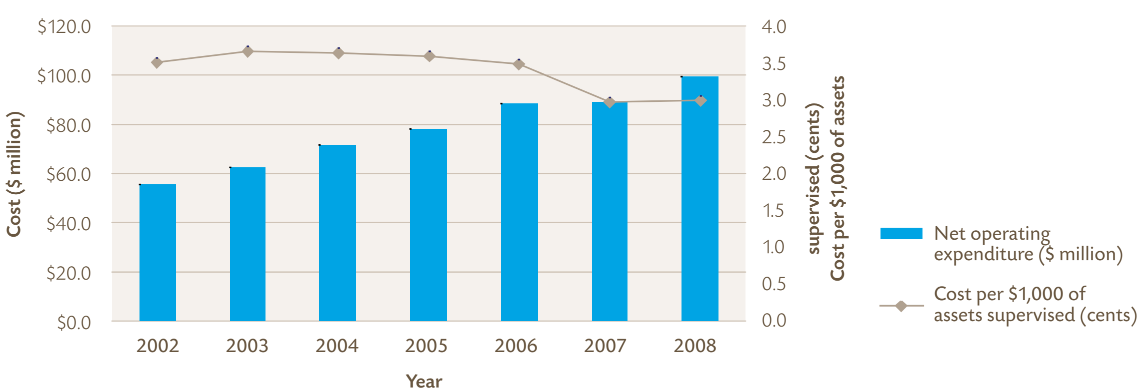
APRA's operating expenditure has risen significantly in absolute terms over the past five years, a period in which APRA has been building up its supervisory numbers and capabilities and actively upgrading the prudential framework. However, relative to the value of assets supervised by APRA, costs have fallen steadily, to around three cents per $1,000 of assets supervised in 2007/08.

APRA's income

APRA is funded primarily from levies collected from supervised financial institutions, with a contribution from interest earnings, fees for services and miscellaneous cost offsets. Included within revenue in 2007/08 is $1.1 million of a separate appropriation from the Government in relation to the HIH Royal Commission; the unspent balance has been carried forward to 2008/09. In addition, $0.2 million of a special appropriation for the Government's Standard Business Reporting program was recognised as income in 2007/08.

Levies are raised according to the *Financial Institutions Supervisory Levies Collection Act 1998* and six other Acts applying to the main industry sectors. Prior to the beginning of each financial year, the Minister announces the levy determinations for each industry sector with a rate to be applied on assets, subject to a minimum and maximum amount per institution, except for non-operating holding companies that are levied at a flat rate. The levies collected by APRA also cover some costs of ASIC and the ATO. The process includes consultation with the main industry representative groups and the Treasury. Levies are based on industry sectors. In addition, levies are collected to cover the costs of the National Claims and Policies

APRA's costs



Database with a rate applied to the gross earned premiums of general insurance contributors. The total levies collected by APRA for all three agencies in 2007/08 were $103.6 million, compared with the plan of $102.4 million.

APRA's total revenue from ordinary activities in 2007/08 was $88.0 million. After adjusting for HIH Royal Commission funding and additional revenue from direct cost recoveries, and including interest earnings (through a special appropriation), net revenue was $86.0 million, compared with the original budget of $82.2 million. As planned, APRA returned $14.7 million to industry sectors in 2007/08 by way of reduced levies, comprising $8.5 million in previous over-collections of levies and $6.2 million of excess reserves built up in prior periods.

Reserves

APRA had an operating deficit from ordinary activities of $13.3 million in 2007/08, the counterpart largely of the planned return of reserves to industry. As a consequence, total reserves, including accumulated surpluses, fell to $19.8 million. Included in this amount is a $6.0 million Contingency Enforcement Fund that is available to be used for large unexpected investigation and enforcement activities.

Business planning

APRA formalised its business planning process in 2005/06 and introduced a three-year Strategic Plan designed to ensure that APRA delivered on its supervisory responsibilities in an efficient and effective way. The Strategic Plan sets out APRA's strategic direction over the three financial years 2006/07 to 2008/09. The Plan is reviewed each year in the light of developments in APRA's external operating environment.

The Plan identifies seven strategic objectives and the initiatives APRA will undertake to meet them. The objectives are to:

- conduct effective, ongoing supervision of all APRA-regulated entities in accordance with APRA's Framework for Prudential Supervision;
- consolidate the prudential framework by completing APRA's major prudential reform agenda, promoting harmonised prudential standards across industries and examining ways of removing unnecessary regulatory burden;
- enhance the efficiency and effectiveness of APRA's supervisory tools and systems by strengthening the governance of major systems and infrastructure developments, improving the dissemination of technical and industry advice and through better workflow and document management;
- enhance APRA's effectiveness by continuing to ensure it recruits and retains the right people for the job, develops the skills and knowledge of its staff and deploys them where they are most needed in APRA;
- improve communications, both internally and externally, to ensure that APRA staff have the most up-to-date information about issues facing APRA and that Government, industry and the financial community are aware of and confident in the role and activities of APRA;
- remain well prepared for a crisis affecting APRA's own operations, a financial crisis in a regulated institution and a systemic crisis such as a pandemic or act of terrorism; and
- review management practices to ensure that APRA has robust risk management, internal systems and control processes.

The Strategic Plan forms the basis for annual divisional business plans and 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.

Supervisory performance

APRA publishes information from two different sources to provide broad quantitative indicators of its supervisory performance.

Firstly, APRA has developed 'transition matrices' to track the migration of institutions between the four SOARS supervision stances (see Chapter 4). APRA's goal is that institutions in Oversight because of weaknesses in management and control, or in capital support, take appropriate action that would see them return to Normal in due course. However, some institutions may remain in Oversight indefinitely if their business plans or risk appetite makes that appropriate; APRA's strategy with such institutions is close monitoring and communication. APRA does not expect institutions to be permanently classified as Mandated Improvement, while institutions in Restructure will, in the absence of substantial improvement, be assisted to exit the industry in an orderly fashion.

Over the past two years, the majority of institutions in Normal remained in that stance and institutions in Oversight mostly remained where they were or improved. More than half of institutions in Mandated Improvement exited the industry but the exit of institutions in Restructure, around half of which are general insurers in run-off, takes longer to effect.

Over the past five years, a total of 183 institutions have been either in Mandated Improvement or Restructure. Of that total, 54 have improved, 20 remain in their SOARS category and 109 have exited without loss to beneficiaries, except in the case of one small superannuation institution.

While it is not possible to compare these outcomes with what would have happened had APRA not intervened, the direction of movement of institutions in these two supervisory stances is consistent with timely and effective intervention on APRA's part and – for those institutions exiting the market – a receptive market for financial assets and businesses that facilitated orderly exit.

Entities in Mandated Improvement (2003/08)

Current stance	Total
Normal	17
Oversight	32
Mandated Improvement	15
Restructure	0
Exit	79
Failure	1
Total	144

Entities in Restructure (2003/08)

Current stance	Total
Normal	4
Oversight	1
Mandated Improvement	0
Restructure	5
Exit	29
Failure	0
Total	39

SOARS matrix (2006/08)
(%)

From/to	Normal	Oversight	Mandated Improvement	Restructure	Exit	Failure
Normal	75	13	0	0	12	0
Oversight	26	58	3	0	14	0
Mandated Improvement	0	33	11	0	56	0
Restructure	11	11	0	56	22	0

Secondly, APRA publishes two headline performance indicators linked to financial failures and losses to beneficiaries. These indicators are:

- the Performing 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.

These indicators are, however, silent about target outcomes against which APRA's performance can be assessed. The Government's *Statement of Expectations* of APRA has 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 99.94 per cent and the annual MPR, which is dominated by the losses associated with HIH, has averaged 99.94 per cent.

Internationally, it is recognised that it is difficult to measure the direct contribution of prudential supervision to the overall safety and performance of the financial system. APRA is continuing its research into additional indicators of its supervisory effectiveness and the benefits of a robust prudential supervision framework.

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	5	12	4,473	877,172	99.89	99.99
2000	3	308	4,407	993,369	99.93	99.97
2001	5	5,341[4]	4,350	1,043,111	99.89	99.49
2002	2	140	3,803	1,009,373	99.95	99.97
2003	5	20	3,252	1,068,081	99.85	99.99
2004	1	0[5]	2,745	1,207,119	99.96	100.00
2005	0	0	2,099	1,346,253	100.00	100.00
2006	0	0	1,596	1,548,454	100.00	100.00
2007	1	0[5]	1,244	1,837,363	99.92	100.00
2008	0	0	1,129	1,943,376	100.00	100.00

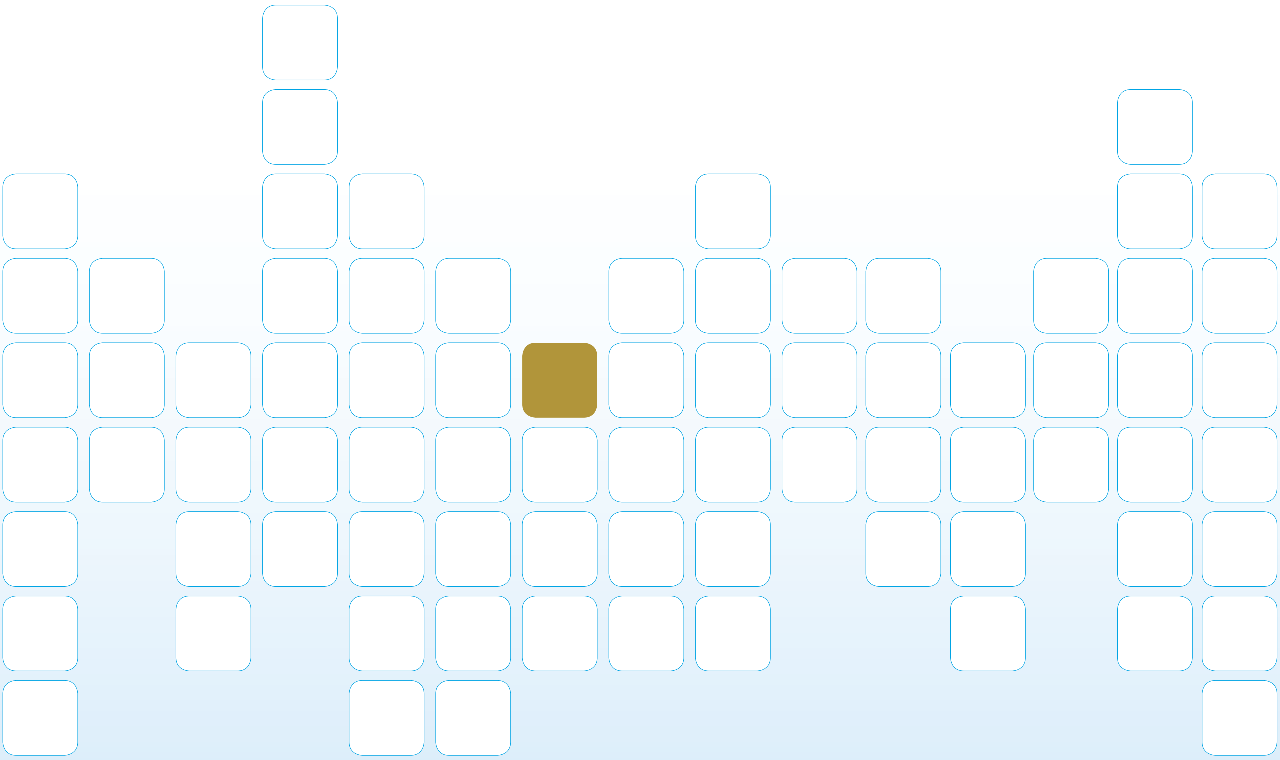
1 Failures have been redefined to include failures due to employer sponsors in superannuation funds. Prior year measurements, which had excluded such failures, have been changed accordingly. Failures exclude unresolved cases; if these later become failures, the prior year measurements are changed accordingly.

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

3 Protected Accounts is an estimate of the funds protected by APRA as defined by relevant legislation and is less than the total assets held by APRA-regulated institutions, which were $3,413 billion at end-June 2008.

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.



Chapter 7

Governance

Governance structure

APRA's governance structure is constituted under Part 3 of the *Australian Prudential Regulation Authority Act 1998* and comprises a full-time Executive Group of at least three and no more than five Members. The Executive Group is responsible and accountable for the operation and performance of APRA.

APRA has the dual role of regulating bodies in the financial sector and developing the administrative practices and procedures to be applied in performing that regulatory role. In performing and exercising its functions and powers, APRA is required to balance the objectives of financial safety and efficiency, competition, contestability and competitive neutrality and, in balancing these objectives, is to promote financial system stability in Australia.

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

The Executive Group meets formally on a monthly basis, and more frequently as required, to discuss and resolve the major prudential policy, supervisory and strategic issues facing APRA at the time. It also holds Management Group meetings with APRA's senior management 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 2007 to 30 June 2008

	Meetings	Attended
John Laker	22	22
Ross Jones	22	16
John Trowbridge	22	20

Details on APRA Members are provided on pages 64-65 of this Report.

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 and compliance framework and its external accountability responsibilities.

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

The members of the Committee in 2007/08 were:

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

Chair

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

Mr Norbury Rogers AO
BCom (Qld), AAUQ, Hon D Econ (Qld), FCA, FAICD

External member

Mr Rogers, who has been appointed for a five-year term, is a chartered accountant and company director and is a senior consultant to Ernst & Young, having spent many years as its Managing Partner and Senior Partner in Brisbane. Mr Rogers holds a number of directorships, including Chairman of UniQuest Pty Limited and Business Management Limited and director of Magellan Petroleum Australia Ltd. He was Chairman of the compliance committee of Suncorp Metway Investment Management Limited for over six years. Mr Rogers is a member of the Senate of the University of Queensland and currently chairs the University's Finance and Investments Committees.

Mr John Trowbridge
APRA Member

Mr Wayne Byres (from 1 July 2007 to 30 June 2008)
Executive General Manager – Diversified Institutions

Attendance at Risk Management and Audit Committee meetings from 1 July 2007 to 30 June 2008

	Meetings	Attended
Elizabeth Alexander	4	4
Norbury Rogers	4	4
John Trowbridge	4	4
Wayne Byres	4	3

Risk Assessment and Internal Audit

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

The unit is independent of APRA's management structure and has a direct reporting line to the Chair of the Risk Management and Audit Committee. It is staffed by officers with extensive audit and prudential supervision experience.

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

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

Fraud risk management is an ongoing focus within APRA. APRA has a comprehensive fraud control framework, which was the subject of a detailed review during 2007/08 in line with Government requirements. 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 fraud reported for the year. Specific compulsory online fraud awareness training has been developed during 2007/08 and will be delivered to all staff during 2008/09.

Other governance matters

The *Statutory report* provides details of various other aspects of governance in APRA, including executive and consultative committees.

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.

Dr Laker worked in the Commonwealth Treasury and International Monetary Fund before joining the Reserve Bank of Australia (RBA) in 1982. He held senior positions in the economic, bank supervision and international areas before becoming the RBA's London-based Chief Representative in Europe from 1991 to 1993. On his return to Australia, Dr Laker took up the position of Assistant Governor (Corporate Services) and, in 1998, was appointed Assistant Governor (Financial System) and Deputy Chair of the RBA's Payments System Board. Dr Laker is APRA's representative on the Payments System Board, the Council of Financial Regulators and the Trans-Tasman Council on Banking Supervision. Dr Laker was appointed an Officer of the Order of Australia on Australia Day 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 was appointed as a Member and Deputy Chairman of APRA on 1 July 2003, and was reappointed for a second five-year term commencing 1 July 2008.

Prior to joining APRA, Mr Jones held the position of Commissioner at the Australian Competition and Consumer Commission (ACCC) with responsibilities for mergers and acquisitions and telecommunications. He has worked as an economic consultant to the private and public sector and undertaken extensive work with the ACCC, the Trade Practices Commission and the Prices Surveillance Authority, as well as a number of competition authorities overseas. Mr Jones was an Associate Professor in the School of Finance and Economics at the University of Technology Sydney (UTS) and a former Chairman of the International Air Services Commission. He is President of the International Organisation of Pension Supervisors, Deputy Chairman of the OECD Working Party on Private Pensions and a member of the Singapore Central Provident Fund Advisory Panel.

Mr John Trowbridge

BSc (Syd), BE (Syd), BA (ANU), FIA, FIAA
Member

Mr Trowbridge was appointed as a Member of APRA for a three-year term, commencing 1 July 2006.

Mr Trowbridge founded Trowbridge Consulting in 1981, a firm which became a leading actuarial and management consulting firm during the next 20 years. He had previously worked with Commonwealth Treasury (Government Actuary's Office) and had also held senior executive positions with QBE Insurance. In his time as a consultant, Mr Trowbridge's clientele included all major Australian insurance companies, banks and wealth management companies, governments or government authorities in all Australian States and New Zealand, and numerous major industrial organisations. He was President of the Institute of Actuaries of Australia in 1998 and served as a member of the Treasurer's Financial Sector Advisory Council from 1998 to 2004. Since completing his consulting career in 2002, he has held executive and director positions with insurance and reinsurance companies and has also had advisory roles examining various financial sector issues. Mr Trowbridge is a member of the Financial Reporting Council.

Statement by Members

In our opinion, the attached financial statements for the year ended 30 June 2008 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.

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

Dr John F. Laker Chairman 28 August 2008	Mr K. Ross Jones Deputy Chairman 28 August 2008	Mr John Trowbridge Member 28 August 2008

Chapter 8

Financial statements

Income Statement
for the year ended 30 June 2008

	Note	2008 $'000	2007 $'000
Income			
Revenue			
Revenue from Government	5A	**81,497**	97,832
Sale of goods and rendering of services	5B	**5,286**	5,306
Rental income	5C	**79**	737
Other revenues	5D	**1,163**	645
Interest	5E	**–**	3,608
Total revenue		**88,025**	108,128
Gains			
Sale of assets	5F	**–**	11
Other gains	5G	**171**	22
Total gains		**171**	33
Total income		**88,196**	108,161
Expenses			
Employee benefits	6A	**68,217**	61,001
Suppliers	6B	**30,043**	26,737
Depreciation and amortisation	6C	**3,195**	3,272
Write-down and impairment of assets	6D	**2**	24
Loss from disposal of assets	6E	**2**	28
Total expenses		**101,459**	91,062
Operating (deficit) / surplus		**(13,263)**	17,099

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

Balance Sheet
as at 30 June 2008

	Note	2008 $'000	2007 $'000
Assets			
Financial assets			
Cash and cash equivalents	7A,18B	**31,350**	46,626
Trade and other receivables	7B,18B	**4,163**	1,892
Total Financial Assets		**35,513**	48,518
Non-financial assets			
Infrastructure, plant and equipment	8A	**7,527**	5,102
Intangibles	8B	**4,897**	3,419
Other non-financial assets	8C	**1,571**	902
Total non-financial assets		**13,995**	9,423
Total assets		**49,508**	57,941
Liabilities			
Payables			
Suppliers	9A,18B	**1,489**	–
Other payables	9B,18B	**2,182**	3,511
Unearned fees and charges	9C,18B	**1,244**	2,079
Total payables		**4,915**	5,590
Provisions			
Employee provisions	10A	**19,677**	17,245
Other provisions	10B	**1,935**	2,303
Total provisions		**21,612**	19,548
Total liabilities		**26,527**	25,138
Net assets		**22,981**	32,803
Equity			
Contributed equity		**3,155**	3,155
Reserves		**9,809**	6,368
Retained surpluses		**10,017**	23,280
Total equity		**22,981**	32,803
Current assets		**37,084**	49,420
Non-current assets		**12,424**	8,521
Current liabilities		**21,305**	20,347
Non-current liabilities		**5,222**	4,791

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

Statement of Changes in Equity
for the year ended 30 June 2008

	Accumulated results		Asset revaluation reserves		Contingency enforcement fund		Contributed equity		Total equity	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000	**2008 $'000**	2007 $'000	**2008 $'000**	2007 $'000	**2008 $'000**	2007 $'000
Opening balance	**23,280**	12,181	**368**	367	**6,000**		**3,155**	3,155	**32,803**	15,703
Income and expense										
Revaluation adjustment			**3,441**	1					**3,441**	1
Subtotal income and expenses recognised directly in equity			**3,441**	1					**3,441**	1
(Deficit)/surplus for the period	**(13,263)**	17,099							**(13,263)**	17,099
Total income and expenses	**(13,263)**	17,099	**3,441**	1					**(13,263)**	17,100
Transfers between equity components		(6,000)				6,000				–
Closing balance at 30 June	**10,017**	23,280	**3,809**	368	**6,000**	6,000	**3,155**	3,155	**22,981**	32,803

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

Statement of Cash Flows
for the year ended 30 June 2008

	Note	2008 $'000	2007 $'000
Operating activities			
Cash received			
Appropriations		**81,298**	100,104
Goods and services		**2,613**	9,489
Rental income		**79**	737
Net GST received		**2,916**	2,017
Other		**1,163**	673
Total cash received		**88,069**	113,020
Cash used			
Employees		**(65,638)**	(59,810)
Suppliers		**(32,985)**	(32,134)
Total cash used		**(98,623)**	(91,944)
Net cash (used by) / from operating activities	11	**(10,554)**	21,076
Investing activities			
Cash received			
Proceeds from sales of property, plant and equipment		**–**	11
Investments		**–**	14,849
Total cash received		**–**	14,860
Cash used			
Purchase of property, plant and equipment		**(2,228)**	(1,282)
Purchase of intangibles		**(2,494)**	(1,460)
Total cash used		**(4,722)**	(2,742)
Net cash (used by) / from investing activities		**(4,722)**	(12,118)
Net (decrease) or increase in cash held		**(15,276)**	33,194
Cash at the beginning of the reporting period		**46,626**	13,432
Cash at the end of the reporting period	7A	**31,350**	46,626

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

Schedule of Commitments
as at 30 June 2008

	2008 $'000	2007 $'000
By type[1]		
Other commitments		
Operating leases	**30,627**	12,249
Total other commitments	**30,627**	12,249
Commitments receivable		
GST receivable	**(2,784)**	(1,108)
Operating sub-lease	**–**	(61)
Total commitments receivable	**(2,784)**	(1,169)
Net commitments by payable	**27,843**	11,080
By maturity		
Operating lease commitments		
One year or less	**6,381**	5,805
From one to five years	**21,186**	5,103
Over five years	**276**	172
Total operating lease commitments	**27,843**	11,080
Net commitments by maturity	**27,843**	11,080

Nature of lease	General description of leasing arrangement
Leases for office accommodation	Lease payments are subject to annual review to prevailing market rates. Office leases, with current expiry dates shown in brackets, are current for space in Sydney (various levels 2012), Canberra (2011), Melbourne (2012), Adelaide (2009), Brisbane (2012) and Perth (2008 and 2012).
Leases for office equipment	Lease payments are set for the period of the lease (2012).

[1] Commitments are stated inclusive of GST, which is deducted to show net commitments payable. The prior year has been adjusted for comparative purposes.

Schedule of Contingencies
as at 30 June 2008

	Note	2008 $'000	2007 $'000
Contingent assets			
Total contingent assets		–	–
Contingent liabilities	12		
Balance from previous period		(1,330)	(1,330)
New		–	–
Re-measurement		830	–
Liabilities crystallised		–	–
Obligations expired		–	–
Total contingent liabilities		(500)	(1,330)
Net contingencies		(500)	(1,330)

Contingent liabilities arise from claims for damages and/or costs.

Details of each class of contingent liabilities and assets, including those not disclosed above because they cannot be quantified or are considered remote, are shown in Note 12: *Contingent liabilities and assets*.

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

Schedule of Administered Items

	Note	2008 $'000	2007 $'000
Income administered on behalf of Government			
for the year ended 30 June 2008			
Taxation revenue			
Financial Institutions Supervisory Levies	19	**103,754**	113,010
Financial Assistance Levy	19	**6**	(34)
Total revenues administered on behalf of Government		**103,760**	112,976
Expenses administered on behalf of Government			
for the year ended 30 June 2008			
Supervisory Levy waivers and write-offs	20	**521**	447
Doubtful debts provision adjustment	20	**(326)**	308
Total expenses administered on behalf of Government		**195**	755
Assets administered on behalf of Government			
as at 30 June 2008			
Financial assets			
Receivables – Supervisory Levies	21	**838**	1,287
– Financial Assistance Levy	21	**–**	(6)
Total assets administered on behalf of Government		**838**	1,281
Liabilities administered on behalf of Government			
as at 30 June 2008			
Total liabilities administered on behalf of Government		**–**	–

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

Schedule of Administered Items (Continued)

	Note	2008 $'000	2007 $'000
Administered cash flows			
for the year ended 30 June 2008			
Operating activities			
Cash received			
Financial Institutions Supervisory Levies		**104,691**	110,974
Financial Assistance Levy		**–**	286
Cash received from Official Public Account for refunds		**682**	78
Total cash received		**105,373**	111,338
Cash used			
Refunds of overpayments of levies		**(680)**	(78)
Refunds for incorrect deposits		**(2)**	–
Total cash used		**(682)**	(78)
Net cash from operating activities		**104,691**	111,260
Net increase/(decrease) in cash held		**104,691**	111,260
Cash at the beginning of the reporting period		**–**	–
Cash to Official Public Account for:			
Financial Institutions Supervisory Levies		**(104,691)**	(110,974)
Financial Assistance Levy		**–**	(286)
Cash at the end of the reporting period	21	**–**	–

APRA administers the collection of Financial Institutions Supervisory Levies and Financial Assistance Levy on behalf of the Government. While the revenues from Supervisory Levies are in part used to fund the operations of APRA, they are not directly available to be used by APRA for its own purposes. All administered collections are remitted to the Government's Official Public Account (see Note 1.17). Transactions and balances relating to levies are reported in Note 19: *Income administered on behalf of Government*.

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

Notes to and Forming Part of the Financial Statements
for the year ended 30 June 2008

Note 1: Summary of significant accounting policies

1.1 Basis of preparation of the financial statements

On 1 July 2007, the Australian Prudential Regulation Authority (APRA) ceased to operate under the *Commonwealth Authorities and Companies Act 1997* and became a prescribed agency under the *Financial Management and Accountability Act 1997*. Refer to Note 3 for further details.

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

The statements and notes have been prepared in accordance with:

- Finance Minister's Orders (FMOs) for reporting periods ending on or after 1 July 2007; and
- Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial report has been prepared on an accrual basis and is in accordance with the historical cost convention, except for certain assets 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 report is presented in Australian dollars and values are rounded to the nearest thousand dollars unless disclosure of the full amount is specifically required.

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 the entity or a future sacrifice of economic benefits will be required and the amounts of the assets or liabilities can be reliably measured. However, assets and liabilities arising under agreements equally proportionately unperformed are not recognised unless required by an accounting standard. Liabilities and assets that are unrealised are reported in the *Schedule of Commitments* and the *Schedule of Contingencies*.

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

Administered revenues, expenses, assets and liabilities and cash flows reported in the *Schedule of Administered Items* and related notes are accounted for on the same basis and using the same policies as departmental items, except where otherwise stated at Note 1.16.

1.2 Significant accounting judgments and estimates

In the process of applying the accounting policies listed in this note, APRA has made the following judgments 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 2008.

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

Notes to and Forming Part of the Financial Statements
for the year ended 30 June 2008

1.3 Statement of compliance

Australian Accounting Standards require a statement of compliance with International Financial Reporting Standards (IFRS) to be made where the financial report complies with these standards. Some Australian equivalents to IFRS and other Australian Accounting Standards contain requirements specific to not-for-profit entities that are inconsistent with IFRS requirements. APRA is a not-for-profit entity and has applied these requirements. Hence, this financial report complies with Australian Accounting Standards including Australian Equivalents to International Financial Reporting Standards (AEIFRS), but not fully with IFRS.

Adoption of new Australian Accounting Standard requirements

No accounting standard has been adopted earlier than the application date as stated in the standard. The following new standard is applicable to the current reporting period:

Title	Nature of Change	Impact on Financial Report
AASB7 *Financial Instruments: Disclosures*	Revises the disclosure requirements for financial instruments from AASB132 requirements from 1 July 2007	No financial impact but affects disclosure requirements
AASB 2005-10	Amends AASB1, AASB4,AASB101,AASB 114 AASB1023, AASB1038 as a result of the issue of AASB7 *Financial Instruments: Disclosures*	No financial impact but affects disclosure requirements

The following amendments or interpretations to standards for the current financial year have no material financial impact on APRA:

Title	
AASB 2007-1	*Amendments to Australian Accounting Standards arising from AASB Interpretation 11*
AASB 2007-4	*Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments*
AASB 2007-5	*Amendments to Australian Accounting Standard – Inventories Held for Distribution by Not-for-profit Entities.*
AASB 2007-7	*Amendments to Australian Accounting Standards*
AASB 2008-4	*Amendment to Australian Accounting Standard – Key Management Personnel Disclosures by Disclosing Entities*
AASB Interpretation 10	Interim Financial Reporting and Impairment (AASB134, AASB136, AASB139)
AASB Interpretation 11	AASB 2 *Group and Treasury Share Transactions*
AASB interpretation 1003	Australian Petroleum Resource Rent Tax
AASB 1048	AASB 1048 *Interpretation and Application of Standards*
ERRATUM	Proportionate Consolidation AASB101, AASB107,AASB127, AASB Interpretation 113

Future Australian Accounting Standard requirements

The following amendments or interpretations to standards have been issued by the Australian Accounting Standards Board but are effective for future reporting periods. It is estimated that the impact of these changes when effective will have no material financial impact in future reporting periods:

Title	
AASB 3	*Business Combinations*
AASB 8	*Operating Segments*
AASB 101	*Presentation of Financial Statements*
AASB 123	*Borrowing Costs*
AASB 127	*Consolidated and Separate Financial Statements*
AASB 1004	*Contributions*
AASB 1049	*Whole of Government and General Government Sector Financial Reporting*
AASB 1051	*Land under Roads*
AASB 1052	*Disaggregated Disclosures*
AASB 2007-2	*Amendments to Australian Accounting Standards arising from AASB Interpretation 12*
AASB 2007-3	*Amendments to Australian Accounting Standards arising from AASB 8*
AASB 2007-6	*Amendments to Australian Accounting Standards arising from AASB 123*
AASB 2007-8	*Amendments to Australian Accounting Standards arising from AASB 101*
AASB 2008-1	*Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations*
AASB 2008-2	*Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations Arising on Liquidation*
AASB 2008-3	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127
AASB Interpretation 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities
AASB Interpretation 4	Determining Whether an Arrangement Contains a Lease
AASB Interpretation 12	Service Concession Arrangements
AASB Interpretation 13	Customer Loyalty Programmes
AASB Interpretation 14	AASB 119 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
AASB Interpretation 129	Service Concession Arrangements: Disclosures
AASB Interpretation 1038	Contributions by Owners Made to Wholly-Owned Public Sector Entities

Notes to and Forming Part of the Financial Statements
for the year ended 30 June 2008

1.4 Revenue

Revenues 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 providing market integrity and consumer protection functions for prudentially regulated institutions, functions that are conducted by other Australian Government entities. The calculation of the Special Appropriation is shown at Note 4.

Amounts appropriated for departmental (APRA's) outputs for the year (adjusted for any formal additions and reductions) are recognised as revenue, 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.

Resources received free of charge

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

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

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

Other revenue

Revenue from the sale of goods, if any, is recognised when:

- the risks and rewards of ownership have been transferred to the buyer;
- the seller retains no managerial involvement nor effective control over the goods;
- the revenue and transaction costs incurred can be reliably measured; and
- it is probable that the economic benefits associated with the transaction will flow to the entity.

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 the entity.

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.

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

1.5 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.

Other distributions to owners

The FMOs require that distributions to owners be debited to contributed equity unless in the nature of a dividend.

1.6 Employee benefits

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

Liabilities for 'short-term employee benefits' (as defined in AASB 119) and termination benefits due within twelve months of 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 employee benefit liabilities are measured as the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date.

Leave

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

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

The liability for long service leave 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.

The method for allocating costs between salaries and wages and leave and other entitlements has been changed in 2007/08 to better reflect the impact of leave expense accrued.

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 the employees affected that it will carry out the terminations. In 2007/08, a provision has been recognised to reflect the relocation of APRA's finance function to Sydney in September 2008.

Superannuation

Certain employees of APRA are members of the Commonwealth Superannuation Scheme (CSS) or the Public Sector Superannuation Scheme (PSS). The CSS and PSS are defined benefit schemes for the Commonwealth. 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. APRA makes employer contributions to the Australian Government at rates determined by an actuary to be sufficient to meet the cost to the Government of the superannuation entitlements of APRA's employees.

APRA also makes employer contributions to the Reserve Bank Officers' Superannuation Fund and to State-based superannuation schemes for former employees of the Reserve Bank of Australia and State-based regulators, respectively.

Notes to and Forming Part of the Financial Statements
for the year ended 30 June 2008

For all other employees, employer contributions are made to other superannuation (accumulation) funds, as nominated by the employee (see Note 6A).

The liability for superannuation recognised at 30 June 2008 represents outstanding contributions for the final fortnight of the year.

1.7 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 non-current assets. An operating lease is a lease that is not a finance lease. In operating leases, the lessor effectively retains substantially all such risks and benefits.

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

1.8 Cash

Cash and cash equivalents means notes and coins held and any deposits with a bank or financial institution with an originl maturity of three months or less that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Cash is recognised at its nominal amount.

1.9 Financial assets

APRA classifies its financial assets as loans and receivables.

Financial assets are no longer recognised when the contractual rights to the cash flows from the financial assets expire or the asset is transferred to another entity and the risks and rewards of ownership are also transferred.

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 Income Statement.

1.10 Financial liabilities

APRA classifies its financial liabilities as suppliers and other payables.

Financial liabilities are no longer recognised when the obligation under the contract is discharged or cancelled or expires.

1.11 Contingent liabilities and contingent assets

Contingent liabilities and contingent assets are not recognised in the *Balance Sheet* but are discussed in the relevant Schedules and Notes. They may arise from uncertainty as to the existence of a liability or asset, or represent an existing liability or asset in respect of which settlement is not probable or the amount cannot be reliably measured. Remote contingencies are part of this disclosure. A liability or asset is recognised when the existence is confirmed by a future event, settlement becomes probable or reliable measurement becomes possible.

1.12 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 revenues at their fair value at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. In the latter case, assets are initially recognised as contributions by owners at the amounts at which they were recognised in the transferor entity's accounts immediately prior to the restructuring.

1.13 Property (infrastructure), plant and equipment

Asset recognition threshold

Purchases of infrastructure, 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.

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 as expenses or gains as incurred in the *Income Statement*.

Revaluations

Infrastructure, plant and equipment are carried at fair value, being revalued 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 undertaken in each year are as at 30 June.

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 through the *Income Statement*. Revaluation decrements for a class of assets are recognised directly through the *Income Statement* except to the extent that they reverse 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 and amortisation

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 amortised on a straight-line basis over the lesser of the estimated useful life of the improvements or the unexpired period of the lease.

Depreciation/amortisation rates (useful lives) and methods are reviewed at each 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	**2008**	2007
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

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Impairment

All assets were assessed for impairment at 30 June 2008. 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.

No indicators of impairment were found for assets at fair value.

1.14 Intangibles

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

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 (2006/07: Lesser of five years or assessed useful life).

All software assets were assessed for indications of impairment as at 30 June 2008.

1.15 Taxation

APRA is exempt from all forms of taxation except fringe benefits tax and the goods and service tax (GST).

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

1.16 Reporting of administered activities

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

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

Administered cash transfers to and from the Official Public Account

Revenue collected by APRA for use by the Government rather than by APRA is administered revenue. Collections are transferred to the Official Public Account (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 the Authority on behalf of the Government and reported as such in the Administered Cash Flows, in the Schedule of Administered Items and in the *Administered reconciliation table* in Note 22. Thus the *Schedule of Administered Items* largely reflects the Government's transactions, through the Authority, with parties outside the Government.

Revenue

All administered revenues relate to the core operating activities performed by APRA on behalf of the Australian 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 levy late payment penalties collected under the *Financial Institutions Supervisory Levies Collection Act 1998*. In addition, APRA still collects some late lodgment penalties in relation to certain superannuation returns that were due by 31 October 1999. These administered items are distinguished from Authority items throughout these financial statements by background shading.

Administered revenue arising from levies on superannuation entities (including the Financial Assistance Levy) is recognised upon issue of invoice while administered revenue in respect of levies on all other entities is recognised on the date it becomes due and payable to APRA or on the date the payment is received, whichever occurs first. Levies are recognised at the nominal amounts due less any provision for bad or doubtful debts. The collectability of debts is reviewed at balance date. Provisions are made when collection of the debt is judged to be less, rather than more, likely.

Expenses

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

Waivers of levies under the *Financial Institutions Supervisory Levies Collection Act 1998* are shown at Note 20, 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.

Note 2: Events after the balance sheet date

No events occurring after balance sheet date were noted.

Note 3: Transition to the *Financial Management and Accountability Act 1997*

On 1 July 2007 APRA became a prescribed agency under the *Financial Management and Accountability Act 1997*. As a result, APRA no longer holds investments in its own right, but receives an appropriation annually, which is based on the notional value of interest earned on the balance of the APRA Special Account. There has been no material impact on the financial statements as a result of the transition.

Notes to and Forming Part of the Financial Statements
for the year ended 30 June 2008

Note 4: 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* as outlined at Note 1.4.

Details are as follows:

	2008 $'000	2007 $'000
Table 1: Summary		
Current year levies and penalties (see note 19, Table 1)	**103,754**	113,010
Less: Waivers, write-offs and doubtful debts (see note 20)	**(195)**	(755)
Net current year levies and penalties (see Table 2 below)	**103,559**	112,255
Less: Amount retained in the CRF (see Table 3 below)	**(25,900)**	(16,900)
Total APRA Special Appropriation (see Table 4 below)	**77,659**	95,355
Table 2: Net current year levies and penalties by levy type		
Superannuation funds	**44,237**	48,588
Authorised deposit-taking institutions	**31,685**	33,068
Life insurers and friendly societies	**8,242**	9,048
General insurers	**19,395**	21,551
Total new current year levies and penalties	**103,559**	112,255
Table 3: Amounts retained in the CRF by levy type[1]		
Superannuation funds	**(19,800)**	(12,008)
Authorised deposit-taking institutions	**(2,500)**	(1,984)
Life insurers and friendly societies	**(2,000)**	(1,580)
General insurers	**(1,600)**	(1,328)
Total amount retained in CRF	**(25,900)**	(16,900)
Table 4: Equivalent amounts of levy payable to APRA under the APRA Special Appropriation by levy type		
Superannuation funds	**24,437**	36,580
Authorised deposit-taking institutions	**29,185**	31,084
Life insurers and friendly societies	**6,242**	7,468
General insurers	**17,795**	20,223
Total APRA Special Appropriation	**77,659**	95,355

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

Note 5: Income

	2008 $'000	2007 $'000
Note 5A: Revenue from Government		
Special Appropriation	77,659	95,355
Other	3,838	2,477
Total revenue from Government	81,497	97,832
Note 5B: Sale of goods and rendering of services		
Rendering of services – related entities	1,225	1,372
Rendering of services – external entities	4,061	3,934
Total rendering of services	5,286	5,306
Note 5C: Rental income		
Rental income	79	737
Total rental income	79	737
Note 5D: Other revenues		
Licence fees from finance sector entities	992	438
Superannuation trustee applications	32	60
Fees from foreign bank representative offices	85	113
Recoveries from RBA for scholarship	13	17
Other revenue	41	17
Total other revenues	1,163	645
Note 5E: Interest		
Deposits	–	828
Commonwealth and State Government securities	–	2,780
Total Interest	–	3,608
Note 5F: Sale of assets		
Proceeds from disposal	–	11
Total income from sale of assets	–	11
Note 5G: Other gains		
Resources free of charge	110	–
Make good financing gain	61	22
Total other gains	171	22

Notes to and Forming Part of the Financial Statements
for the year ended 30 June 2008

Note 6: Operating expenses

	2008 $'000	2007 $'000
Note 6A: Employee benefits[1]		
Salaries and wages	**50,944**	45,302
Superannuation	**9,649**	8,882
Leave and other entitlements	**6,897**	6,260
Separation and redundancies	**317**	88
Other employee expenses (see Note 1.6)	**410**	469
Total employee expenses	**68,217**	61,001
Note 6B: Supplier expenses		
Provision of goods – external entities	**3,606**	3,435
Rendering of services – related entities	**1,584**	3,883
Rendering of services – external entities	**18,892**	12,860
Operating lease rentals:		
– Minimum lease payments	**5,724**	6,299
Workers' compensation premiums	**237**	260
Total supplier expenses	**30,043**	26,737
Note 6C: Depreciation and amortisation		
Depreciation		
Computer hardware	**805**	486
Leasehold improvements	**1,346**	1,240
Amortisation		
Intangibles – computer software	**1,044**	1,546
Total depreciation and amortisation	**3,195**	3,272
Note 6D: Write-down and impairment of assets		
Impairment of internally developed software	**–**	5
Write-down of infrastructure, plant and equipment	**2**	19
Total write-down and impairment of assets	**2**	24
Note 6E: Losses from assets disposal		
Computer hardware	**2**	19
Office fitout	**–**	9
Total losses from assets disposals	**2**	28

[1] The allocation of cost between salaries and wages and leave and other entitlements in the comparative year has been restated as per note 1.6

Note 7: Financial assets

	2008 $'000	2007 $'000
Note 7A: Cash and cash equivalents		
APRA Special Account	31,347	46,624
Cash on hand	3	2
Total cash and cash equivalents	31,350	46,626

All cash recognised is a current asset.

	2008 $'000	2007 $'000
Note 7B: Trade and other receivables		
Special Appropriation	838	1,614
Goods and services	3,040	134
	3,878	1,748
GST receivable	285	259
Accrued revenue	–	211
Total trade and other receivables (gross)	4,163	2,218
Less: Allowance for doubtful debts:		
Special Appropriation	–	(326)
Total trade and other receivables (net)	4,163	1,892
Receivables are represented by:		
Current	4,163	1,892
Total receivables (net)	4,163	1,892
Receivables (gross) are aged as follows:		
Not overdue	983	1,892
Overdue by:		
– less than 30 days	2,386	–
– 30 to 60 days	–	–
– 60 to 90 days	–	–
– more than 90 days	794	326
Total receivables (gross)	4,163	2,218
Allowance for doubtful debts is aged as follows:		
Not overdue	–	–
Overdue by:		
– 30 to 60 days	–	–
– 60 to 90 days	–	–
– more than 90 days	–	(326)
Total allowance for doubtful debts	–	(326)

Notes to and Forming Part of the Financial Statements
for the year ended 30 June 2008

Note 8: Non-financial assets

	2008 $'000	2007 $'000
Note 8A: Infrastructure, plant and equipment		
Computer hardware and office equipment		
– fair value	**3,965**	1,780
– accumulated depreciation	**(1,677)**	(987)
– work in progress	**64**	1,276
Total computer hardware and office equipment	**2,352**	2,069
Leasehold improvements		
– fair value	**5,220**	4,969
– accumulated depreciation	**(64)**	(2,099)
– work in progress	**19**	163
Total leasehold improvements	**5,175**	3,033
Total infrastructure, plant and equipment (non-current)	**7,527**	5,102

All assets were assessed for impairment at 30 June 2008 using internal expertise. All fit-outs were revalued by an independent valuer in May 2008.

No indicators of impairment were found for infrastructure, plant and equipment.

Note 8: Non-financial assets (Continued)

Table A Reconciliation of infrastructure, plant and equipment 2007/2008	$'000 Computer hardware and office equipment	$'000 Leasehold improvements	$'000 Total
As at 1 July 2007			
Gross book value	**3,056**	**5,132**	**8,188**
Accumulated depreciation/amortisation	(987)	(2,099)	(3,086)
Net book value 1 July 2007	**2,069**	**3,033**	**5,102**
Additions by purchase	1,092	47	1,139
Net revaluation increment/(decrement)	–	3,441	3,441
Depreciation/amortisation expense	(805)	(1,346)	(2,151)
Disposals by write-off (net book value)	(4)	–	(4)
As at 30 June 2008			
Gross book value	**4,029**	**5,239**	**9,268**
Accumulated depreciation/amortisation	**(1,677)**	**(64)**	**(1,741)**
Closing net book value	**2,352**	**5,175**	**7,527**

Table B Reconciliation of infrastructure, plant and equipment 2006/07	$'000 Computer hardware and office equipment	$'000 Leasehold improvements	$'00 Total
As at 1 July 2006			
Gross book value	**1,499**	**4,573**	**6,072**
Accumulated depreciation/amortisation	(526)	(1,120)	(1,646)
Net book value 1 July 2006	**973**	**3,453**	**4,426**
Additions by purchase	1,601	847	2448
Net revaluation increment/(decrement)	–	1	1
Depreciation/amortisation expense	(486)	(1,240)	(1,726)
Disposals by write-off (net book value)	(19)	(28)	(47)
As at 30 June 2007			
Gross book value	**3,056**	**5,132**	**8,188**
Accumulated depreciation/amortisation	**(987)**	**(2,099)**	**(3,086)**
Closing net book value	**2,069**	**3,033**	**5,102**

Notes to and Forming Part of the Financial Statements
for the year ended 30 June 2008

Note 8: Non-financial assets (Continued)

Note 8B: Intangibles

	2008 $'000	2007 $'000
Computer software at cost:		
– internally developed – in progress	**2,192**	880
– internally developed – in use	**7,208**	7,517
– purchased – in progress	**42**	–
– purchased – in use	**3,915**	3,538
	13,357	11,935
Accumulated amortisation	**(8,460)**	(8,516)
Total intangibles (non-current)	**4,897**	3,419

Table A
Reconciliation of intangibles 2007/2008

	$'000 Computer software internally developed	$'000 Computer software purchased	$'000 Total
As at 1 July 2007			
Gross book value	**8,397**	**3,538**	**11,935**
Accumulated depreciation/amortisation	(6,485)	(2,031)	(8,516)
Net book value 1 July 2007	**1,912**	**1,507**	**3,419**
Additions by purchase or internally developed	1,655	867	2,522
Depreciation/amortisation expense	(401)	(643)	(1,044)
As at 30 June 2008			
Gross book value	**9,400**	**3,957**	**13,357**
Accumulated depreciation/amortisation	**(6,234)**	**(2,226)**	**(8,460)**
Closing net book value	**3,166**	**1,731**	**4,897**

Note 8: Non-financial assets (Continued)

Table B
Reconciliation of intangibles 2006/07

	$'000 Computer software internally developed	$'000 Computer software purchased	$'000 Total
As at 1 July 2006			
Gross book value	**7,509**	**3,078**	**18,417**
Accumulated depreciation/amortisation	(5,415)	(1,662)	(7,077)
Net book value 1 July 2006	**2,094**	**1,416**	**11,340**
Additions by purchase or internally developed	889	571	1,460
Depreciation/amortisation expense	(1,071)	(475)	(1,546)
Other disposals	–	(5)	(5)
As at 30 June 2007			
Gross book value	**8,397**	**3,538**	**11,935**
Accumulated depreciation/amortisation	**(6,485)**	**(2,031)**	**(8,516)**
Closing net book value	**1,912**	**1,507**	**3,419**

	2008 $'000	2007 $'000
Note 8C: Other non-financial assets		
Prepayments	**1,571**	902
Total other non-financial assets	**1,571**	902

All other non-financial assets are current assets.

Notes to and Forming Part of the Financial Statements
for the year ended 30 June 2008

Note 9: Payables

	2008 $'000	2007 $'000
Note 9A: Suppliers		
Trade creditors	1,489	–
Total supplier payables	1,489	–

All supplier payables are current liabilities.

	2008 $'000	2007 $'000
Note 9B: Other payables		
Accrued expenses	1,570	3,485
GST payable to the ATO	465	26
PAYG withholding	147	–
Total other payables	2,182	3,511

All other payables are current liabilities.

	2008 $'000	2007 $'000
Note 9C: Unearned fees and charges		
Unearned revenue	1,244	2,079
Total unearned revenue	1,244	2,079

All other payables are current liabilities.

Note 10: Provisions

	2008 $'000	2007 $'000
Note 10A: Employee provisions		
Salaries and wages	4,222	3,438
Leave	15,154	13,721
Separations and redundancies	242	–
Other	59	86
Total employee provisions	19,677	17,245
Current	16,258	14,345
Non-current	3,419	2,900
	19,677	17,245
Note 10B: Other provisions		
Lease incentive	304	612
Provisions for 'make good'	1,631	1,691
Total other provisions	1,935	2,303
Current	132	412
Non-current	1,803	1,891
	1,935	2,303

Reconciliation of other provisions	$'000 Lease incentive	$'000 Provision for 'make good'	$'000 Total
Carrying amount 1 July 2007	612	1,691	2,303
Additional provisions made	–	137	137
Amount used	(308)	–	(308)
Amounts reversed	–	(61)	(61)
Unwinding of discount	–	(136)	(136)
Closing balance 30 June 2008	304	1,631	1,935

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.

Notes to and Forming Part of the Financial Statements
for the year ended 30 June 2008

Note 11: Cash flow reconciliation

	2008 $'000	2007 $'000
Reconciliation of cash as per *Balance Sheet* to *Statement of Cash Flows*		
Cash at year-end as per *Statement of Cash Flows*	**31,350**	46,626
Balance Sheet items comprising the above cash:		
'Financial asset – cash and cash equivalents'	**31,350**	46,626
Reconciliation of operating result to net cash from operating activities		
Operating result	**(13,263)**	17,099
Non-cash items		
Depreciation and amortisation	**3,195**	3,272
Write-down of non-current assets	**–**	19
Net loss on disposal of assets	**4**	22
Make good financing gain	**(61)**	–
(Increase) / decrease in net receivables	**(2,482)**	938
(Increase) / decrease in revenue in advance	**(835)**	1,404
(Increase) / decrease in prepayments	**(669)**	(161)
(Increase) / decrease in accrued revenue	**211**	(27)
Increase / (decrease) in employee provisions	**2,433**	1,191
Increase / (decrease) in supplier payables	**634**	(1,951)
Increase / (decrease) in other provisions	**279**	(730)
Net cash (used by) / from operating activities	**(10,554)**	21,076

Note 12: Contingent liabilities and assets

Quantifiable contingent liabilities

At 30 June 2008, the Authority was engaged in a number of legal actions brought against it by various parties relating to disqualification of persons as trustees or to hold positions of responsibility in the general insurance industry, review of decisions by the Administrative Appeals Tribunal and actions brought by APRA against parties in relation to enforcement of the requirements of the legislation administered by APRA. The costs that might be incurred relate mainly to legal counsel and those associated with the legal proceedings. The quantum of the liabilities has been based on estimates provided by the legal practitioners representing APRA.

Note 13: 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 2007/08 was Chairman $578,260 (2006/07: $554,950); Deputy Chairman $483,850 (2006/07: $464,340); and Member $460,260 (2006/07: $441,700). Any difference between the Tribunal determination and the cost to APRA reported below 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.

	2008 Number	2007 Number
The remuneration of APRA Members, measured in terms of the cost to APRA, is shown below in the relevant remuneration bands:		
$420,000 – $434,999	**–**	1
$465,000 – $479,999	**1**	–
$495,000 – $509,999	**1**	–
$510,000 – $524,999	**–**	1
$540,000 – $554,999	**1**	–
$650,000 – $664,999	**–**	1
Total number of APRA Members	**3**	3
	$	$
Total remuneration of APRA Members, measured in terms of the cost to APRA:	**1,527,309**	1,590,530

Note 14: Related party disclosures

Transactions with APRA Member-related entities

There were no related entity transactions in 2007/08 (2006/07: $Nil) in respect of APRA Members.

Loans to APRA Members and Member-related entities

There were no loans made to APRA Members or Member-related entities in 2007/08 (2006/07: $Nil).

Notes to and Forming Part of the Financial Statements
for the year ended 30 June 2008

Note 15: Executive remuneration

	2008 Number	2007 Number
The remuneration of officers, measured in terms of the cost to APRA, is shown in the relevant income bands:		
$205,000 – $219,999	**1**	1
$220,000 – $234,999	**2**	5
$235,000 – $249,999	**3**	7
$250,000 – $264,999	**6**	6
$265,000 – $279,999	**7**	–
$280,000 – $294,000	**1**	1
$325,000 – $339,999	**1**	1
$340,000 – $354,999	**1**	–
$355,000 – $369,999	**–**	2
$370,000 – $384,999	**1**	1
$385,000 – $399,999	**1**	–
$430,000 – $444,999	**1**	1
Total	**25**	25
	$	$
Total remuneration of executives measured in terms of the cost to APRA:	**7,005,228**	6,760,180

Note 16: Remuneration of auditors

	2008 $'000	2007 $'000
Financial statement audit services were provided free of charge to APRA in 2007/2008. The fair value of audit services provided by the Australian National Audit Office was	**110**	110

No other services are provided by the Auditor-General.

Note 17: Average staffing levels

	2008 Number	2007 Number
The average staffing levels for the Authority during the year were:	**566**	551

Note 18: Financial instruments

	2008 $'000	2007 $'000

Note 18A: Categories of financial instruments

	2008 $'000	2007 $'000
Financial assets		
Cash and cash equivalents	31,350	46,626
Receivables	3,847	1,422
Other receivables	316	470
Carrying amount of financial assets	35,513	48,518
Financial liabilities		
Trade creditors	1,489	–
Other payables	2,182	3,485
Unearned fees and charges	1,244	2,105
Carrying amount of financial liabilities	4,915	5,590

Note 18B: Fair value of financial instruments

	Carrying amount 2008 $'000	Fair value 2008 $'000	Carrying amount 2007 $'000	Fair value 2007 $'000
Financial assets				
Cash and cash equivalents	31,350	31,350	46,626	46,626
Receivables	3,847	3,847	1,422	1,422
Other receivables	316	316	470	470
Total	35,513	35,513	48,518	48,518
Financial liabilities				
Trade creditors	1,489	1,489	–	–
Other payables	2,182	2,182	3,485	3,485
Unearned fees and charges	1,244	1,244	2,105	2,105
Total	4,915	4,915	5,590	5,590

Notes to and Forming Part of the Financial Statements
for the year ended 30 June 2008

Note 18: Financial instruments (Continued)
Note 18C: Credit risk

APRA's maximum exposure to credit risk at reporting date is the carrying amount of receivable reported in the *Balance Sheet* (2007/08: $4,163,000 and 2006/07: $1,892,000). In 2006/07, APRA assessed the risk of debtor default to be $326,000 and raised an allowance for doubtful debts. This amount was reversed in 2008 after it became certain that the debts would be recovered. No amounts are considered doubtful as at 30 June 2008.

APRA has no significant exposures to any other concentrations of credit risk.

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

	2,008 $'000	2007 $'000	**2008 $'000**	2007 $'000
	Not past due nor impaired	Not past due nor impaired	Past due or impaired	Past due or impaired
Cash and cash equivalents	**31,350**	46,626	**–**	–
Receivables	**667**	1,414	**3,180**	8
Other receivables	**316**	470	**–**	–
Total	**32,333**	48,510	**3,180**	8

Ageing of financial assets that are past due but not impaired for 2008[1]

	0 to 30 days $'000	31 to 60 days $'000	61 to 90 days $'000	90+days $'000	Total $'000
Receivables	2,386	–	–	794	3,180

Ageing of financial assets that are past due but not impaired for 2007

	0 to 30 days $'000	31 to 60 days $'000	61 to 90 days $'000	90+days $'000	Total $'000
Receivables	–	1	5	2	8

[1] A provision for doubtful debts was raised in 2006/07 to provide for $326,000 in unpaid levy revenue that APRA appeared unlikely to collect. The amount was reversed in 2007/2008 as the debt is now certain to be recovered.

Note 18: Financial instruments (Continued)

Note 18D: Liquidity risk

APRA is funded annually by appropriations from Government based on the actual cost of regulation to 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 cashflow monitoring and forecasting, expose APRA to negligible liquidity risk.

Maturities for financial liabilities

	On demand 2008 $'000	within 1 year 2008 $'000	1 to 5 years 2008 $'000	> 5 years 2008 $'000	Total 2008 $'000
Trade creditors	–	1,489	–	–	1,489
Other payables	–	2,182	–	–	2,182
Unearned fees and charges	–	1,244	–	–	1,244
Total	–	4,915	–	–	4,915

Note 18E: Market risk

APRA is not exposed to any form of market risk on financial assets or liabilities.

Notes to and Forming Part of the Financial Statements
for the year ended 30 June 2008

Note 19: Income administered on behalf of Government

	2008 $'000	2007 $'000
Revenue		
Taxation		
Financial Institutions Supervisory Levies		
Current year levies and penalties (see Table 1)[1]	**103,754**	113,010
Financial Assistance Levy and penalties (see Table 2)	**6**	(34)
Total revenues administered on behalf of the Government	**103,760**	112,976
Table 1: Financial Institutions Supervisory Levies revenue by levy type – current year levies and penalties[2]		
Levy:		
Superannuation funds	**44,253**	49,191
Authorised deposit-taking institutions	**31,685**	33,068
Life insurers and friendly societies	**8,242**	9,048
General insurers	**19,395**	21,551
Total levies	**103,575**	112,858
Late payment penalties:		
Superannuation funds	**86**	152
Total late payment penalties	**86**	152
Infringement penalties:		
Superannuation funds	**93**	–
Total infringement penalties	**93**	–
Total current year levies and penalties	**103,754**	113,010
Table 2: Financial Assistance Levy and penalties		
Levy No. 2003/04:1 (Superannuation)		
Levy	**–**	(2)
Penalties	**–**	–
	–	(2)
Levy No. 2004/05:1 (Superannuation)		
Levy	**6**	(35)
Penalties	**–**	3
	6	(32)
Total Financial Assistance Levy and penalties	**6**	(34)

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

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

Note 20: Expenses administered on behalf of Government

	2008 $'000	2007 $'000
Expenses		
Net write-down and impairment of assets		
Doubtful debts provision adjustment	**(326)**	308
Supervisory Levy waivers and write-offs	**521**	447
Total expenses administered on behalf of Government	**195**	755
Table 1: Levies and late payment penalties waived by levy type		
Superannuation funds	**510**	447
	510	447
Table 2: Levies and late payment penalties written-off by levy type		
Superannuation funds	**11**	–
	11	–

Notes to and Forming Part of the Financial Statements
for the year ended 30 June 2008

Note 21: Assets administered on behalf of Government

	2008 $'000	2007 $'000
Financial assets		
Cash and cash equivalents	–	–
Receivables		
Financial Institutions Supervisory Levies	838	1,613
Financial Assistance Levy	–	(6)
Total receivables (gross)	838	1,607
Less: allowance for doubtful debts[1]	–	(326)
Total receivables (net)	838	1,281
Receivables (gross) are aged as follows:		
Not overdue	37	1,287
Overdue by:		
– less than 30 days	10	(6)
– 30 to 60 days	–	–
– 60 to 90 days	–	–
– more than 90 days	791	32
Total receivables (gross)	838	1,607
The provision for doubtful debts is aged as follows:		
Overdue by:		
– more than 90 days	–	(326)
Total assets administered on behalf of Government	838	1,281

[1] A provision for doubtful debts was raised in 2006/07 to provide for $326,000 in unpaid levy revenue that APRA appeared unlikely to collect. The amount was reversed in 2007/2008 as the debt is now certain to be recovered.

Note 22: Administered reconciliation table

	2008 $'000	2007 $'000
Opening administered assets less administered liabilities at 1 July	**1,281**	320
Plus administered revenues	**103,760**	112,976
Less administered expenses	**(195)**	(755)
Plus transfers from the Offical Public Account for refunds	**682**	78
Less transfers to Official Public Account	**(104,691)**	(111,338)
Closing administered assets less administered liabilities as at 30 June[2]	**838**	1,281

Note 23: Administered financial instruments

Note 23A: Categories of financial instruments

	2008 $'000	2007 $'000
Financial assets		
Receivables	**838**	1,281
Financial liabilities	**–**	–

Note 23B: Fair value of financial instruments

	Carrying amount 2008 $'000	Fair value 2008 $'000	Carrying amount 2007 $'000	Fair value 2007 $'000
Financial assets				
Receivables	**838**	**838**	1,281	1,281

[2] Subject to rounding as detailed in Note 1.1.

Notes to and Forming Part of the Financial Statements
for the year ended 30 June 2008

Note 23: Administered financial instruments (Continued)

Note 23C: Credit risk

APRA's maximum exposure to credit risk at reporting date is the carrying amount of levy receivable as recognised in the *Balance Sheet*. and shown in Note 23B. In 2006/07, APRA assessed the risk of debtor default to be $326,000 and raised an allowance for doubtful debts. This amount was reversed in 2007/08 after it became certain that the debts would be recovered. No amounts are considered doubtful as at 30 June 2008.

APRA has no significant exposures to any other concentrations of credit risk.

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

	Not past due nor impaired 2008 $'000	Not past due nor impaired 2007 $'000	**Past due or impaired 2008 $'000**	Past due or impaired 2007 $'000
Receivables	**37**	1,281	**801**	0

Ageing of financial assets that are past due but not impaired for 2008

	0 to 30 days $'000	31 to 60 days $'000	61 to 90 days $'000	90+ days $'000	Total $'000
Receivables	10	–	–	791	801

Note 23D: Liquidity risk

APRA does not hold any administered financial liabilities and is therefore not exposed to any liquidity risk.

Note 23E: Market risk

APRA is not exposed to any form of market risk on administered financial assets.

Note 24: Appropriations

The tables in Notes 24A and 24B report on appropriations made by the Parliament out of the Consolidated Revenue Fund (CRF) in respect of the Authority.

Note 24A: Acquittal of authority to draw cash from the Consolidated Revenue Fund for Ordinary Annual Services Appropriations

	2008 $'000	2007 $'000
Particulars	Departmental Outputs	
Purpose: funding of APRA – Outcome 1		
Balance carried from previous year	–	–
Appropriation Act (No. 1) 2006 – 2007	–	3,687
Appropriation Act (No. 1) 2007 – 2008	2,580	–
Appropriation Act (No. 3) 2007 – 2008	260	–
Appropriations credited to Special Account	(2,840)	(3,687)
Balance carried forward to next year	–	–

Note 24B: Acquittal of authority to draw cash from the Consolidated Revenue Fund – Special Appropriations (limited amount)

	2008 $'000	2007 $'000
Particulars	Outcome 1	
***Australian Prudential Regulation Authority Act 1998* – section 50**		
Purpose: funding of APRA		
Amount available carried from previous period	1,287	7
Appropriation for reporting period	77,659	95,355
Available for payments	78,946	95,362
Appropriations credited to Special Account	(78,790)	(94,075)
Refunds paid from Special Account	682	–
Amount available carried to the next period	838	1,287
Represented by:		
Appropriation receivable	838	1,287

Note 25: Compensation and debt relief

	2008 $	2007 $
277 waivers of amounts owing to the Commonwealth were made pursuant to section 12 of the *Financial Institutions Supervisory Levies Collection Act 1998* (2006/07: 77)	521,480	447,429

Notes to and Forming Part of the Financial Statements
for the year ended 30 June 2008

Note 26: Special accounts

APRA Special Account	2008 $000	2007 $000
Legal Authority: *Financial Management and Accountability Act 1997* section 21		
Purpose: Payment of goods and services, salaries and expenses incurred for activities entered into by the Australian Prudential Regulation Authority.		
Opening Balance 1 July 2007	46,606	–
Appropriation for reporting period	78,790	–
Appropriation Bill No 1 Transfer	2,580	–
Appropriation Bill No 3 Transfer	260	–
Available for payments	128,236	–
Transferred to Special Account	(96,889)	–
Balance carried to next period	31,347	–
Represented by:		
Cash transferred to the Official Public Account	30,535	–
Cash held by the Authority	812	–
Total balance carried to the next period	31,347	–

On 1 July 2007, APRA became a prescribed agency under the *Financial Management and Accountability Act 1997*. A Special Account was established by Section 52(1) of the *Australian Prudential Regulation Authority Act 1998* (amended 2007) and section 52(2) established the APRA Special Account as operating under Section 21 of the *Financial Management and Accountability Act 1997.*

Lloyd's Deposit Trust Special Account	2008 $000	2007 $000
Legal Authority: *Financial Management and Accountability Act 1997* section 20		
Purpose: To disburse amounts in accordance with section 92Q of the *Insurance Act 1973*.		
Opening Balance 1 July 2007	–	–
Transferred from Treasury	2,000	–
Other receipts	–	–
Available for payments	2,000	–
Payments made	–	–
Balance carried to next year	2,000	–
Represented by:		
Securities held by APRA	2,000	–
Total balance carried to the next period	2,000	–

Responsibility for the Administration of the Lloyd's Deposit Trust Special Account was transferred from the Department of the Treasury to the Australian Prudential Regulation Authority with effect from 26 May 2008.

Services for Other Entities and Trust Moneys – APRA Special Account	**2008 $000**	2007 $000

Legal Authority: Services for Other Entities and Trust Moneys – Australian Prudential Regulation Authority Special Account – section 20 *Financial Management and Accountability Act* Determination 2007/09.

Purpose: to distribute amounts temporarily held on trust for the benefit of another person other than the Commonwealth; disburse amounts in connection with services performed on behalf of other Governments and bodies that are not FMA Act agencies; and repay amounts where an Act or other law requires or permits the repayment of an amount received.

	2008 $000	2007 $000
Balance carried from previous year	**24**	–
Unclaimed Superannuation Money	**–**	24
Available for payments	**24**	24
Unclaimed Superannuation Money returned to the ATO	**(24)**	–
Balance carried to next year	**–**	24
Represented by:		
Cash transferred to the Official Public Account	**–**	24
Total balance carried to the next period	**–**	24

Superannuation Protection Account

Legal Authority: Superannuation Protection Account – section 234 *Superannuation Industry (Supervision) Act 1993*

Purpose: To facilitate the payment and recovery of financial assistance provided to superannuation fund members suffering adverse outcomes resulting from fraud and misappropriation by fund trustees. Section 234 was repealed by the *Financial Sector Legislation Amendment (Simplifying Regulation and Review) Act 2007*. There were no transactions to this account in 2007/08 (2006/07: $Nil). All financial assistance payments by Treasury and recoveries by APRA made to date have been transacted directly from and to the Consolidated Revenue Fund.

Note 27: Reporting of outcomes

APRA is structured to meet the following outcome:

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

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

Notes to and Forming Part of the Financial Statements

for the year ended 30 June 2008

Note 27: Reporting of outcomes (continued)

Note 27A: Net cost of outcome delivery

	2008 $'000	2007 $'000
	Outcome 1	
Expenses		
Administered	**195**	755
Authority	**101,459**	91,062
Total expenses	**101,654**	91,817
Costs recovered from provision of goods and services to the non-government sector		
Administered	**–**	–
Authority	**4,061**	4,545
Total costs recovered	**4,061**	4,545
Other external revenues		
Administered		
Financial Institutions Supervisory Levies	**103,754**	113,010
Financial Assistance Levy	**6**	(34)
Total Administered	**103,760**	112,976
Authority		
Sale of goods and services – to related entities	**1,225**	1,372
Interest	**–**	3,608
Rental recoveries	**79**	737
Licence fees and other revenue	**1,163**	645
Total Authority	**2,467**	6,362
Total other external revenues	**106,227**	119,338
Net cost/(contribution) of outcome	**(8,634)**	(32,066)

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

Note 27: Reporting of outcomes (continued)

Note 27B: APRA revenues and expenses by output groups and outputs

	2008 $'000	2007 $'000	2008 $'000	2007 $'000	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Outcome Group 1	Output 1.1.1 Policy development		Output 1.1.2 Surveillance program		Output 1.1.3 Prudential advice		Total	
Operating expenses								
Employees	**8,936**	7,503	**57,029**	51,424	**2,252**	2,074	**68,217**	61,001
Suppliers	**3,936**	3,289	**25,116**	22,539	**991**	909	**30,043**	26,737
Depreciation and amortisation	**419**	402	**2,671**	2,758	**105**	112	**3,195**	3,272
Write-down of assets	**1**	6	**3**	44	**–**	2	**4**	52
Total operating expenses	**13,292**	11,200	**84,819**	76,765	**3,348**	3,097	**101,459**	91,062
Funded by:								
Revenues from Government	**10,676**	12,033	**68,132**	82,472	**2,689**	3,327	**81,497**	97,832
Sale of goods and services	**692**	653	**4,419**	4,473	**175**	180	**5,286**	5,306
Rent recoveries	**10**	91	**66**	621	**3**	25	**79**	737
Interest	**–**	444	**–**	3,042	**–**	122	**–**	3,608
Other revenues	**175**	84	**1,115**	571	**44**	23	**1,334**	678
Total operating revenues	**11,553**	13,305	**73,732**	91,179	**2,911**	3,677	**88,196**	108,161

The Authority's outcome and outputs are described at Note 27.

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

Note 27C: Administered revenues and expenses by outcome

	2008 $'000	2007 $'000
	Outcome 1	
Administered revenues		
Financial Institutions Supervisory Levies	**103,754**	113,010
Financial Assistance Levy	**6**	(34)
Total administered revenues	**103,760**	112,976
Administered Expenses		
Levies waived	**521**	447
Doubtful debts adjustment	**(326)**	308
Total administered expenses	**195**	755

The Authority's outcome and outputs are described at Note 27.

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

Australian National
Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Assistant Treasurer and Minister for Competition Policy and Consumer Affairs

Scope

We have audited the accompanying financial statements of the Australian Prudential Regulation Authority (the Authority) for the year ended 30 June 2008, which comprise: a statement by members; income statement; balance sheet; statement of changes in equity; cash flow statement; schedules of commitments, contingencies and administered items; a summary of significant accounting policies; and other explanatory notes.

The Responsibility of the Members for the Financial Statements

The members of the Authority are responsible for the preparation and fair presentation of the financial statements in accordance with Finance Minister's Orders made under the *Financial Management and Accountability Act 1997* and Australian Accounting Standards including Australian Accounting Interpretations. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on our audit. Our audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 Authority's preparation and fair presentation of the financial statements 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 Authority's internal

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

control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the members of the Authority, as well as evaluating the overall presentation of the financial statements.

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

Independence

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

Auditor's Opinion

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

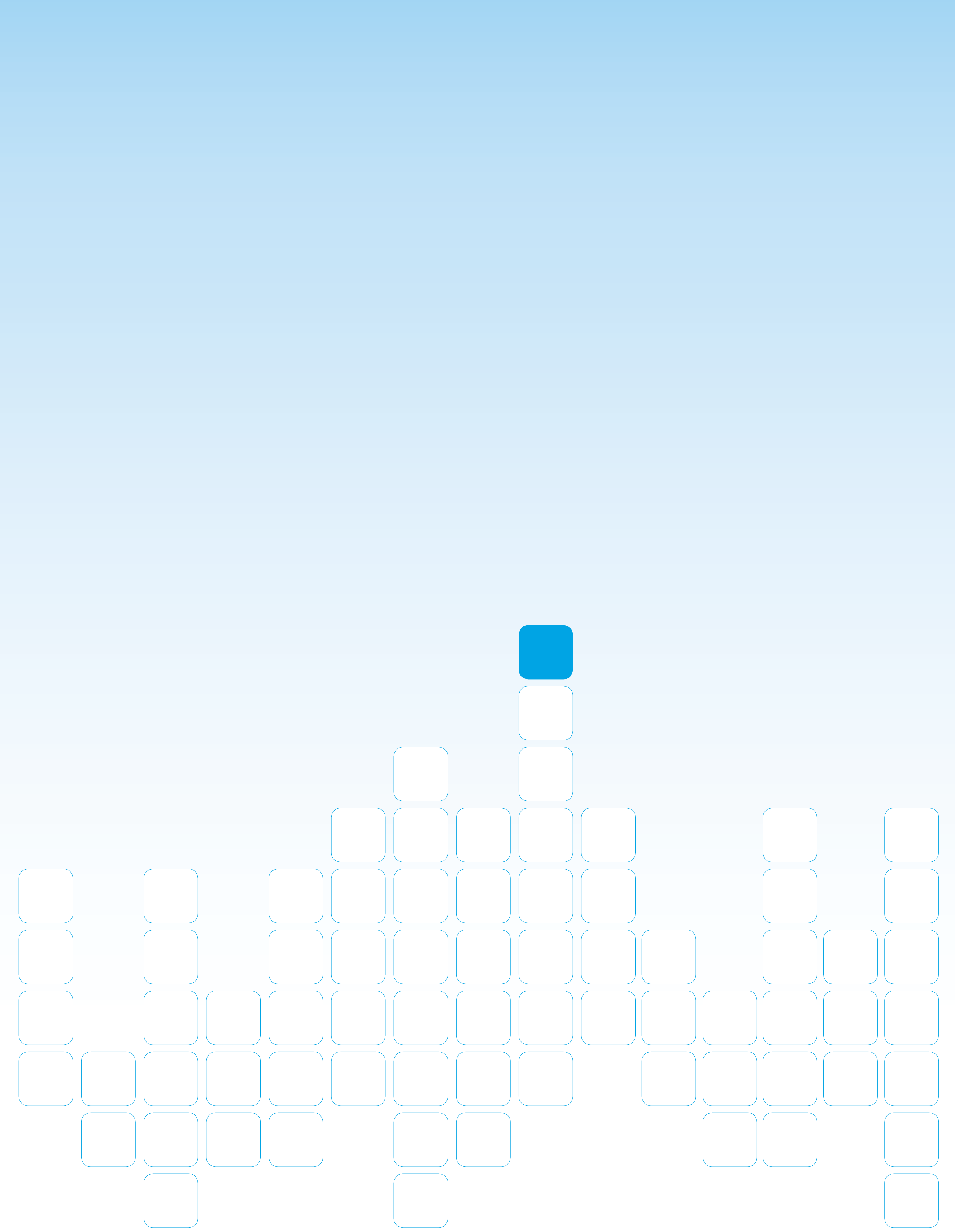
(a) have been prepared in accordance with Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, and Australian Accounting Standards including Australian Accounting Interpretations; and

(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 2008 and its financial performance and cash flows for the year then ended.

Australian National Audit Office

P Hinchey
Senior Director
Delegate of the Auditor-General

Sydney
28 August 2008



Chapter 9

Statutory report

Statutory reporting requirements

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

- *Australian Prudential Regulation Authority Act 1998*;
- *Financial Management and Accountability Act 1997*;
- *Environment Protection and Biodiversity Conservation Act 1999*;
- *Equal Employment Opportunity (Commonwealth Authorities) Act 1987*;
- *Freedom of Information Act 1982*;
- *Occupational Health and Safety (Commonwealth Employment) Act 1991*; and
- *Commonwealth Fraud Control Guidelines* and Department of the Prime Minister and Cabinet guidelines.

Australian Prudential Regulation Authority Act 1998 (APRA Act)

Report under section 59

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

- the activities of ADI statutory managers within the meaning of the *Banking Act 1959* and persons conducting investigations under Division 2 of Part II and section 61 of that Act; and
- the exercise during the year of APRA's powers under Part 15 of the *Retirement Savings Accounts Act 1997* (RSA Act) and Part 29 of the *Superannuation Industry (Supervision) Act 1993* (SIS Act).

APRA did not appoint any ADI statutory managers or persons to conduct an investigation under Division 2 of Part II or section 61 of the *Banking Act 1959* during 2007/08. There were no continuing appointments during the year.

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

Exemption number	Date	Provision of SIS Act/regulations exempted
A12 of 2007	01/08/07	Section 93(3)(a)
A13 of 2007	01/08/07	Section 93(3)(a)
A14 of 2007	31/07/07	Regulation 9.04.D(1)
A15 of 2007	10/08/07	Section 335
A16 of 2007	26/09/07	Regulation 9.04.D(1)
A17 of 2007	10/12/07	Regulation 13.17A
A18 of 2007	04/10/07	Regulation 93(3)
A19 of 2007	04/10/07	Section 335
A20 of 2007	08/10/07	Section 328
A21 of 2007	22/10/07	Regulation 9.094(2)
A22 of 2007	31/10/07	Section 35C and 36
A23 of 2007	06/12/07	Regulation 6.17
A24 of 2007	21/12/07	Subsection 93(4)
A25 of 2007	20/12/07	Regulation 6.17

Modification declaration number	Date	Provision of SIS regulations modified
Class		
2 of 2007	31/7/07	Regulation 7.04
3 of 2007	19/11/07	Subregulation 7.04(4)
4 of 2007	3/12/07	Section 29 DC & 29 MB

Modification declaration number	Date	Provision of RSA Act declaration
1 of 2007	19/11/07	Regulation 5.03
2 of 2007	04/12/07	Regulation 5.03

Financial Management and Accountability Act 1997 (FMA Act)

Auditor-General's activities

APRA was not subject to any performance audits by the Australian National Audit Office (ANAO) in 2007/08. APRA participated in the ANAO's cross-agency *Report on the Management of Personnel Security – Follow-up Audit*, tabled on 14 June 2008. APRA has accepted those recommendations relevant to it. The ANAO also issued its *Report on the Australian Taxation Office's Approach to Managing Self Managed Superannuation Fund Compliance Risks Volume 2*, which referred to APRA's supervision of superannuation funds. This was a follow-up to the ANAO's report on the same subject tabled in June 2007. No recommendations relating to APRA arose from either of these reports.

Executive Group attendance

See page 62 of the *Governance* section of this Report.

Executive Group qualifications

See pages 64-65 of the *Governance* section of this Report.

Statement by Members

See page 66 of the *Financial statements* in this Report.

Courts and tribunals

Over 2007/08, judicial decisions that had, or may have, a significant effect on APRA's operations involved:

- *Australian Prudential Regulation Authority v David Robert Siminton (No 6)* [2007] FCA 1608, in which the Federal Court decided that the defendant had breached the provisions of the *Banking Act 1959* by conducting unauthorised banking business, in accepting deposits and holding out as operating as a bank. In related proceedings, the Court sentenced Mr Siminton to terms of imprisonment for contempt of court for breaching orders that prohibited him from dealing with monies he had obtained through his unauthorised activities. Mr Siminton sought special leave to appeal to the High Court but leave was subsequently denied.

- *Motor Trades Association of Australia Superannuation Fund Pty Limited v Australian Prudential Regulation Authority* [2008] FCA 828, in which the corporate trustee sought judicial review of APRA's decision not to provide the trustee with documents obtained under Notice from a former chairman of the trustee. The Federal Court held that the decision was not amenable to judicial review because it was not a decision of an administrative character made under an enactment.

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

Enabling legislation and information on purpose and functions

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

APRA's purpose is to regulate bodies in the financial sector in accordance with the laws of the Commonwealth that provide for prudential regulation and retirement income standards, and for developing the administrative practices and procedures to be applied in performing that regulatory role. In performing and exercising its functions and powers, APRA is required to balance the objectives of financial safety and efficiency, competition, contestability and competitive neutrality and, in balancing these objectives, is to promote financial system stability in Australia.

Following the enactment of the *Governance Review Implementation (Treasury Portfolio Agencies) Act 2007*, APRA's financial arrangements have, from 1 July 2007, been subject to the FMA Act.

Commonwealth Ombudsman

The Commonwealth Ombudsman conducted investigations into eight matters, of which six related to early release of superannuation benefits. There was no negative comment about APRA's activities.

Financial statements

See page 68 of the *Financial statements* in this Report.

Indemnities and insurance premiums

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

Location

See page 134 of this Report.

Organisation chart

See pages 128-129 of this Report.

Parliamentary committees

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

During 2007/08, APRA Members and officers made themselves available for public hearings on the following occasions:

- Senate Economics Legislation Committee (sitting as Senate Estimates) on 21 February and 4 June 2008;
- Senate Standing Committee on Economics in its Inquiry into Private Equity Investment and its Effects on Capital Markets and the Australian Economy on 25 July 2007; and

- House of Representatives Standing Committee on Economics, Finance and Public Administration in its Inquiry into Home Loan Lending Practices and Processes on 10 August 2007.

APRA also made a joint submission, with the Reserve Bank of Australia, to the House of Representatives Standing Committee on Economics, Finance and Public Administration in its Inquiry into Home Loan Lending Practices and Processes in August 2007 and a submission to the Senate Economics References Committee in its Inquiry into Housing Affordability in Australia in April 2008.

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

Privacy Commission

There were no investigations by the Privacy Commissioner under section 36 of the *Privacy Act 1988* during 2007/08. No reports were served under section 30 of the Act. The Privacy Commission made no determinations under section 52, nor did APRA seek any under section 72.

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

Privacy inquiries relating to APRA should be addressed to:

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

Phone: 02 9210 3000
Fax: 02 9210 3424

Responsible Ministers

From 3 December 2007, the Hon Wayne Swan MP, Treasurer of the Commonwealth of Australia, has had portfolio responsibility for APRA.

He is assisted in this by the Assistant Treasurer and Minister for Competition Policy and Consumer Affairs, the Hon Chris Bowen MP, and the Minister for Superannuation and Corporate Law, the Hon Nick Sherry.

Prior to 3 December 2007, the Hon Peter Costello MP, Treasurer of the Commonwealth of Australia, had portfolio responsibility for APRA. He was assisted in this by the then Minister for Revenue and Assistant Treasurer, the Hon Peter Dutton MP.

Review of operations and prospects

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

Risk Management and Audit Committee attendance

See page 63 of the *Governance* section of this Report.

Service Charter

On 28 May 2008, following consultation with industry, consumer groups and government, APRA released the APRA Service Charter. The Charter is part of APRA's ongoing commitment to enhance transparency and accountability to its stakeholders and was a recommendation of the Taskforce on Reducing Regulatory Burden on Business (the Banks Report), which was endorsed by the then Government in its *Statement of Expectations* for APRA.

Statement on governance

See the *Governance* section of this Report.

Environment Protection and Biodiversity Conservation Act 1999

Ecologically sustainable development and environmental performance

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

APRA's Enviromental 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 and printer cartidges; and staff awareness.

During 2007/08, APRA engaged a specialist environmental consultant to advise on ways in which APRA could improve its environmental management and reporting systems, and to report on tangible ways in which APRA could reduce its consumption of energy and minimise waste. APRA will be responding to the consultant's recommendations over the course of 2008/09.

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

Workplace diversity program report

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

During 2007/08, APRA maintained its focus on implementing 'family friendly' initiatives to assist staff in achieving work/life balance. These included the establishment of a parent's room, reserved places in a CBD childcare centre and a range of health and well-being programs. APRA is also committed to retaining the skills, expertise and corporate knowledge of staff approaching retirement age through a 'Transition to Retirement' program and other measures. As a result of its initiatives, in February 2008 APRA was awarded a 'silver level' accreditation (the second highest level) in a national work/life benchmarking study for responding to the needs of staff for flexible employment.

EEO staff data – staff diversity as at 30 June 2008

Level	Female	Male	ATSI	NESB1	NESB2	PWD
Level 1	43	20	0	13	3	1
Level 2	60	31	0	21	1	0
Level 3	77	77	0	46	5	0
Level 4	66	112	1	44	3	1
Senior	14	68	0	10	2	1
Executive	0	6	0	1	0	0
Total	**260**	**314**	**1**	**135**	**14**	**3**

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

Freedom of Information Act 1982 (FOI Act)

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

In 2007/08, APRA received 13 applications for access to documents under section 15 of the FOI Act and had three applications on hand at the beginning of the period. APRA also dealt with two applications for internal review under section 54.

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

Granted in full	2
Granted in part	10
Access refused	1
Withdrawn	3
Transferred to another agency	0
On hand at 30 June 2008	0
Total	16

Charges collected were $1,558 and the estimated cost of handling FOI requests in 2007/08 was $12,100.

Initial contact for requests under FOI Act

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

The FOI Coordinator
Legal Services
Australian Prudential Regulation Authority
GPO Box 9836
Sydney NSW 2001
Phone: 02 9210 3000
Fax: 02 9210 3424

Access to documents

APRA is increasingly using the internet to make its publications available to the public on the APRA website, free of charge. Some publications, however, attract a charge. The website contains application forms, regulatory information, prudential statements, circulars and guidelines covering the types of entities that APRA regulates.

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

Questions about publications should be made to:

Public Affairs
Australian Prudential Regulation Authority
GPO Box 9836
Sydney NSW 2001
Phone: 02 9210 3000
Fax: 02 9210 3170

Categories of documents

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

- documents open to public access as part of a public register in accordance with an enactment where access is subject to a fee or other charge:
  - accounts and auditor certificates relating to general insurers available under the former section 122 of the *Insurance Act 1973*;
- other documents available for purchase by the public in accordance with arrangements made with APRA:
  - life insurance publications (financial diskette containing annual data and market statistics from half-yearly data);
- documents made available to the public free via APRA's website at www.apra.gov.au:
  - lists of regulated entities and industry bodies;
  - superannuation circulars and guidance notes relating to the *Superannuation Industry (Supervision) Act 1993* and the *Retirement Savings Accounts Act 1997*, and 'frequently asked questions' on superannuation industry issues;
  - statutory instruments issued by APRA, including modification declarations, determinations and approvals;
  - prudential standards and rules made under the *Banking Act 1959*, the *Insurance Act 1973* and the *Life Insurance Act 1995*, guidance notes and prudential practice guides;
  - transitional prudential standards made under the *Financial Sector Reform (Amendments and Transitional Provisions) Regulations 1999*;
  - reporting standards made under the *Financial Sector (Collection of Data) Act 2001* together with reporting forms and instructions for the lodgement of returns;
  - transfer rules made under the *Financial Sector (Transfers of Business) Act 1999*;
  - class consent under section 66 of the *Banking Act 1959*;
  - market statistics (including APRA's *Insight* and other various industry-based statistical performance publications) and other research material;
  - policy discussion papers;
  - media releases and other news updates;
  - copies of Enforceable Undertakings issued by APRA and the APRA Disqualification Register;
  - seminar papers and copies of speeches given by APRA Members and officers;
  - APRA *ADI Points of Presence* (concerning the availability of banking services in rural and regional areas);
  - corporate information;
  - procedural guidelines;
  - enabling legislation; and
  - indexed file list for the purposes of Senate Continuing Order No. 6.

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

Details of investigations and other matters as prescribed

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

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

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

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

Responsibilities imposed by the OHS Act were identified and allocated to individual staff members. This included the identification and training of three new health and safety staff representatives in Brisbane (one), Canberra (one) and Sydney (one).

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

APRA's policy and procedures are aimed at identifying, assessing and controlling hazards associated with work processes, particularly computer-based work. In 2007/08, sessions informing staff of the ideal ergonomic set-up for their individual workstations were held in Sydney.

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

Comprehensive health assessments are provided to staff at senior levels as well as to those aged 50 and over. The health assessment program was expanded during 2007/08 to provide shorter health assessments for staff aged 40-49 and a 15-minute 'healthy heart' check for all other staff. These assessments are not compulsory and APRA is provided with statistical data only (not personal details or results of the assessments).

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

APRA has arrangements for consultation on all OHS issues, including maintenance of the Occupational Health and Safety (OHS) Committee with four staff and four management representatives.

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

Statistics requiring the giving of notice under section 68

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

Location	Number
On APRA premises	2
Other	0
Total	**2**

Other reporting

Commonwealth Disability Strategy

APRA's operations encompass the typical activities of regulator, policy adviser and employer, as they are defined in the Commonwealth Disability Strategy.

As a regulator and policy advisor, APRA continues to ensure there is public access to information through APRA's distribution channel, the internet. For those services that are not provided electronically (particularly early release of superannuation benefits), there is ongoing assessment to ensure that particular groups are not excluded either by virtue of financial circumstance or physical or intellectual disability.

APRA supports access for people with speech or hearing disabilities via Telstra's service for TTY (Text Telephone) users.

As an employer, APRA 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 the Disability Discrimination Act is included in its Human Resources Policy Manual and Code of Conduct. Through this, all staff and managers are responsible for supporting the principles of workplace diversity. APRA is a member of the Diversity Council.

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. The policy also ensures that selection processes take into account the special needs of applicants, so that those with disabilities are not disadvantaged.

Commonwealth Fraud Control Guidelines

Fraud control

The Chairman of APRA certifies that he is satisfied that:

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

Commonwealth Procurement Guidelines

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

In coming under the FMA Act from 1 July 2007, APRA was required to change the way in which its procurement processes are conducted, including but not limited to:

- conducting open tenders for procurement activities of more that $80,000 (other than construction services);
- reporting all procurements over $10,000 on Austender; and
- reporting all purchases over $100,000 on APRA's website.

In 2007/08, APRA had two Austender-exempt contracts with total value of $63,500.

In 2007/08, all APRA competitively tendered contracts over $100,000 provided for the Auditor-General to have access to the contractor's premises.

Consultancies

The *APRA Chairman's Finance Instructions and Financial Policies*, and associated operational procedures, include specific provisions on consultants and contractors. Considerations prior to engagement include whether in-house resources are available; the cost-effectiveness of the operation and whether the project is essential; availability of funds; a selection and evaluation process resulting in fair competition, effective services and value for money; project definition and outcomes; and superannuation implications.

The main purposes for which consultants were engaged in 2007/08 were audit services; training; financial and accounting services; IT consultancies; legal advice; litigation services; recruitment selection, administration and counselling; and professional services.

In 2007/08, the total number of consultants engaged was 115 and the total amount paid was $4.5 million.

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.

Discretionary grants

Discretionary grant programs that APRA either jointly administers or participates in are the:

Brian Gray Scholarship;

UNSW Co-op Actuarial Scholarship; and

AXISS Scholarship.

Previous winners of the Brian Gray Scholarship are available on APRA's website (http://www.apra.gov.au/Careers/Brian-Gray-Scholarship-winners.cfm). Winners of the other scholarships that APRA supports are available upon request.

Executive and consultative committees from 1 July 2007 to 30 June 2008

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 improve staff motivation and retention, 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 groups, comprising representatives of the various divisions of APRA, and they cover the following industry sectors:

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

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

Basel II Steering Group

The Group comprises representatives of the various divisions of APRA. It provides a forum for discussion of issues relating to the interpretation and implementation of Basel II in Australia, to ensure consistency of approach within APRA.

Cross-Divisional Licensing Committee

This Committee comprises representatives from across APRA and 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 which need to be considered in licensing submissions and, after consideration of an application, recommends to the relevant Executive General Manager action to be taken.

International committees

APRA has two committees which coordinate its involvement with international groups and fora in banking and insurance, respectively. Their purpose is to prioritise resource allocation for APRA 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 throughout APRA. Membership is drawn from those senior APRA staff involved in international committee work.

Occupational Health and Safety Committee

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

Staff Consultative Group

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

Security Group

The 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 overarching security policy and governance model for APRA and take the measures necessary to implement that model.

Certified Employment Agreements

As at 30 June 2008, 489 staff were covered by the collective *APRA Employment Agreement, 2008*. Eighty-two senior staff were covered by common law agreements. No staff were engaged under an Australian Workplace Agreement.

All staff are appointed under the APRA Act. APRA applies a total remuneration approach whereby all salary, superannuation and 'salary sacrifice' benefits are included in an employee's total remuneration package (TRP). The total numbers of non-executive staff and their TRP pay ranges as at 30 June 2008 were:

Level	Number	TRP range
4	178	$102,700 – $171,100
3	154	$71,500 – $119,100
2	91	$49,900 – $83,100
1	63	$35,700 – $59,600

Performance pay

APRA has a performance bonus system, designed in consultation with staff and management and covering all employees. For 2007/08, the aggregate bonus pool was $3.65 million. Under deferred bonus arrangements introduced in the *APRA Employment Agreement, 2008*, bonuses will be paid in late December 2008 to eligible staff still in APRA's employ at that date.

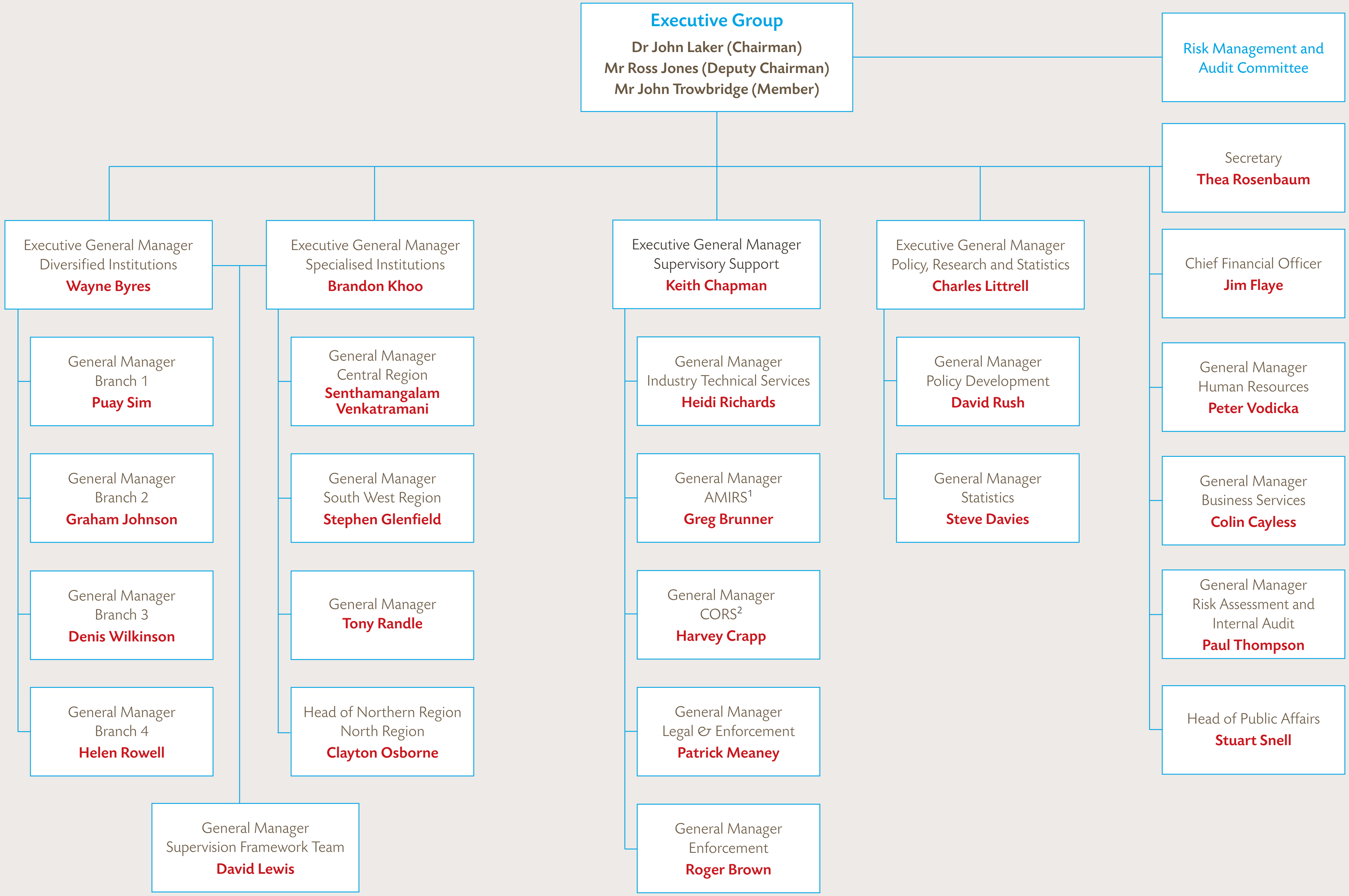
Staff statistics

Staff by location and full-time/part-time as at 30 June 2008

Location	Full-time	Part-time	Total
Adelaide	6	0	6
Brisbane	13	3	16
Canberra	17	16	33
Melbourne	68	5	73
Perth	5	1	6
Sydney	418	22	440
Total	**527**	**47**	**574**

Staff by division and full-time/part-time as at 30 June 2008

Division	Full-time	Part-time	Total
Corporate	93	22	115
Diversified Institutions	108	4	112
Policy, Research and Statistics	66	5	71
Specialised Institutions	126	8	134
Supervisory Support	134	8	142
Total	**527**	**47**	**574**



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

AASB	Australian Accounting Standards Board
AAT	Administrative Appeals Tribunal
ACCC	Australian Competition and Consumer Commission
ADI	Authorised deposit-taking institution
AFSPC	Association of Financial Supervisors of Pacific Countries
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
BFIAAG	Banking and Finance Infrastructure Assurance Advisory Group
CAC Act	*Commonwealth Authorities and Companies Act 1997*
CoFR	Council of Financial Regulators
CRF	Consolidated Revenue Fund
DMFs	Discretionary mutual fund
DOFIs	Direct offshore foreign insurer
EEO	Equal Employment Opportunity
FCS	Financial Claims Scheme
FHSA	First Home Saver Accounts
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)
IAA	International Actuarial Association
IAAust	Institute of Actuaries of Australia
IAIS	International Association of Insurance Supervisors

IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IOPS	International Organisation of Pension Supervisors
IOSCO	International Organization of Securities Commissions
LIASB	Life Insurance Actuarial Standards Board
LMI	Lenders mortgage insurer
MoU	Memorandum of Understanding
MPR	Money Protection Ratio
NCPD	National Claims and Policies Database
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
SCCI	Specialist credit card institution
SEACEN	South-East Asian Central Banks
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

Head office

New South Wales

Delivery address:
APRA
Level 26
400 George Street
SYDNEY NSW 2000

Mailing address:
GPO Box 9836
SYDNEY NSW 2001

T: 02 9210 3000
F: 02 9210 3411

Other offices

Australian Capital Territory

Delivery address:
APRA
Level 2
243–251 Northbourne Avenue
LYNEHAM ACT 2602

Mailing address:
GPO Box 9836
CANBERRA ACT 2601

T: 1300 131 060
F: 02 6213 5307

Queensland

Delivery address:
APRA
Level 23
300 Queen Street
BRISBANE QLD 4000

Mailing address:
GPO Box 9836
BRISBANE QLD 4001

T: 07 3001 8500
F: 07 3001 8501

South Australia

Delivery address:
APRA
Level 5
100 Pirie Street
ADELAIDE SA 5000

Mailing address:
GPO Box 9836
ADELAIDE SA 5001

T: 08 8235 3200
F: 08 8232 5180

Victoria

Delivery address:
APRA
Level 21, Casselden Place
2 Lonsdale Street
MELBOURNE VIC 3000

Mailing address:
GPO Box 9836
MELBOURNE VIC 3001

T: 03 9246 7500
F: 03 9663 5085

Western Australia

Delivery address:
APRA
Level 15, QV.1 Building
250 St Georges Terrace
PERTH WA 6000

Mailing address:
GPO Box 9836
PERTH WA 6001

T: 08 9481 8266
F: 08 9481 8142

Info line: 1300 131 060

Website: www.apra.gov.au

Email: contactapra@apra.gov.au