Australian Prudential Regulation Authority

ANNUAL REPORT 2009

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 $3.6 trillion in assets for 22 million Australian depositors, policyholders and superannuation fund members.

APRA vision, mission and values

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 a 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.

Australian Prudential Regulation Authority

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John F. Laker AO
CHAIRMAN

19 October 2009

The Hon Wayne Swan, MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer,

In accordance with Section 59 of the *Australian Prudential Regulation Authority Act 1998*, I am pleased to submit the Australian Prudential Regulation Authority Annual Report and Financial Statements for the year ended 30 June 2009.

Yours sincerely,

John Laker

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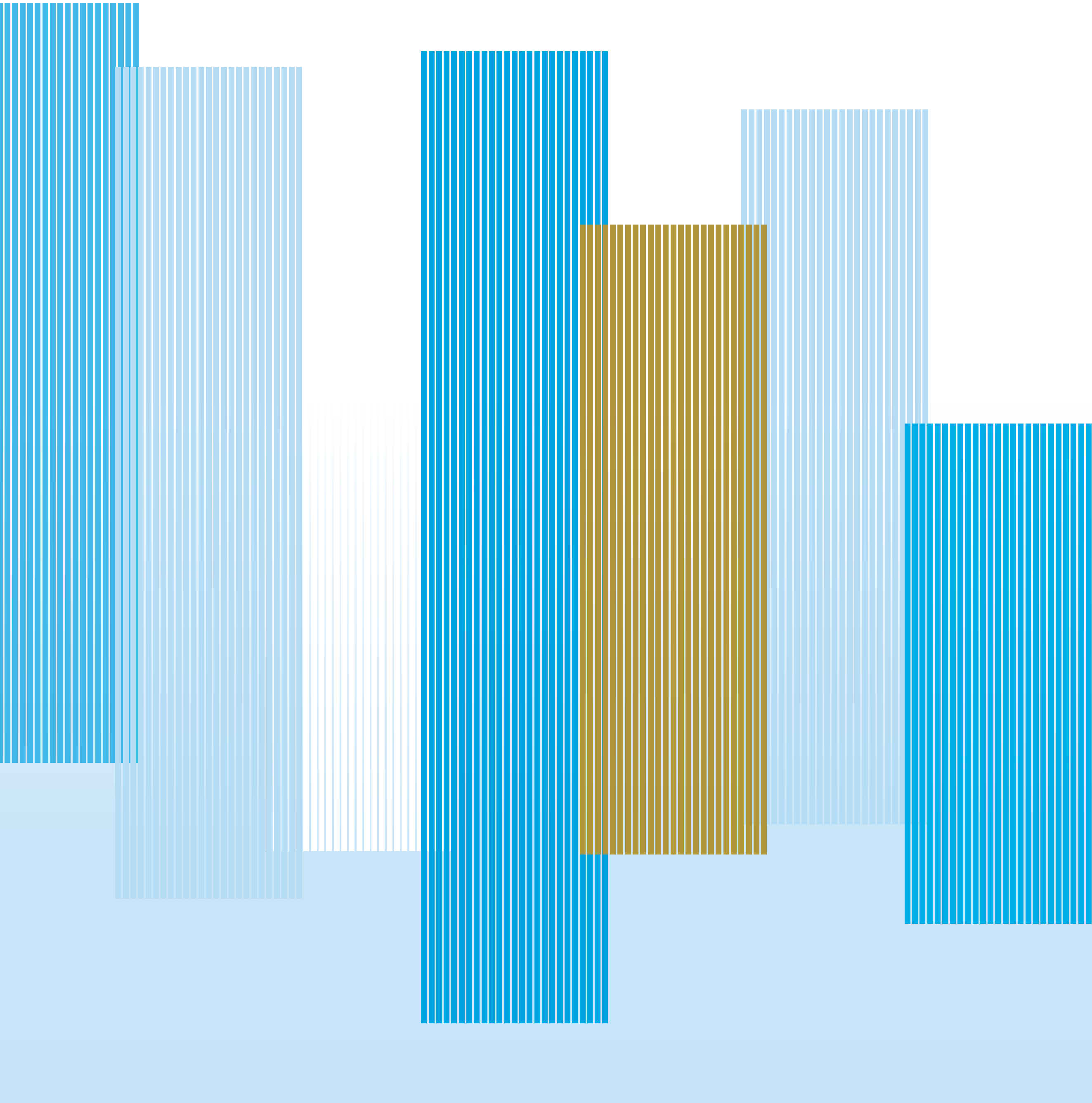


CHAPTER ONE

FROM THE CHAIRMAN

The crisis intensifies

In October 2008, the global financial system was edging towards the precipice. The failure of Lehman Brothers and the public rescue of a number of other major financial institutions over preceding weeks precipitated a widespread breakdown in the bonds of trust between investors and global banks, and between banks themselves, that threatened a collapse of global funding markets. Emergency actions by central banks and governments, including in Australia, averted the immediate threat but the financial traumas nonetheless took a substantial toll on business and consumer confidence, and on equity markets. Over subsequent quarters, major industrial economies and other economies critical to Australian exports experienced their sharpest declines or slowdowns for many decades.

These developments presaged a yet more challenging environment for the financial institutions under APRA's supervision, as the global financial crisis spilled over to the Australian economy. Already buffeted by protracted bouts of market turbulence once the crisis began, these institutions faced the additional prospect of a domestic economic slowdown of uncertain length and severity. A prolonged downturn and rising unemployment would have put strong pressure on asset quality, profitability and capital and, inevitably, would have invited harsh market sanctions against financial institutions with poorer risk profiles. Acknowledging these possibilities, APRA's supervisory intensity was dialled to its highest level.

Events have proven otherwise. Globally, as the unprecedented public policy interventions gained traction, funding markets have stabilised, investors have regained some confidence and interest spreads on wholesale bank debt have fallen. The recession in major industrial economies appears to have neared or reached bottom. In Australia, the economic downturn has not been as serious as had been feared initially. Responding to accommodative monetary policy, strong fiscal stimulus and the rebound in Asian export markets, the performance of the Australian economy in 2009 has been unrivalled amongst industrial economies and the rise in unemployment has been relatively muted to date.

Australia's progress has been supported by, and has in turn reinforced, the fundamentally sound condition of APRA-regulated institutions, notwithstanding two years in dangerous seas.

Of the supervised industries, APRA's attention has been most sharply focussed on authorised deposit-taking institutions (ADIs). These institutions (banks, building societies and credit unions) had felt the initial impact of the global financial crisis through the higher cost of and reduced access to wholesale funding (including the freezing of securitisation markets) and, in some cases, through impaired exposures to certain high-profile corporate stress. The Australian Government's guarantee of deposits and wholesale funding in October 2008 proved pivotal in assuring ADIs' access to funding, domestically and offshore. Credit quality problems, particularly in business and commercial property lending, broadened as the Australian economy lost momentum in the second half of 2008, but solid growth in core earnings provided an ample buffer against higher loan write-offs and provisioning. The profitability of the ADI industry in 2008/09, though no longer at record levels, would be the envy of many other banking systems. ADIs have remained well capitalised through the crisis and strong investor support has enabled a number of listed ADIs to bolster their capital base.

APRA's other supervised industries are traditionally less susceptible to cyclical developments in the economy and though the crisis intensified in 2008/09, their story is broadly similar to the previous year. A further substantial deterioration in global and domestic equity markets reduced the value of the large equity portfolios of life insurance companies and superannuation funds and produced negative returns to superannuation fund members for the second year running. These impacts have been partly unwound by the recovery in equity markets over recent months. A number of life insurance companies also took steps to protect their capital positions. For the second consecutive year, a series of severe weather-related events were the main influence on the performance of the general insurance industry.

Although it may now seem a case of 'steady as she goes', the operating environment for financial institutions supervised by APRA will remain testing for some time to come. A recovery in global growth is not yet firmly established and the balance sheets of many major global financial institutions are still burdened by poor quality assets; in such an environment, market sentiment could easily turn sour again. The trajectory of Australia's economic growth is also uncertain. Boards and management will need to be particularly careful not to drop their guard on risk if relief at surviving the most challenging circumstances in many decades gives way, as it may, to excessive confidence that their institutions are now invulnerable. *Memento mori*, the accompanying slave's reminder to victorious Roman generals, may need a prudential regulator's counterpart.

APRA's supervisory activities

The heightened intensity of APRA's supervision since the global financial crisis first erupted in August 2007 has not required any change to the risk-based approach it has developed over a number of years. As that approach requires, APRA had already been targeting its attention and supervisory resources on those institutions judged likely to be at greater risk during the crisis. What has been involved, simply put, is that APRA has been interacting more, and more often, with institutions. In doing so, APRA has also concentrated its efforts on a narrower range of areas – in particular, liquidity and capital – than the broad sweep it takes in good times when the source of emerging risks may be less obvious.

More intense supervision during the crisis has had a number of dimensions. It has, for example, involved the dedication of teams of supervisors and specialist risk staff to monitor and coordinate responses to specific risks, more face-to-face contact with and formal prudential reviews of regulated institutions, more frequent discussions with boards and more frequent and/or more comprehensive collections of data. Some of these activities are outlined in the following pages of this Report.

Another dimension has been APRA's 'thematic' or broader industry analysis. For some years, the main thrust of APRA's thematic work was credit standards in housing lending and the dividends from that work are apparent in the continued strong performance of ADI housing loan portfolios. APRA has broadened that work to encompass a number of emerging industry-wide risks and it has undertaken comprehensive stress-testing in the ADI, general insurance and life insurance industries. The crisis itself, of course, has been a 'live' stress-test but, as it has transpired, not as demanding a test for Australian financial institutions as for many of their overseas counterparts. APRA's stress-testing is designed to identify and correct any possible complacency. Such exercises are seen globally as a vital addition to the supervisor's armoury in requiring boards and management to confront and plan for the possibility of 'near death' experiences.

More frequent contact with boards is fully consistent with APRA's expectation that boards will act as a critical line of defence against excessive risk-taking. Severe shortcomings in how boards of some major global financial institutions carried out their role are widely acknowledged as a material contributor to the global financial crisis. Generally speaking, the boards of APRA-regulated institutions avoided those shortcomings and they have provided sound leadership to their institutions through the crisis; indeed, strong governance has been one of Australia's distinguishing features. That is not to say that all lending and investment decisions proved wise in hindsight, that business models were always robust or that some reputations did not take a dent. Moreover, there are general lessons from the crisis that APRA wishes to keep 'front of mind' at board level. One lesson is that boards must ensure they are fully briefed on risks by a risk management function that has authority and independence within the institution. Another lesson is that boards must understand the risks involved in new endeavours and must challenge management on how such endeavours, particularly if complex in nature, support the core business.

In a number of the major industrial economies, the global financial crisis has shone an unflattering spotlight on the regulatory architecture, coordination arrangements and the performance of the prudential regulator itself. Australia's 'twin peaks' model, in contrast, has stood up well to scrutiny. Having a single and clear mandate – namely, to promote prudent behaviour on the part of financial institutions – has kept APRA free of the distractions and the resourcing and other conflicts that can arise in attempting to pursue multiple objectives. APRA's organisation as an integrated regulator has also delivered substantial benefits in identifying cross-sectoral issues (such as housing credit quality and capital requirements for lenders mortgage insurers) and in the supervision of conglomerate groups that straddle more than one regulated industry. The global financial crisis has thrown up some classic counter-examples of ineffectual group supervision.

The crisis has highlighted the crucial need for effective coordination and communication between the prudential regulator and the central bank. On this score, as well, Australia's arrangements have been exemplary; during the dramatic events of September and October 2008 particularly, APRA remained in very close contact with the Reserve Bank of Australia. Maintaining strong personal and professional links between these two agencies will, over time, be as important as formal protocols, memoranda of understanding and crisis management plans. Broader cooperation between regulatory agencies in Australia, under the aegis of the Council of Financial Regulators, also proved very effective during those events.

The spotlight on the prudential regulator itself reflects the reality that, across industrial economies, the prudential regime for banks is broadly consistent yet some banking systems have fared much better than others during the crisis. Calls have been made abroad that supervisors need to take a tougher, more challenging and more intrusive approach, be less trusting of boards and senior management and exercise more supervisory judgment. APRA had its clarion call a few years earlier. The risk-based approach it has developed, applied constructively but firmly, has in APRA's view proven its worth in battlefield conditions. This assessment is supported by the results of APRA's first stakeholder survey, which gave a strong endorsement of APRA's prudential framework and approach to supervision and of its positive impact on regulated industries.

Regulatory responses

With emergency measures in place to restore financial market stability and shore-up bank capital, the global regulatory response to the crisis has returned to the challenge of strengthening the foundations of the global financial system and addressing underlying weaknesses in the regulatory framework. The blueprint for this work is a series of recommendations by the Financial Stability Board, a coordinating body bringing together national authorities (including Australia's), international organisations and standard-setting bodies. This blueprint has the endorsement of the Leaders of the G20. In their April 2009 Declaration, *Strengthening the Financial System*, the G20 confirmed that its principles are strengthening transparency and accountability, enhancing sound regulation, promoting integrity in financial markets and reinforcing international cooperation.

Australia's prudential framework has performed well during the global financial crisis and a 'root and branch' review is neither necessary nor contemplated. Nonetheless, global reform initiatives will have implications for this framework. For this reason, it is critical that APRA be actively engaged in the reform process to ensure that Australian financial institutions do not bear the unnecessary brunt of global solutions to problems they were sufficiently prudent to avoid. APRA's engagement has gathered momentum as a consequence of joining the Basel Committee on Banking Supervision, the global standard-setting body for banking regulation. This was a welcome development, ensuring that APRA now has a seat at each of the major international fora for prudential regulation.

Three particular global reform initiatives are now shaping APRA's prudential policy agenda. The first involves a program of measures, under development by the Basel Committee, to raise the quality and quantity of capital in the global banking system and address issues of procyclicality. These measures involve an enhancement of the Basel II Framework, the new global capital regime for banking institutions that was introduced in Australia and in many other industrial countries from 1 January 2008. The Basel Committee has already announced a strengthening of the capital treatment of complex structured products and securitisation activities, and other measures to introduce a framework for counter-cyclical capital buffers and a back-stop leverage ratio will be announced by the end of 2009. The issues involved are complex and will require careful and pragmatic judgments. Banking systems are inherently procyclical and recent experience suggests that markets are reluctant to allow capital buffers to be drawn down in times of stress.

Well-designed enhancements to Basel II will give even firmer underpinnings to APRA's prudential framework for ADIs. The causes of the global financial crisis, it must be remembered, developed under the previous 1988 Basel Accord and Basel II addressed some significant shortcomings in the previous regime; remaining gaps and distortions will now be closed. In APRA's view, the introduction of Basel II has been a positive factor in the prudential soundness of ADIs in Australia, not only in establishing more risk-sensitive and comprehensive capital requirements but also in promoting more rigorous risk management. In particular, the substantial accreditation process for ADIs seeking to use the advanced Basel II approaches required the ADIs to demonstrate in-depth knowledge of and ability to manage risk right through their institutions, up to board level. That said, the quantitative impact of the various Basel II enhancements, taken together, must be carefully measured and fully understood by prudential regulators before they are finalised, lest they produce unintended consequences. APRA will, as usual, consult publicly on the enhancements.

During 2008/09, APRA volunteered to have its implementation of Basel II in Australia assessed by the International Monetary Fund (IMF) under a special Basel II program. The IMF concluded that APRA operates a sound supervisory system that meets Basel II requirements and that APRA's implementation of Basel II was robust and of high quality and substantially strengthened the risk management capabilities of the major banks. The IMF also acknowledged that the quality of leadership and commitment of all involved has been influential in the success of this major implementation effort.

The second global initiative concerns the management of liquidity risk, an area where serious weaknesses were exposed by the global financial crisis. Lulled by years of ample global liquidity, many major global banking institutions failed to contemplate how suddenly liquidity risks can materialise and funding sources dry up. The Basel Committee has released revised principles for sound liquidity risk management and supervision and APRA is now translating these principles into its prudential framework for ADIs. Proposals currently out for consultation will require ADIs to confront more searching stress scenarios, including the possibility of a protracted period of market disruption. APRA will also be improving its diagnostics of liquidity management.

The third global initiative concerns remuneration in banking institutions. APRA has been at the forefront of work to address poorly designed incentives in remuneration, one of the key factors contributing to the global financial crisis. Responding to the Financial Stability Board's principles on sound compensation, APRA has released proposals, now in their second round of consultation, that are designed to align remuneration incentives with good stewardship of institutions. APRA's principles-based approach has two main objectives.

One is to empower boards to determine sound remuneration arrangements for all staff who can materially affect the performance of their institution. The other is to inject a longer-term horizon into remuneration arrangements by requiring that they be aligned with the long-term financial soundness of the institution and its risk-management framework. Despite populist appeal to do so, APRA does not see it as the role of a prudential regulator to intrude into the market and shareholder disciplines involved in determining absolute levels of remuneration.

Substantial though these three main workstreams are, they do not exhaust APRA's prudential policy agenda nor confine it to the banking system. The global insurance sector has not been immune from the crisis and, as noted above, adverse equity market developments have had an impact on other APRA-regulated industries. Against this background, a prudential framework for conglomerate groups is taking shape and a review of capital standards in the life and general insurance industries is looking at the scope to harmonise these standards and improve their risk-sensitivity.

Our people

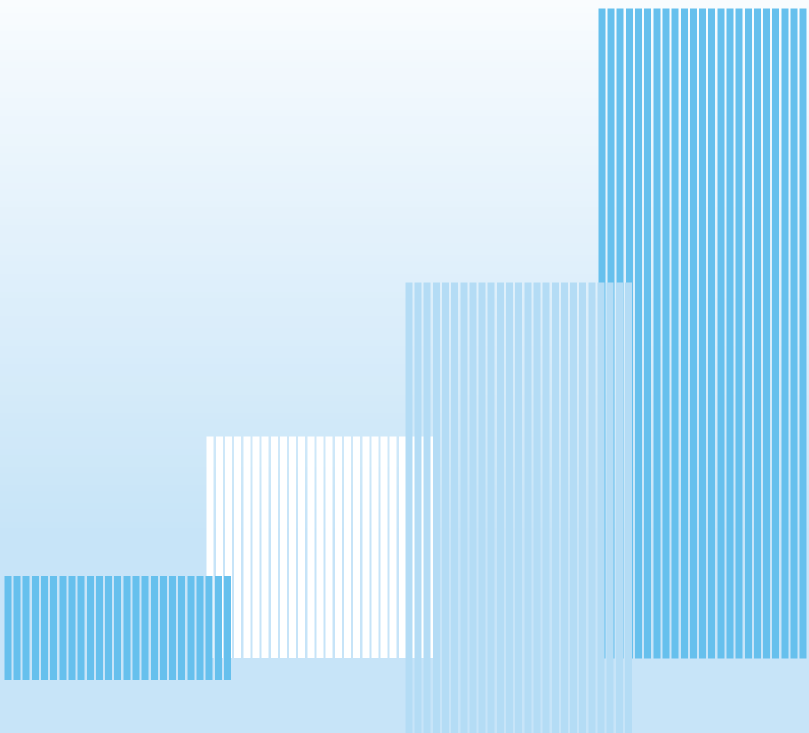
The intensity of APRA's supervisory activities and of its prudential policy agenda during 2008/09 has been supported by the increase in resources provided by the Government in the 2008/09 Additional Estimates. It has been sustained by the skills, commitment and stamina of APRA's staff, some of whom are shown throughout this Report. Staff with supervisory responsibilities have needed a clear understanding of the strengths and frailties of the institutions they supervise, as well as the willingness and confidence to intervene where necessary. Staff with policy responsibilities have needed to balance strong technical skills with a sense of the commercial realities in which APRA's prudential requirements apply. All APRA staff have needed to display professional standards befitting an agency charged with promoting the financial security of the Australian community. These are demanding requirements, at times of crisis especially.

Accordingly, it was particularly pleasing that the two highest scores in APRA's recent stakeholder survey were attributed to APRA's staff's demonstration of integrity and of professionalism. APRA's staff can take some pride in this endorsement and from the knowledge that they have genuinely made a difference to financial outcomes in Australia; by its very nature, however, their work is never finished. The APRA Members, who see the qualities of APRA staff in action daily, thank each one of them for their determination and tenacity.

John Laker

Dr John F Laker
Chairman

APRA Members in 2008/09 – (left to right) Mr Ross Jones, Dr John Laker and Mr John Trowbridge.



CHAPTER TWO

APRA'S SUPERVISORY ACTIVITIES IN 2008/09

Authorised deposit-taking institutions

The resilience of authorised deposit-taking institutions (ADIs) in Australia during the global financial crisis has stood in marked contrast to the experience of many other banking systems.

ADIs had avoided the excessive risk-taking behaviour that precipitated the crisis; they had only minimal direct exposures to US sub-prime mortgages and, with limited exceptions, to the complex financial instruments structured around these mortgages. However, ADIs were not able to avoid the pronounced impact of the crisis on the cost and availability of wholesale funding and, subsequently, on global and domestic economic growth.

After protracted bouts of market turbulence during 2007/08, access to offshore wholesale funding, a key funding source for larger ADIs, came under acute pressure during the traumatic financial events of September and October 2008, triggered by the failure of Lehman Brothers. Governments in major industrial economies were forced to provide substantial support to their banking systems, including direct equity injections. This was the context in which the Australian Government introduced its guarantee arrangements for ADI deposits and wholesale funding. Conditions in global funding markets improved over 2009 as investor confidence began to recover. Interest spreads on funds raised by banks reduced considerably, although they remained well above pre-crisis levels, and access to longer-term funding sources gradually became more assured. Overall, ADIs were able to meet their funding needs in 2008/09, and have made good progress on their forward funding, through extensive use of the Government guarantee and strong retail deposit growth. Securitisation markets remained largely closed as a source of funding although early signs of a revival in the domestic market have emerged very recently.

The global recession and Australia's economic slowdown considerably dampened ADI asset growth and put some pressure on asset quality and provisioning levels. Growth in lending to business fell sharply as businesses sought to reduce their gearing (including by replacing debt with equity) and credit standards were tightened. Similarly, greater caution by households turned growth of personal lending negative but growth in housing lending continued at a reasonable pace in response to generation-low mortgage interest rates and Government incentives to first-home buyers. The pressure on asset quality added classic credit cycle effects to the significant exposures that some ADIs already had to certain high-profile corporations whose business models were imperilled by the crisis. Non-performing loan rates rose, particularly on business and commercial property lending, though residential mortgage portfolios continued to perform well.

Throughout the crisis, the profitability of most ADIs has been underpinned by continued solid growth in core earnings. Profit levels in 2008/09 were generally below recent peaks because of bad debt expenses and higher levels of provisioning against distressed borrowers; even so, returns on equity for the larger ADIs were double-digit. Sustained profitability, in turn, has reinforced the sound capital position of the industry. A number of ADIs took steps during 2008/09 to strengthen their capital base through equity issues (often over-subscribed) and reduced dividend payouts. The crisis has given a spur to industry consolidation: the ranks of regional banks have thinned and the population of credit unions continued to fall. On the other hand, the number of foreign bank branches was unchanged.

Liquidity and funding

Drawing on its experience during the earlier episodes of market turbulence, APRA maintained its intense focus on the management of liquidity and funding by ADIs in 2008/09, particularly over the first half. Some early months of relative calm gave way to a period of acute stress on liquidity and funding in September and October 2008 after Lehman Brothers failed and other major financial institutions needed public rescue. Global funding markets became severely dislocated, effectively closing for other than small amounts of overnight funds even for highly rated banks. In contrast to those earlier episodes, the souring of confidence in global financial institutions spilled over into retail deposit markets, even in Australia. A 'flight to quality' began from unregulated institutions to ADIs and, even within the regulated sector, from smaller to larger ADIs. A number of ADIs issued back-to-back negotiable certificates of deposit (NCDs) to one another to bolster contingent liquidity reserves during this period.

As stresses mounted, APRA stepped up its oversight of ADI liquidity management and was in frequent contact with senior executives responsible for liquidity management in the larger ADIs. The special team of front-line supervisors and treasury risk staff that APRA had formed in late 2007, but later wound down when global funding markets appeared to be settling, was reactivated to coordinate this process. APRA remained in close contact with the Reserve Bank of Australia (RBA) throughout this period to discuss industry-level issues and funding pressures on particular institutions.

The Government's guarantee arrangements for ADI deposits and wholesale funding announced in October 2008 was one of a series of unprecedented policy responses by sovereign governments, aimed at restoring confidence and stability to financial markets and institutions. These responses were reinforced by unprecedented central bank actions to restore liquidity to domestic financial systems. For its part, the RBA increased the flexibility of its domestic market operations including by accepting a wider range of securities for repurchase agreements and conducting repurchase agreements for longer terms.

Funding pressures on ADIs gradually eased once the guarantee arrangements became fully operational. As at September 2009, ADIs had raised over $120 billion of longer-term wholesale funding using the wholesale borrowing guarantee, lengthening the maturity profile of their liabilities in the process. ADIs have also increasingly raised term wholesale funds, domestically and offshore, without recourse to the guarantee. Retail deposits grew sharply during the peak of the crisis. Growth rates have eased more recently but competition for retail deposits remains robust.

With securitisation markets effectively closed, at least until very recently, to issuers relying solely on private investors, ADI originators continued to place loans into warehouse vehicles, exhausting the remaining available capacity. The overall issuance of asset-backed commercial paper (ABCP) reduced significantly; as a consequence, the major Australian banks and those branches of foreign banks that provide liquidity to ABCP conduits had to undertake large liquidity injections or purchase ABCP issued by the warehouse manager. The Government has acted to support securitisation markets through purchases of residential mortgage-backed securities (RMBS) from a number of market participants by the Australian Office of Financial Management (AOFM). As part of the expansion of its domestic market facilities, the RBA accepted internal securitisations of eligible mortgage pools as ADI assets eligible for repurchase agreements.

The improving tone of global funding markets over the course of 2009 enabled APRA, once again, to stand down its dedicated liquidity monitoring team and to reallocate supervisory priorities to ADI funding plans. Since the global financial crisis began, APRA has stressed the need for ADIs to develop and secure board approval for funding plans that are realistic and responsive to changing market conditions. Funding plans reviewed by APRA during 2009 have improved in quality and have been more detailed than previously, with more robust stress-testing and a greater recognition of the importance of retail deposit growth as a source of stable and diversified funding. Tracking against these plans is done by APRA via a monthly 'dashboard' that compares various funding indicators for ADIs.

These indicators allow supervisors to quickly identify pressure points, any outliers and emerging areas of concern. They highlight, for example, institutions that have overly ambitious or challenging asset growth targets, are considered vulnerable to liquidity shocks, have a more volatile funding base, are over-reliant on a single source of funding or funding from within the group, or have an increasing ratio of wholesale maturities in the short term.

The calmer liquidity conditions also allowed APRA to undertake targeted reviews of the liquidity framework of the larger ADIs. This was to ensure that good-practice methodology was being followed and the lessons learnt from the crisis were incorporated. The reviews gave APRA an opportunity to assess whether funding plans were being realistically applied while still allowing management to remain flexible to changing conditions and funding opportunities. Additionally, APRA discussed with the larger ADIs how they were preparing themselves for the winding-back of the emergency support measures provided in the latter part of 2008.

APRA's close involvement with ADIs on their funding plans and liquidity framework has been valuable input into APRA's review of its prudential framework for ADI liquidity risk management, on which proposals have now been released for consultation (see Chapter 3).

Credit quality

APRA has also heightened its attention to issues of ADI credit quality through the global financial crisis but this has been a matter of degree, not a change in supervisory priorities. Credit quality has been at the forefront of APRA's supervisory work for some years, and particularly since credit standards in housing lending came under pressure during Australia's housing market boom in the early years of this decade.

Non-performing loan rates have risen in all segments of ADI lending portfolios since the crisis began. The figures were initially dominated, as a 'first round' impact, by the exposures of some larger ADIs to certain high-profile domestic corporations under stress because of their reliance on short-term borrowings or their involvement in commercial property. A small number of ADIs had to take write-downs on and increase provisions against their exposures to structured credit products. When the crisis began to weigh on economic growth, as a 'second round' impact, the extent of problem loans broadened, particularly in lending to business. ADIs reported a growing number of small and medium enterprise (SME) counterparty exposures that were experiencing some degree of distress. Non-performing loan rates in business lending have doubled over the course of the crisis but remain well below their peak in the early 1990s downturn. This confirms the view that the business sector entered the crisis in sound financial position, with gearing levels, in aggregate, only a little above their medium-term average. The increase in non-performing loan rates in commercial property lending has been sharper again but these rates, too, are much lower than earlier peaks. APRA has continued to monitor a range of indicators of credit quality, including ADIs' own 'watchlists', with a particular focus on commercial property.

In contrast to the trends in other lending segments, non-performing loan rates in ADI housing lending have risen much more slowly and remain low from both an historical and international perspective. ADI housing loans in arrears are generally well covered by the value of security. Given uncertainties about the evolution of unemployment and mortgage interest rates, APRA's supervision of ADI mortgage portfolios, particularly in on-site reviews, has continued to focus on underwriting standards and mortgage serviceability. As part of this work, APRA has been monitoring how housing lending related to the Government's First Home Owner's Boost, which has accounted for a material portion of housing lending growth over 2008/09, has affected the credit risk profile of ADIs.

APRA has also been monitoring credit risk associated with the offshore banking operations of ADIs, particularly the four major Australian banks. Each of these banks has significant exposures, through subsidiaries, to the New Zealand economy, which entered recession in early 2008. In February 2009, APRA undertook a comprehensive on-site review of the credit risk management processes of these New Zealand subsidiaries. The review concluded that, in broad terms, the subsidiaries had recognised the challenges generated by a deteriorating economic environment and had taken action to deal with the increased risk. At the same time, APRA identified some areas for improvement relating to management reporting, stress testing, provisioning and the independent credit review function.

APRA has emphasised to ADIs the importance of applying appropriate risk grading, valuations and provisioning for problem assets. Provisions have increased significantly over 2008/09, particularly specific provisions against larger, single-name counterparty exposures. APRA has also been discussing with larger ADIs the need for consistent and prudent aggregation of exposures for the purpose of APRA's large exposures limit. While some bases for aggregation are straight-forward (e.g. cross-collateralisation or majority ownership), ADIs have applied different treatments where 'control' or 'financial interdependence' is the basis.

Securitisation and funds management

The effective closure of securitisation markets since the global financial crisis began have led a number of ADIs to seek APRA approval to repurchase assets from pools they had originated or to purchase outstanding securities issued by a structure for which they were the originating ADI, on the claim that the securitisations were no longer economical to maintain. In all cases put to APRA, the repurchases/purchases would have gone beyond the limits for such transactions in APRA's prudential standard, and were declined. Similarly, APRA received requests in 2008/09 from ADIs to enter into arrangements that supported funds management schemes beyond what is viewed as acceptable by APRA.

Against this background, APRA wrote to ADIs in April 2009 to emphasise the importance of maintaining clear separation from securitisations with which they are involved as originating ADIs. This is a fundamental principle of APRA's prudential requirements. ADIs must also maintain separation from their related funds management schemes. An ADI's involvement in securitisation and funds management activities must be accompanied by clear and prominent disclosures to investors of the limitations of its obligations. In addition, an ADI must deal with securitisation and funds management vehicles and/or investors at arm's length and on market terms and conditions.

General insurance

The general insurance industry has been left largely unscathed by the global financial crisis and its financial position remained generally sound in 2008/09. Profitability was down only marginally, but this result masked some unusual difficulties for the industry during the year. Recorded claims costs were markedly higher than the previous year, reflecting a series of severe weather-related events, particularly the North Queensland floods and the Victorian bushfires, and the impact of lower interest rates on insurance liability provisions.

These higher claims costs were largely offset by a noticeable increase in investment income. General insurers have progressively reduced their exposure to equity investments – to an average exposure of around four per cent – in favour of high quality fixed-interest investments. Movements in interest rates can therefore have a substantial impact on the investment performance of the industry and so it was in 2008/09 as interest rates were lower at the end of the year than at the beginning, producing significant realised and unrealised gains. A sustained lower interest rate environment, however, would lead to reduced investment income and would put pressure on insurance margins.

The industry remained very well capitalised, with aggregate capital at end year almost twice APRA's minimum requirements.

Under Government reforms effective from 1 July 2008, foreign insurers carrying on insurance business in Australia (subject to limited exemptions) must be authorised and prudentially supervised by APRA. A total of 13 previously unauthorised insurers have applied for authorisation. One insurer was authorised in 2007, eight in 2008, and two in 2009; one application remains to be finalised and one other application has been withdrawn. The new entrants bring a range of business profiles, mostly centred on commercial classes of insurance. They include specialists in trade credit, extended warranty and liability business, along with some more diversified commercial insurers.

Recent adverse claims experience, likely to continue during the current economic slowdown, and continued strong market competition in some market sectors, suggest that pressure on profitability will be a significant risk facing the industry. Accordingly, APRA's supervision of the general insurance industry over the past year has focussed particularly on capital management. APRA has been reviewing stress-testing and capital management processes to satisfy itself that insurers understand the impact of different factors affecting their capital position and maintain adequate buffers to withstand adversity and remain able to grow the business. Now that the benefits of tort reform have largely been realised, the potential for underwriting results to be supported by further releases of claims reserves may be reduced. APRA has also emphasised the need for insurers to further strengthen risk management, technical pricing and monitoring arrangements, as well as the robustness of business continuity management. Management reporting of reinsurance remains an area of weakness in some cases, with reinsurance management documents found to be deficient when assessed against APRA's prudential requirements.

In conducting supervisory reviews, the information contained within the Financial Condition Reports (FCRs) prepared by the Appointed Actuary, a requirement introduced from October 2006, has proved increasingly useful to APRA. Insurers have now gone through several full-year FCR cycles and teething problems appear to have been overcome. The standard of FCRs is generally now very good, with improvements in some areas (such as analysis of profitability by portfolio, and risk management assessments) evident as actuaries become more familiar with the FCR process. Nonetheless, there are areas calling for further improvement, including analysis and commentary on asset/liability management, current and future capital adequacy (including stress-testing) and adequacy of premiums.

Counterparty exposure

APRA has identified counterparty risk as another material area of risk for the general insurance industry – in particular, the impact of possible downgrades or failure of reinsurers and potential reductions in the availability of well-rated reinsurance capacity. At this point, however, the industry remains well positioned. Although there have been some downgrades in reinsurer ratings over the past year or so, over 90 per cent of reinsurance recoveries for the industry are due from reinsurers rated 'A' or above, and reinsurance capacity in the Australian market seems adequate. APRA obtains information on reinsurance counterparty exposure as part of its supervision activities, but is considering expanding this information to facilitate an industry-wide view of reinsurance counterparty exposures. APRA is also encouraging insurers to review the impact on their financial position of a material downgrade of reinsurers as part of their stress-testing.

Lenders mortgage insurers

APRA continues to keep the lenders mortgage insurer (LMI) sector of the industry under close watch. This sector is exposed to the risk of higher claims in an economic downturn, and to the risk that foreign reinsurers withdraw from the Australian market. Stress on two US parents of LMI subsidiaries in Australia led during the year to the sale of one subsidiary to a major local insurer and to the other subsidiary being put into run-off.

Notwithstanding these risks, the LMI sector in Australia remains robust. LMIs have been tightening underwriting and credit standards on new business, particularly with respect to high loan-to-valuation ratio loans and non-standard loans; premium rates have also risen. LMIs have been increasing their claims provisions, expecting higher unemployment to result in increased claims, but to this point stresses in the residential mortgage market have been readily manageable compared to recent US and European experience. APRA's supervisory activities in this sector have been expanded to include assessments of the adequacy of the stress-testing that LMIs are undertaking in the current environment.

Professional indemnity and D&O insurance

Other classes of business that are particularly exposed to potential deterioration in claims experience in an economic downturn are professional indemnity and directors and officers (D&O) insurance. Claims may arise, for example, out of corporate failures and from investment advisers giving poor advice. APRA is actively monitoring industry exposure to these classes of business and claims trends, both in Australia and overseas markets.

External peer review

Since October 2006, APRA has required 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 has found ILVR reports to be of a generally sound standard across the industry, although the documentation around methods and assumptions could be enhanced in some cases. However, the peer review process continues to attract some negative feedback from industry.

APRA has analysed the peer review reports for the majority of general insurers. In many cases, the reports made only minor recommendations or suggestions for improvement. The least useful reports were those that simply re-presented the actuary's results with a statement that they were not unreasonable. In contrast, some peer review reports have pointed out significant issues or areas for genuine improvement or ways in which the actuary's valuation could be brought up to better practice. APRA is also seeing the emergence of a 'feedback loop' where peer review reports and ILVRs include responses from the insurer's actuary on the external actuary's comments.

Many insurers claim to see little or no value in requiring an external actuary to review ILVRs, given that these reports are generally peer reviewed by other actuaries at several stages, either internally or during the audit process. The Institute of Actuaries of Australia undertook a stakeholder survey on the implementation of the ILVR, FCR and peer review requirements, which identified similar issues in relation to peer reviews. APRA is in discussions with the Institute to better understand the issues that have been raised and consider ways in which they may be addressed.

National Claims and Policies Database

APRA has published two new sets of annual reports from the National Claims and Policies Database (NCPD), covering the year 2007 (released in March 2009) and 2008 (released in August 2009). 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.

In addition to these aggregate industry reports, APRA's intention has been to publish more detailed reports that would enable comprehensive analysis to be undertaken by risk factors such as industry or occupation groups and variations to product or policy coverage. However, these more detailed reports have taken some time to develop due to the complex process required to ensure that data submitted by individual insurers cannot be identified. APRA has been exploring options for releasing more detailed NCPD data that would provide an appropriate balance between the industry's preference to protect insurer confidentiality and the wider public interest in the availability of useful output from the NCPD. At the end of 2008, APRA consulted with general insurers contributing to the NCPD on their appetite for relaxing the confidentiality criteria. These consultations provided three options for dealing with confidentiality. To assess these options, APRA began a second round of consultations with the wider community in mid 2009 to seek information on the nature and level of public interest in releasing NCPD data. APRA remains committed to maximising the availability of data for the more detailed reports and thereby render more useful the investment made by APRA and the industry in establishing the NCPD.

Life insurance and friendly societies

The sharp deterioration in domestic and global equity markets made 2008/09 a very challenging year for the life insurance industry (including friendly societies). Industry profitability was significantly lower than in recent years as a result of lower fee revenues, declines in investment premium income (from levels boosted by one-off factors in 2007/08) and investment losses. However, risk insurance premiums continued their strong trend growth. Group insurance, largely through superannuation funds, now accounts for around one-third of all risk insurance and this business is becoming more concentrated as the large industry superannuation funds consolidate. Over the year, life insurance assets fell appreciably because of declines in asset values but there was little sign of any material increase in withdrawals or insurance claims as a result of market volatility.

Since the global financial crisis began, APRA's supervisory focus on the life insurance industry has been on its capital strength. In March 2008, life insurers and friendly societies were asked to provide APRA with detailed information on the sensitivity of their capital positions to adverse movements in equity markets and interest rates. As markets continued to deteriorate, APRA undertook a more formal stress-test in December 2008 to ensure that the impacts of further market declines were well understood and appropriate contingency plans put in place. APRA also established a team to closely monitor life insurance capital and to coordinate any supervisory responses. A number of life insurers have taken active steps, with APRA's encouragement, to protect their capital positions. These included capital injections, de-risking of investment portfolios, protection of downside valuation risks through derivatives, revised target surplus policies and deferral of dividend payments.

As a result of these various initiatives, the capital position of life insurers and friendly societies remains generally sound and the industry is well positioned to absorb any further major shocks. The recovery in domestic and global share markets that began in the latter months of 2008/09 has provided an additional buffer of support and has enabled APRA to ease back on the intensity of its supervision.

Industry consolidation has continued during 2008/09, with a number of life insurance companies being subsumed into larger groups and some friendly society mergers and exits. The industry now has only around half the number of participants it had a decade ago and the market share of life insurance assets in superannuation continues to decline.

Product complexity and rationalisation

Product complexity and benefit enhancements are topics receiving greater attention in APRA's discussions with the life insurance industry. Growing product complexity, in both investment and insurance products, can create operational risks and give the appearance of additional benefits that may have limited value to policyholders. APRA views with concern the practice, now spreading, of adding benefits to risk insurance products that aim to add marketing appeal but are of little real benefit to policyholders and can create capital and pricing difficulties. Simplicity and transparency in benefit design are more likely to assist policyholders and life companies.

APRA continues to support the development of a process by which the life insurance and superannuation industries can rationalise legacy products in a manner that protects policyholders and superannuation fund members. These industries should need no more incentive than the reality that operational risks in maintaining legacy products are mounting. APRA welcomes the Government's recent announcement that it will be releasing an options paper dealing with the issue of product rationalisation.

Unit pricing

Unit pricing errors and their management have been a major issue for the life insurance and superannuation industries, although the number of new incidents brought to APRA's attention in 2008/09 was much lower than in previous years. While unit pricing governance and processes are much improved, the combination of market volatility, market liquidity issues and changing investor behaviour will test these improvements. 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

The life insurance industry has acknowledged APRA's concerns, raised in earlier discussions, about the absence of industry-based mortality and morbidity studies, and a project to collect, analyse and publish such data is gathering momentum. The lack of quality mortality and morbidity data has hampered the ability of the industry to appropriately price and value risk; the data are of particular importance when life insurance claims experience could be adversely affected by an economic downturn or by the potential impact of a pandemic. In addition, automated underwriting processes have now become a reality for a number of life companies and the impact of these processes on underwriting standards and claims experience needs to be carefully monitored.

The industry is intending to expand the scope of the project and continued support from life companies will be needed to ensure that the more complex morbidity analysis is carried out in a timely manner. APRA would like to see base data on mortality and morbidity experience made available as early as possible to establish a sound foundation for pricing and reserving.

Superannuation

The significant volatility and decline in domestic and global equity markets in 2008/09 also had a material impact on the superannuation industry. Despite some recovery in those markets in the latter months, most superannuation funds experienced negative returns, for the second consecutive year. The solvency position of most defined benefit funds deteriorated, placing considerable responsibility on trustees, employers and professional advisers to manage this position appropriately. The liquidity position of a number of superannuation funds, or investment options offered within particular funds, also came under pressure when underlying investments were frozen or had no market. Over the year, the continuing process of industry consolidation saw the number of trustees with Registrable Superannuation Entity (RSE) licences fall by 14 to 278 and the number of registered funds under their trusteeship by 1,297 to 4,869.

APRA's supervisory focus during the global financial crisis has been on trustee processes, rather than investment outcomes. APRA has continued to challenge trustees to demonstrate the effectiveness of their risk management systems and their understanding of the critical factors that impact on their ability to meet their obligations. APRA has also been working closely with trustees of defined benefit funds to ensure that rectification plans for the funds (and sub-funds) most at risk will return these funds to a satisfactory financial position within an acceptable timeframe.

Liquidity

Traditionally, many superannuation funds have enjoyed excess liquidity relative to their needs, driven by the inflow of compulsory superannuation guarantee contributions, voluntary contributions and concessionally taxed earnings. However, the ability of superannuation funds to maintain adequate liquidity has been tested throughout the global financial crisis, particularly given superannuation portability requirements, choice of fund and funds' exposure to investments that were or became illiquid. During 2008/09, a number of trustees with funds in frozen or suspended managed investment schemes, or in direct equity investments, applied to APRA and were granted relief from portability requirements for a defined period (not exceeding 12 months) under the *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations). The majority of funds seeking relief had investment options that were substantially invested in a single underlying asset.

The capacity to pay benefits, expenses and tax when they become due is an essential consideration for trustees. Likewise, the availability of reliable data is a pre-condition for funds calculating member entitlements and other payments. As part of its risk-based approach, APRA has been encouraging trustees to recognise the importance of maintaining sound data and implementing appropriate liquidity management practices in line with the operating standards on fitness and propriety and adequacy of resources.

During 2008, APRA undertook a questionnaire of superannuation funds to gain a better understanding of liquidity management practices and the implementation of the 'illiquid investment' provisions of the portability requirements. Trustee responses, from over 90 per cent of the survey population, provided valuable insight to APRA across all fund types (retail, industry, corporate and public sector). The general finding was that trustees have more work to do to strengthen liquidity management practices. In particular, trustees need to manage liquidity at the investment option level, undertake more comprehensive liquidity stress-testing (including crisis scenarios), expand cash-flow budgeting parameters to cover all aspects of liquidity management, gain a better understanding of the impact of illiquid investments, and achieve a more robust balance between member investment choice and the obligation to meet payment requests in the context of such choice. The questionnaire also provided APRA with the opportunity to assess the liquidity management practices of individual funds as a component of the fund's overall risk management.

Valuations of unlisted assets

Under accounting standards, superannuation funds are required to report all assets at net market value. Although valuation is relatively easy for listed assets, it is more complicated for unlisted assets, to which a number of superannuation funds have increased their exposure over recent years. The valuation approaches that are used have implications for investment option offerings, performance measurement, decisions on portfolio rebalancing and the allocation of investment returns to members. Risks magnify where assets that are infrequently traded or revalued are included in funds with significant turnover that must be assessed more frequently.

APRA has been emphasising to trustees that they have a responsibility to ensure reliable valuations of assets (having regard to relevant industry-based guidance), to take the difficulties and costs of valuing unlisted assets into account in determining investment strategies and menu choices, and to give due consideration to the equity aspects of valuation between existing, exiting and prospective members. During 2008/09, APRA also wrote to trustees to encourage good practice and to clarify its expectations relating to independence in the valuation process. It has been actively engaged with both the industry and professional advisers, and has undertaken tailored supervisory reviews to gain a better understanding of valuation practices by funds with a significant exposure to unlisted assets.

Outsourcing

Superannuation is typically characterised by a high level of outsourced service provision in the areas of investments, custody and administration. The outsourcing standard provides for APRA to have direct access to key service providers to superannuation funds. An APRA-wide review of administrators commenced in 2008 and a similar review of custodians commenced in 2009. The findings from these reviews will be communicated to the industry to encourage better practice and ensure that any identified issues are resolved at the entity and industry levels.

Early release of superannuation benefits

Under the SIS Regulations, 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 a 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 mortgagee. APRA assesses applications against the legislative criteria and a positive decision allows superannuation funds to release an amount. An applicant not satisfied with APRA's decision may request an internal review by an independent APRA delegate or an external review of process by the Commonwealth Ombudsman. The number of applications received fell in 2008/09 after rising strongly over the previous five years.

Early release of superannuation benefits

Financial year	Number of applications received	Applications approved in part or full	Amount approved for release $	Average amount released per application $
2003/04*	11,504	8,558	55,459,704	6,480
2004/05*	11,818	9,764	77,680,070	7,956
2005/06*	15,027	12,754	120,842,292	9,475
2006/07	18,245	15,412	156,905,338	10,181
2007/08*	20,524	14,947	173,602,110	11,615
2008/09	17,918	11,776	144,739,434	12,291

*Revised figures.

Enforcement activities

APRA prefers to take a collaborative approach to resolving prudential issues with boards and management of the institutions it supervises. However, enforcement actions are an important part of APRA's supervisory armoury when an institution is unable or unwilling to observe its prudential requirements. 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.

During 2008/09, APRA undertook 399 enforcement actions. This was a slight decrease on the 447 actions reported the previous year, which were largely accounted for by actions against a single superannuation trustee that had responsibility for a number of funds. The 2008/09 figures reflect a more typical spread of actions across the ADI, insurance and superannuation industries.

On 1 July 2008, the power to disqualify individuals from holding senior roles within supervised institutions passed from APRA to the Federal Court, following passage of the *Financial Sector Legislation Amendment (Review of Prudential Decisions) Act 2008*. Previously, 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 new arrangements, the Federal Court can disqualify an individual for a period of time that the Court considers appropriate. Previously, the only option available to APRA was to disqualify an individual indefinitely, with the disqualification in force unless and until the individual sought, and received, APRA's agreement to revoke the ban.

In the first 12 months of the new arrangements, APRA has not had cause to apply to the Federal Court for a disqualification. However, the Federal Court did exercise its power of revocation in relation to an individual who had been disqualified under the *Superannuation Industry (Supervision) Act 1993* (SIS Act). APRA consented to the revocation.

In the general insurance industry, APRA's enforcement actions arising from the failure of HIH Insurance are all but complete. At the commencement of 2008/09, the disqualifications of eight persons in relation to the collapse of HIH were under review by the AAT. Since then, the AAT has handed down two decisions in favour of the applicants, while another person has withdrawn his application for review. APRA consented to setting aside one disqualification upon the person providing to APRA an acceptable enforceable undertaking; APRA also consented to the Federal Court setting aside two other disqualification decisions after administrative law issues were raised by the applicants. Of the two remaining matters, one application was heard by the AAT in June and the other is set down to be heard later in 2009. In total, 24 individuals remain disqualified or have undertaken to leave the industry because of their involvement in the collapse of HIH.

APRA has also almost finalised its enforcement actions arising out of the improper reporting of financial reinsurance arrangements between General Reinsurance Australia Limited (part of the General Reinsurance Corporation group) and Zurich Australia Insurance Limited. APRA disqualified eight senior personnel for their involvement in these arrangements, of whom five appealed to the AAT. Two of these individuals subsequently offered an enforceable undertaking suitable to APRA, with the AAT setting aside the original disqualification by consent. The AAT heard two of the other applications for review in March and April 2009 and handed down decisions in favour of APRA. Another application is yet to be heard by the AAT.

The *Financial System Legislation Amendment (Financial Claims Scheme and Other Measures) Act 2008*, which commenced operation in October 2008, strengthened APRA's powers to deal with distressed financial institutions. This included an amendment to the *Insurance Act 1973* to permit the appointment of a judicial manager to a general insurer, similar to powers that already exist in the *Banking Act 1959* and *Life Insurance Act 1995*. Previously, general insurers could only be externally administered under the *Corporations Act 2001*, which requires the company to be administered in the interests of creditors or members. The 2008 amendments allow general insurers to be externally administered in the interests of policyholders and financial system stability in Australia. In June 2009, APRA made an application to have a judicial manager appointed to a small general insurer in run-off; the application was subsequently granted on 3 July 2009.

In the superannuation industry, APRA received 106 complaints in 2008/09 in relation to employers that had failed in their duty to remit employees' voluntary post-tax superannuation contributions. This was a 19 per cent increase over the previous year. APRA has no specific prudential powers in this area but has been able to secure the recovery of 98 per cent of these outstanding contributions. APRA has also detected an increase in the number of applications for the early release of superannuation benefits that were supported by fraudulent documents. APRA has commenced enquires into these cases with a view to taking action against the individuals involved.

As a follow-up to the introduction of the superannuation licensing regime, APRA appointed an Acting Trustee to 38 superannuation funds that failed to apply to APRA to be licensed. The Acting Trustee has wound up 33 of those funds and the remaining five are currently in the process of being wound up.

APRA also used its powers under the SIS Act to instigate legal action on behalf of the Acting Trustee of a superannuation fund to successfully recover assets. All the assets of the fund were vested with the Acting Trustee, including a mortgage over a property that has been given to the fund as an *in specie* contribution. Legal proceedings were instigated to resolve a dispute that prevented the Acting Trustee from exercising the mortgage and realising the asset. In June 2009, the Court granted the substantial relief sought on behalf of the Acting Trustee. The success of the legal action reinforces the importance of APRA's powers that enable it to act in the name of a fund's trustee in order to recover assets that are due, but would otherwise be lost, to members of a superannuation fund.

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 SIS Act to threaten or cause detriment to a responsible officer of an employer sponsor because of the way in which that officer exercises their trustee powers or fulfils their legal obligations. Court action in this matter has now been initiated.

Enforcement actions[1]

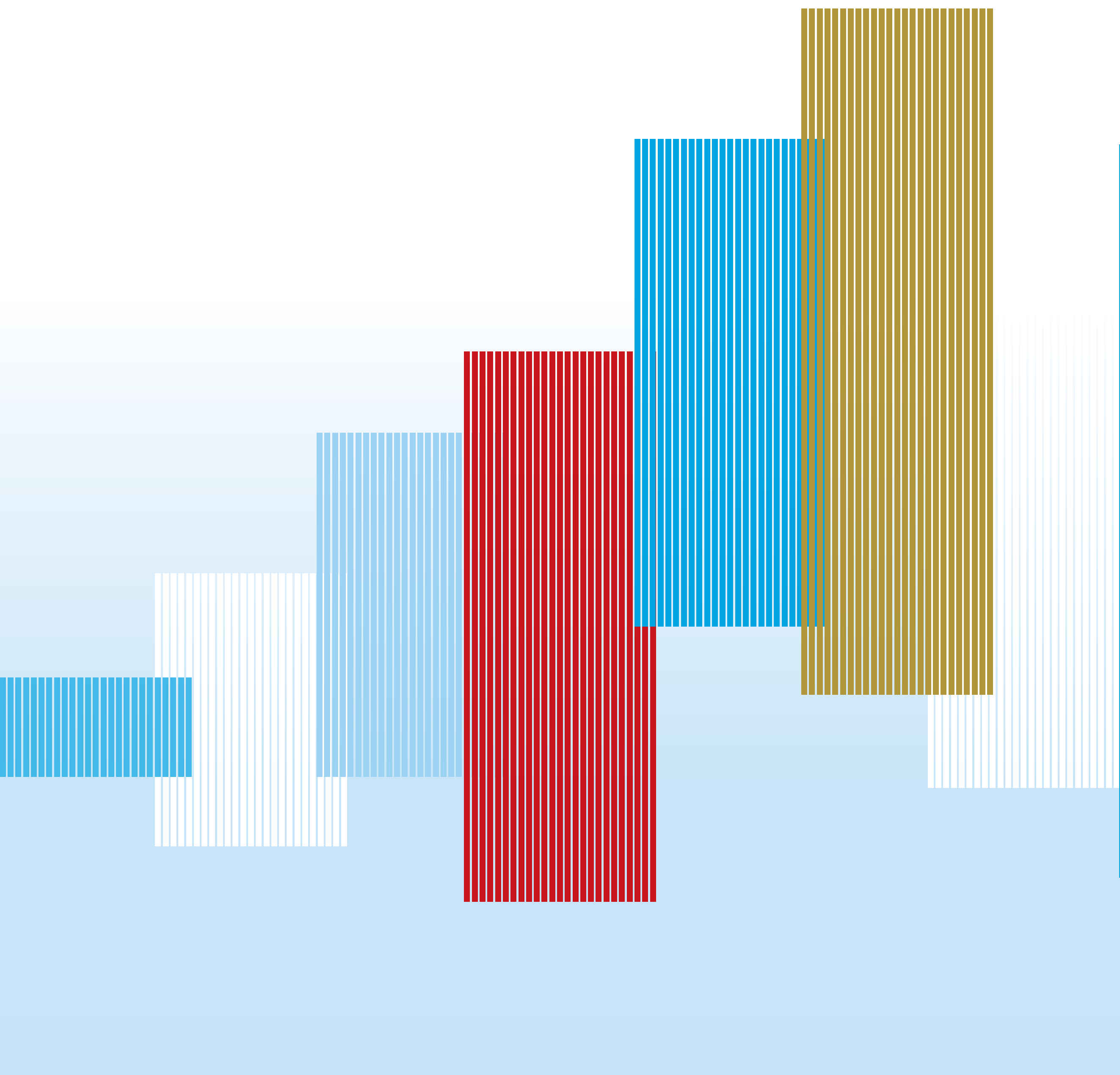
	ADIs		Superannuation		General insurance		Life insurance		Friendly societies		Other[2]		Total	
	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
AAT/Federal Court review			1	1	10	5							11	6
Appointment of Acting Trustee			2	38									2	38
Appointment of liquidator/inspector			19										19	0
Civil litigation			1										1	0
Directions and contravention notices[3]	12	9	132	81	13	2					45	10	202	102
Disqualification of auditors/directors			2		6								8	0
Enforceable undertaking			2			3							2	3
Follow-up delayed contributions			89	106									89	106
Investigation action			24	23									24	23
Other actions[4]	8	22		7								80	8	109
Prosecution			1										1	0
Refer to other agency/police	2		12	6	2	1					7	2	23	9
Removal, withdrawal or revocation of license	3			2									3	2
Show cause letter			49		2	1							51	1
Revocation/waiver of disqualification			2		1								3	0
Total	25	31	336	264	34	12	0	0	0	0	52	92	447	399

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 THREE

THE PRUDENTIAL SUPERVISION FRAMEWORK

Over a number of years, APRA has pursued a major reform agenda to develop a robust and comprehensive prudential supervision framework, with the ultimate objective of ensuring that the Australian financial system would be resilient to shocks, of whatever origin. The reform agenda has, to varying degrees, embraced all of APRA's regulated industries. The guiding themes have been APRA's commitment to a 'principles-based' approach to regulation that recognises the complexity and diversity of financial institutions, and its desire to harmonise prudential standards across the regulated industries, where appropriate.

With the implementation of the Basel II Framework for ADIs on 1 January 2008, the main planks of APRA's reform agenda were in place before the global financial crisis took root. The prudential framework has served Australia well during the crisis. It has done so by promoting prudent risk management on the part of APRA-regulated institutions, which largely avoided the pitfalls that claimed many of their global counterparts, and by ensuring that capital resources are aligned with the risks assumed and adequate to withstand unexpected stresses. Given this experience, APRA does not envisage any fundamental overhaul of Australia's prudential framework in response to the global financial crisis.

Nonetheless, the global regulatory response to the crisis will require amendments to that prudential framework. At their April 2009 meeting, the Leaders of the G20 gave their strong endorsement to a range of actions that will, *inter alia*, strengthen prudential regulation and supervision. The objective in this area is '... to promote propriety, integrity and transparency; guard against risk across the financial system; dampen rather than amplify the financial and economic cycle; reduce reliance on inappropriately risky sources of financing; and discourage excessive risk-taking.'

APRA's main involvement in the global reform process now comes through its membership of the Basel Committee on Banking Supervision. The Basel Committee has confirmed that the level and quality of capital in the global banking system needs to be strengthened and a program of enhancements to the Basel II Framework is underway to achieve this. The enhancements involve improved coverage of risk, introduction of capital buffers that can be drawn down in periods of stress, strengthening the quality and consistency of bank capital and introduction of a non-risk-based supplementary measure ('leverage ratio') to put a floor under the potential build-up of leverage. The Basel Committee has also been promoting the development of stronger liquidity buffers in the global banking system to ensure greater resilience of banking institutions to liquidity stresses.

Outside its Basel Committee involvement, APRA has also been actively engaged in the global initiative to establish prudent principles for remuneration in banking institutions. Consistent with APRA's desire for harmonisation, these principles will apply in Australia to the life and general insurance industries as well.

Beyond its participation in global reforms, APRA's current policy agenda includes the development of a prudential framework for conglomerate groups and an enhancement and, where possible, harmonisation of regulatory capital requirements for life and general insurers. In the superannuation industry, a wide-ranging review (the 'Cooper review') of the governance, efficiency, structure and operation of the industry, announced by the Government in May 2009, may have implications for the prudential framework. APRA will be assisting this review where it can.

Response to the global financial crisis

Basel II Framework

As part of its broader program to strengthen bank capital requirements, the Basel Committee announced a package of enhancements to the three Pillars of the Basel II Framework in July 2009. These included an improved coverage of risks arising from securitisation, under Pillar 1 (minimum capital requirements), as well as higher capital for market risk, resulting in part from the requirement to use data from periods of financial stress in the modelling of such risk. Under Pillar 2 (the supervisory review process), supplementary guidance has been issued to address flaws in risk management practices revealed by the global financial crisis. The guidance covers institution-wide governance and risk management processes, management of risk concentrations and the capture of risk from off-balance sheet and securitisation activities. Enhancements to Pillar 3 (market discipline) strengthen disclosure requirements for these same activities. The Basel Committee has set the implementation date for most of these changes at no later than the end of 2010.

APRA supports these enhancements and it will release a discussion paper later in 2009 on how it proposes to give them effect in relevant ADI prudential standards. For the most part, the impact of these initiatives on ADI capital requirements is expected to be modest.

The Basel Committee will issue concrete proposals on its broader reform program by the end of 2009. A quantitative impact study of the proposals will be carried out in the early part of 2010, with calibration of the new requirements to be completed by the end of that year. APRA is participating in the development of these reform proposals and, in line with its usual practice, will consult extensively with industry on the application of the requirements in Australia.

During 2008/09, APRA's implementation of the Basel II Framework in Australia was assessed by the International Monetary Fund (IMF) against a set of implementation criteria developed by the IMF, World Bank and the Basel Committee. An IMF mission visited APRA in May 2009 for this purpose and met with a number of interested parties. The IMF concluded that APRA had allocated sufficient resources, including highly skilled staff, prior to the Basel II start date and the outcome was a robust and high-quality implementation that has built upon and substantially strengthened the risk management capabilities of the major banks. The IMF also concluded that APRA has a very good understanding of what drives differences in capital levels between the larger banks and has quality processes in place to satisfy itself that these differences are broadly reflective of risk. The IMF also provided recommendations in a few areas where APRA can build on initiatives underway.

Liquidity risk management

APRA had begun a broad-ranging review of its prudential framework for ADI liquidity risk management before the global financial crisis erupted. The crisis itself proved a 'live' stress test of liquidity risk management that provided the review with considerable insights into good and bad practice in this area. The review has also taken into account recent international supervisory developments, particularly the release in September 2008 of the Basel Committee's revised *Principles for Sound Liquidity Risk Management and Supervision*, a document to which APRA contributed.

APRA's review concluded that the current prudential framework for ADI liquidity risk management remained appropriate but there were areas where improvements need to be made. In September 2009, APRA released a consultation package on its proposed enhancements to the framework. The key changes included strengthening the current APRA-defined stress testing by lengthening the minimum survival horizon for the 'name crisis' scenario and adding a severe 'market disruption' stress scenario, introduction of a standardised reporting framework for regular liquidity data from ADIs as well as data at short notice in times of stress, and enhanced qualitative requirements consistent with the Basel Committee's *Principles*.

Subject to industry feedback and ongoing international supervisory developments, APRA intends to issue a revised draft prudential standard, an associated prudential practice guide and draft reporting requirements for further consultation early in 2010, with the aim of finalising the package in the first half of 2010. This timetable may need to be amended as international initiatives in this area evolve.

Executive remuneration

A global consensus that remuneration arrangements in many financial institutions encouraged excessive risk-taking, with insufficient regard to longer-term risks, prompted the development of the-then Financial Stability Forum's *Principles for Sound Compensation Practices*, endorsed by the Leaders of the G20 in April 2009. APRA was a significant contributor to this work.

APRA released a consultation package on remuneration for ADIs and general and life insurance companies in May 2009. APRA's proposals were designed to give effect to the Forum's *Principles* through changes in APRA's existing governance standards. The proposals were a response, as well, to the Prime Minister's earlier request that APRA consider the linkages between remuneration practices and the capital adequacy of APRA-regulated institutions.

APRA is taking a principles-based approach in this area. Under the proposals, boards of regulated institutions are required to have an independent Remuneration Committee and a remuneration policy that aligns remuneration arrangements with the long-term financial soundness of the institution and its risk management framework. At the same time, boards would be able to design remuneration arrangements that suit the structure of their own institution. The policy would extend beyond senior executives to all persons who, because of their roles, have the capacity to make decisions that could materially affect the interests of depositors or policyholders, and owners. APRA has not addressed the absolute level of remuneration but the need to align remuneration incentives with good stewardship of institutions. Where the remuneration arrangements of a regulated institution are likely to encourage excessive risk-taking, APRA has several supervisory options, including the power to impose additional capital requirements on that institution.

In response to submissions received, APRA released a second consultation package on remuneration in September 2009. The intent of APRA's original proposals was not changed but some details were amended and some wording clarified to ensure the proposals could be more effectively implemented. APRA expects to finalise amendments to the governance standards and an associated prudential practice guide by the end of 2009, with the new requirements to come into effect from April 2010. A Productivity Commission review of executive remuneration for listed companies in Australia may have implications for APRA's proposals and APRA has been liaising with the Productivity Commission.

Financial Claims Schemes

In June 2008, the Government announced its intention to establish Financial Claims Schemes in the ADI and general insurance industries. Legislation to set up these Schemes was enacted in October 2008.

In the ADI industry, the Early Access Facility for Depositors (EAFD) provides depositors in a failed ADI with timely access to their deposit funds up to a defined limit; that limit was set at $1 million per depositor in the context of the Government guarantee arrangements. In general insurance, the Policyholder Compensation Facility (PCF) provides eligible policyholders and other claimants with access to funds to meet insurance claims, with no defined limit, in the event of the failure of a general insurer. It also provides for a limited period of time within which policyholders of the failed insurer remain covered against claims pending their establishment of new insurance policies with another insurer.

The Financial Claims Scheme arrangements do not cover deposits with foreign bank branches or products issued by superannuation funds, life insurers, friendly societies and managed funds.

APRA has responsibility for administering the two Financial Claims Schemes. The Government, through APRA, will fund payments under the Schemes, 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 has been consulting with industry on implementation issues.

In the context of establishing the Schemes, APRA's powers to respond to situations of financial distress were strengthened. The new provisions included power to apply to the Court for the appointment of a judicial manager to a general insurer, a widening of powers available to a statutory manager (of an ADI) or a judicial manager (for a general or life insurer), and a broadening of the grounds on which APRA may appoint a statutory manager to an ADI. APRA has subsequently used the provision relating to the appointment of a judicial manager to a general insurer (see Chapter 2).

Other harmonised prudential standards

Level 3 conglomerate framework

APRA is developing a prudential framework for conglomerate groups, i.e. groups that straddle the prudentially regulated industries and may include unregulated entities as well. This is a substantial initiative intended to better protect the interests of depositors and insurance policyholders by limiting the risks to APRA-regulated entities (from contagion, reputation and operational risks in particular) that may arise from that entity's membership of a conglomerate group. The importance of conglomerate group supervision has been underlined by the stresses that confronted certain major international groups during the global financial crisis.

APRA intends to apply the new prudential framework to groups with material operations across more than one prudentially regulated industry or to certain groups with a mix of regulated and unregulated entities. APRA will not prescribe the groups that will be subject to the framework but will provide guidelines identifying the characteristics relevant to APRA's decision. In any event, APRA expects that the framework will apply only to a small number of conglomerate groups.

In the new prudential framework, APRA will propose a range of principles-based risk management and capital adequacy prudential standards that will be, where appropriate, closely modelled on existing standards for individual APRA-regulated institutions and single-industry groups. The framework will supplement these existing standards and is not intended to replace them.

APRA is aiming to release a discussion paper on its proposed approach before the end of 2009. Further discussion papers, together with draft prudential and reporting standards, will be issued for comment from the second half of 2010 and final standards are expected to be released in the second half of 2011.

IT security risk

In May 2009, APRA issued a discussion paper and draft prudential practice guide on the management of information technology (IT) security risks by APRA-regulated institutions. The draft guide outlines the measures that APRA regards as sound practice in managing security risks associated with IT, and addresses areas where IT security risk management weaknesses continue to be identified as part of APRA's supervision activities. The guide is not intended to replace existing industry standards and guidelines on IT security; instead, it provides a set of sound principles for safeguarding IT assets by managing risks and implementing appropriate controls. APRA consulted with industry and professional associations in preparing the draft guide and is currently reviewing submissions received. The guide is expected to be finalised towards the end of 2009.

Authorised deposit-taking institutions (ADIs)

Audit requirements

In December 2008, APRA released a revised prudential standard on audit requirements for ADIs, after consultation with the audit profession and the industry. The revision to the standard had been in preparation since the changes made to ADI reporting requirements as part of the implementation of the Basel II Framework in Australia. APRA's aim was to provide clarity for ADIs and their appointed auditors as to its expectations of audit work to be undertaken for prudential purposes, and to harmonise its audit-related requirements for ADIs, where appropriate, with those introduced over recent years for general and life insurers.

In particular, the revised standard provides clarity for auditors in reviewing prudential reporting where data involved are not simply derived from ADIs' accounting records. Under Basel II, capital adequacy figures reported by some ADIs include data derived from statistical modelling and qualitative inputs. APRA has clarified that it is not the role of auditors to sign-off on the reliability of statistical and qualitative data as part of their reporting under the standard; rather, where it sees a need, APRA will use its own resources and provisions in other prudential standards to require ADIs to obtain independent reviews of the reliability of such data.

General insurance

Consolidated supervision

During 2008/09, APRA finalised its prudential framework for the supervision of general insurance groups domiciled in Australia. The framework, comprising three new and one revised prudential standards and streamlined reporting requirements, was the outcome of more than three rounds of consultation with industry, over a three-year period.

APRA's prudential framework is focussed on contagion risk: the risk that adverse developments in activities conducted by other group members could affect the health of the regulated insurer (or insurers) in the group. APRA's approach is to treat the insurance group, in principle, as one economic entity and apply prudential requirements to the group similar to those applying to individual APRA-regulated insurers, in relation to capital, risk management, audit and actuarial reporting and valuation, governance, and fitness and propriety of responsible persons. The approach is broadly similar to that applied in the supervision of ADIs for many years: the objective is to ensure that general insurance groups are financially sound and that financial and operational interrelationships within the group do not compromise the financial position of any APRA-regulated members.

Introduction of the prudential framework has addressed the recommendations of the HIH Royal Commission in relation to general insurers that operate as part of a corporate group. It has also enabled APRA to meet one of the 'Core Principles' of the International Association of Insurance Supervisors, which requires insurance supervisors to supervise general insurers on both a solo basis and a group basis.

The prudential standard came into effect on 31 March 2009. Final reporting standards were released in August 2009.

Performance reporting project

During the year, APRA began a project intended to more closely align the reports it receives from general insurers with the financial reports prepared according to Australian Accounting Standards. This is likely to reduce regulatory burdens and enhance frontline supervisors' analysis and engagement with management on an institution's performance. The proposed change in reporting requirements will not affect APRA's capital regime for general insurers. APRA is aiming to release a discussion paper outlining proposed changes to its reporting standards in late 2009.

Lenders mortgage insurers

In September 2008, APRA released a discussion paper and a draft revised prudential standard in relation to the maximum event retention (MER) calculation for lenders mortgage insurers (LMIs). APRA's aim was to clarify the intention of the standard and make technical modifications to improve its ease of application. APRA has received written submissions from a number of parties, which are being reviewed. The revised standard is expected to be finalised by the end of 2009.

Internal models

APRA's prudential standards allow it to grant approval to general insurers to use an internal model for determining their minimum capital requirements. Use of an appropriate internal model can produce capital requirements that better reflect the nature and extent of risks in the insurer's business structure and mix.

In July 2008, APRA released a consultation package setting out its draft prudential requirements for the use of the Internal Models-based Method for regulatory capital calculations. Following industry consultation, a new prudential standard and prudential practice guide were released in December 2008 setting out APRA's requirements and outlining the approval process. Preliminary and final assessments of applications from general insurers for approval to use the Internal Models-based Method are continuing.

Life insurance

Life and general insurance capital standards

During 2008/09, APRA began a project to review its prudential capital requirements for both the life and general insurance industries. APRA has well-established capital requirements for these industries and separate strands of work on these requirements were planned or underway. Amendments were made to the general insurance capital standards in 2008, with the expectation of further review at a future date. The Life Insurance Actuarial Standards Board (LIASB) had begun to review certain aspects of the life insurance capital standards and this work passed to APRA at the beginning of 2008 after the LIASB was disbanded. This project will bring these separate strands of work together.

The objectives of the review are to improve the risk sensitivity and appropriateness of the capital standards, improve the alignment of the standards between industries and consider the standards in light of international developments. APRA is conducting this review because it sees it as timely to re-assess the details of the existing standards, not because it believes that current levels of capital in the insurance industries are too high or too low. The areas identified for review include asset concentration, diversification, investments in subsidiaries, liquidity risk, operational risk, quality of capital and discount rates. APRA is aiming to begin the formal consultation process by the early part of 2010.

Enhanced supervision of life insurance companies

Amendments to the *Life Insurance Act 1995* (Life Act) enacted in August 2009 have given APRA power to authorise non-operating holding companies (NOHCs) of life insurance companies and apply to them the same governance and fit and proper prudential standards that apply to NOHCs of ADIs and general insurers. The amendments to the Life Act also extended APRA's powers of direction, monitoring and investigation to life NOHCs.

In May 2009, APRA issued a consultation package on enhanced supervision of life companies, which included an explanation of APRA's intentions with respect to life NOHCs. Life companies are often part of corporate groups and can therefore be exposed to risks from within the group. Accordingly, APRA's intention is to authorise and supervise holding companies that make decisions that affect life companies in the group, and ultimately the policyholder. APRA does not envisage authorising every life insurance NOHC but proposes to assess the need for authorisation on a case-by-case basis. The May consultation package also included draft revised governance and fit and proper standards for life NOHCs. APRA expects to finalise these standards by the end of 2009.

An earlier simplification of the Life Act in 2007 involved, *inter alia*, the removal of certain provisions from the Act that were better placed in APRA's prudential standards. 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 took the approach of maintaining the *status quo* in respect of prudential standards until it was able to review and consult on these standards.

In this context, the May 2009 consultation package also included proposed changes to the (interim) prudential standard setting out APRA's audit and actuarial requirements for life companies. APRA proposed to separate these requirements in prudential standards so as to clearly delineate between the two roles, and to harmonise the requirements, to the extent relevant, with those applying to ADIs and general insurers. APRA intends to release revised prudential standards by the end of 2009.

Superannuation

Review of superannuation guidance material

APRA intends to update its superannuation guidance material and, where appropriate, harmonise the material with other APRA-regulated industries. The need for updated APRA guidance has arisen from changes in the structure of the industry and the increase in size and sophistication of funds since the superannuation licensing regime was introduced in 2006. New guidance material will take the format of prudential practice guides used in the other industries.

APRA took the first steps in this process in April 2009, when it sought comment on draft prudential practice guides relating to reserving and conflicts of interest. These steps were followed in August 2009 by the release of four other draft prudential practice guides, dealing with capital, risk management, adequacy of resources and fitness and propriety. Final prudential practice guides will be issued following industry feedback.

APRA-regulated institutions

	Number			Assets ($ billion)[1]		
	30 Jun 08	30 Jun 09	% change	30 Jun 08	30 Jun 09	% change
ADIs[2]	211	**193**	-8.5	2,419.1	**2,663.3**	10.1
Banks	58	**57**	-1.7	2,344.6	**2,587.3**	10.4
Building societies	12	**11**	-8.3	22.1	**21.5**	-2.7
Credit unions	133	**117**	-12.0	42.5	**46.0**	8.2
Other ADIs, including SCCIs	8	**8**	0.0	9.9	**8.5**	-14.1
Representative offices of foreign banks	18	**17**	-5.6			
General insurers	130	**132**	1.5	91.2	**95.2**	4.4
Life insurers	32	**32**	0.0	237.3[3]	**212.7[3]**	-10.4
Friendly societies	24	**19**	-20.8	6.6	**6.1**	-7.6
Licensed trustees	292	**278**	-4.8			
Superannuation entities[4]	6,250	**4,919**	-21.3	672.7	**639.2**	-5.0
Public offer funds	216	**207**	-4.2	519.3	**478.6**	-7.8
Non-public offer funds	249	**221**	-11.2	144.6	**152.3**	5.3
Small APRA funds	5,539	**4,277**	-22.8	2.9	**2.5**	-13.8
Approved deposit funds	140	**116**	-17.1	0.3	**0.3**	0.0
Eligible rollover funds	16	**16**	0.0	5.5	**5.4**	-1.8
Pooled superannuation trusts[5]	90	**82**	-8.9	78.7	**70.1**	-10.9
Non-operating holding companies	18	**17**	-5.6			
Total	6,975	**5,607**	-19.6	3,426.9	**3,616.5**	5.5

Notes:

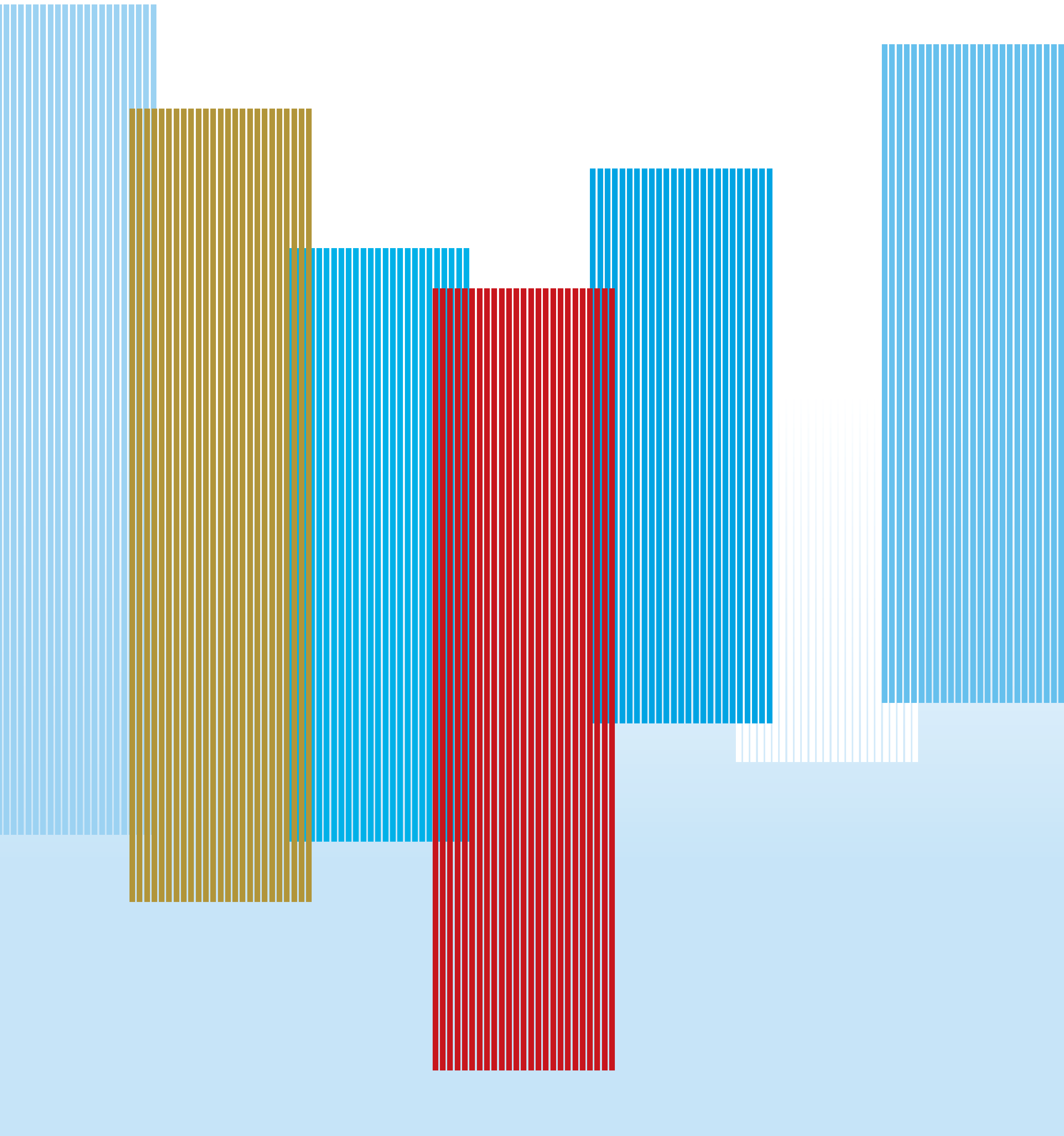
[1] Asset figures for end June 2009 are based on most recent returns. Asset figures for end June 2008 have been revised slightly from APRA's *2008 Annual Report* in line with the audited returns received during the year.

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

[3] Asset figures for life insurers comprise statutory fund assets and shareholders' fund assets.

[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 end June 2009, there were 10 such funds, down from 44 funds as at end June 2008.

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



CHAPTER FOUR

APRA'S SUPERVISORY CAPABILITIES

The prudential supervision framework in Australia establishes the broad set of rules within which regulated financial institutions are expected to prudently conduct their affairs and manage their risks. APRA's ongoing supervision is the accompanying process of direct oversight of individual financial institutions. This supervision is rigorous and risk-based. Having built strong supervisory processes and a skilled and experienced staff cadre, APRA has been able to eschew a mechanistic, rules-based approach aimed narrowly at an institution's compliance with prudential standards, in favour of an approach that emphasises risk prevention and active supervision of the institution's financial soundness.

A risk-based approach requires supervisory activity, such as on-site reviews, data analysis and meetings with boards and management, to be directed at risk issues of highest priority. In APRA's case, more attention and supervisory resources are focussed on those regulated institutions that have higher risk profiles or identified risk management weaknesses, or that present potential systemic risk. A risk-based approach, grounded on qualitative and quantitative risk analysis and active engagement with boards and management, has in APRA's view proven more effective than a rules-based approach in achieving sound prudential outcomes in Australia.

As noted throughout this Report, APRA's supervisory activity has stepped up in intensity since the global financial crisis began in August 2007. APRA's risk-based approach has not, however, compromised the provision of a 'baseline' level of supervisory oversight for all regulated institutions that ensures APRA's risk assessments and supervisory action plans remain current and appropriate.

APRA's risk-based approach to individual institutions is increasingly informed by what is known as 'thematic' or industry-wide analysis of risks, which puts the risk issues facing individual institutions into a wider context. For some time, the main thrust of APRA's thematic work has been credit standards in ADI housing lending but this work has now broadened in coverage across all the regulated industries. The monitoring of pressures on ADI liquidity and the equity market impacts on life insurers and defined-benefit superannuation funds are examples of this thematic work during the global financial crisis.

Supervisory approach

The essential elements of the risk-based approach to supervision that APRA has developed over recent years are set out in the APRA supervision 'blueprint'. This document underwent detailed preparation within APRA and discussions with overseas prudential regulators, before being rolled-out to supervisors during 2008/09. The blueprint provides an overarching set of principles that aligns all of APRA's supervision methodologies, processes and supporting systems and tools. It also provides the strategic direction for the evolution of APRA's risk-based approach in response to changes in the regulatory regime and innovations by regulated institutions. A Supervision Framework Team has been created to develop and maintain APRA's supervisory processes and systems and, importantly, to support APRA supervisors in their effective use.

One core element of APRA's 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, ensuring that potential risks are investigated by APRA and remedial action taken when a threat to beneficiaries' interests is identified. The plan, tailored to each institution, spells out supervisory activities to be completed over a 12-24 month period and significant activities to be pursued beyond that period. During 2008/09, APRA developed a more formal planning process designed to keep supervisory action plans up-to-date and in line with changing risk assessments. Peer group analysis, in which the APRA members take part, has also been introduced for the plans of selected groups of regulated institutions.

Another core element of APRA's approach is a structured decision-making process to ensure that the risk judgments that underpin supervisory action plans are rigorous and consistent and that supervisory interventions are targeted and timely. The Probability and Impact Rating System (PAIRS) is APRA's risk assessment model, used to gauge the risk profile of regulated institutions and identify emerging risks across industries. Based on the outcomes of supervisory activities, PAIRS ratings are updated to reflect APRA's latest assessment of an institution's risk profile and its ability to manage its risks. The Supervisory Oversight and Response System (SOARS) guides supervisors in responding to identified risks. Under SOARS, a response grid is imposed on the PAIRS ratings for an institution to determine APRA's supervisory stance. In this way, the risk assessment process is a primary input to the relative frequency and intensity of APRA's supervisory actions.

During the global financial crisis, APRA has increased the frequency of its reviews of PAIRS ratings to ensure that they remain appropriate to the changing risk outlook and provide realistic triggers for more intense supervisory interactions where necessary. The ratings for many regulated institutions have been revisited on a number of occasions over the last two years. Internal benchmarking sessions, coordinated by the Supervision Framework Team, are also conducted to promote consistent PAIRS assessment and ratings practices across APRA supervisors, identify key risk areas and discuss the appropriate responses to these risks in supervisory action plans. An expansion of the benchmarking program in 2008/09, supplemented by targeted supervisor training, has encouraged APRA supervisors to be more consistent in their responses to identified risks and more focussed when planning supervisory actions.

At end June 2009, around 65 per cent of risk-rated institutions were in the Normal stance, 33 per cent in Oversight, one per cent in Mandated Improvement and one per cent in Restructure; over the year, the proportion of institutions in Oversight rose and the proportion in Normal fell.

The PAIRS model was significantly upgraded during 2007/08 to better align its key components with APRA's prudential review modules, which assist supervisors in undertaking supervisory reviews. The upgraded model is now bedded down and, together with a new IT platform, is delivering improvements in APRA's supervisory efficiency and effectiveness. APRA is conducting research on the next generation of PAIRS arising from a review of the PAIRS model by the Australian Mathematical Sciences Institute completed in 2008/09.

A third element of APRA's risk-based approach, which has been growing in importance, is its 'thematic' or industry-wide analysis of risks. In the context of the APRA supervision blueprint, this work was given formal structure and dedicated resourcing in 2008/09, with the establishment of an Industry Analysis Team of industry specialists. The Team's main responsibility is the preparation and updating of industry risk 'registers' for each of the APRA-regulated industries. These registers identify the main emerging risks and supervisory issues for each industry, the implications for supervised institutions and the key areas or triggers where specific supervisory action may be required. The registers draw on research and analysis of industry developments as well as information provided by frontline supervisors, specialist risk teams and other subject matter experts. For each of the high risks identified, risk owners are assigned to recommend and coordinate an appropriate APRA response; these risk owners are supported by small working groups drawn from across APRA to ensure that the recommendations are robust, balanced and present a 'one APRA' view. The registers are available to all APRA supervisors and provide essential input into supervisory action plans.

APRA's staffing

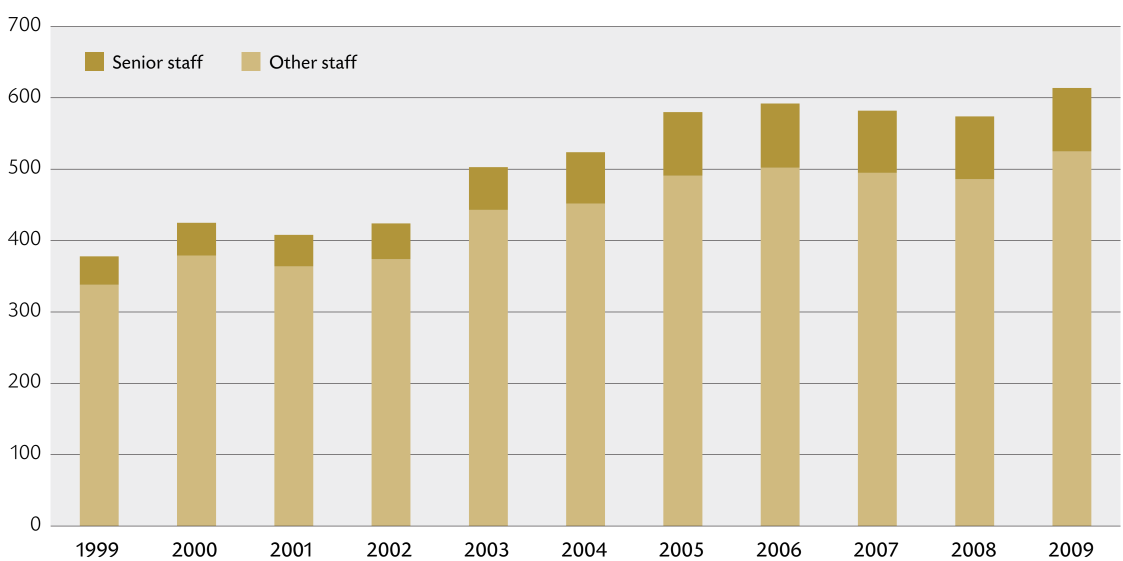
Building and retaining a cadre of staff with the necessary blend of industry experience and supervisory skills has been a major priority for APRA and, at times, a challenge. A prudential regulator needs staff who are well versed in 'best practice' risk management but, more importantly, have the instincts and judgment to identify emerging risks and the tenacity to pursue appropriate remedial actions. The challenge is that these same qualities have been in strong demand in industry over a number of years and APRA itself has proven a popular recruiting ground.

APRA's active recruitment and training programs ensured that it was, nonetheless, at around full strength when the global financial crisis began. APRA had planned a modest reduction in its staffing levels over 2008/09 as a consequence of the consolidation of the superannuation industry post licensing. However, those plans were revised as the crisis intensified early in this period, and APRA judged that additional resources were needed to maintain the necessary level of supervisory intensity.

Additional funding to enable APRA to increase its staffing target was provided by a Special Appropriation in the 2008/09 Additional Estimates. Reaching this target was made easier by a significant decline in APRA's turnover rate, to its lowest level in APRA's short history, and by the number of unsolicited approaches for employment by experienced finance industry personnel. APRA also continued its overseas recruitment campaign and its graduate program. At end-June 2009, total staffing was 614, in line with the higher staffing target. Of this total, around 15 per cent have come from predecessor agencies and 12 per cent from APRA's graduate program; the remainder have come from external recruitment.

Staff in APRA's operational divisions currently have an average of over seven years supervisory experience in addition to almost six years of relevant industry experience. The strong emphasis in APRA's recruitment program on bringing financial sector skills and experience into the organisation was an important factor in APRA's ability to deal with the challenges thrown up by the

APRA staffing (as end June)



global financial crisis. APRA's ranks include a number of staff who, by virtue of their industry or professional experience, are able to quickly understand and discuss directly with regulated institutions the critical issues facing them.

Prudential supervision is a specialist endeavour and ready-made supervisors cannot be recruited from either the public or private sector. As a result, APRA has always recognised the need to invest heavily in its training and development programs to support the skills formation of its staff. In benchmark surveys, APRA consistently ranks around the 90th percentile of organisations in terms of training expenditures; over 80 per cent of staff training is targeted at the development of core supervisory skills. Other initiatives to improve staff development and retention include career progression and mobility programs, overseas secondments to financial institutions or regulatory agencies, enhanced recognition and rewarding of performance, and 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.

APRA's statistical capabilities

APRA is the central repository of statistical information on the Australian financial system and it collects financial statistics from a wide range of financial institutions, both regulated and unregulated. APRA's statistical collections provide supervisors with access to relevant, timely and accurate data on APRA-regulated institutions and are a vital input into supervisory action plans.

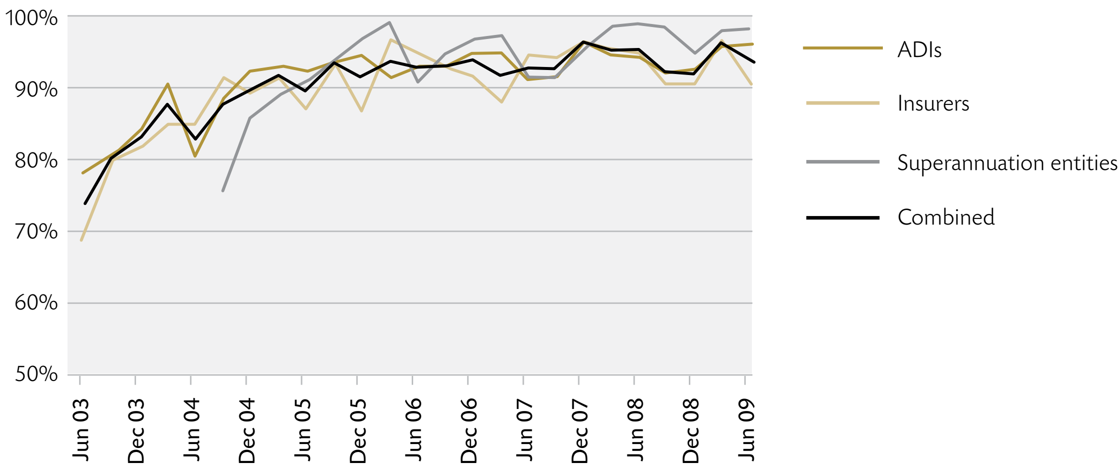
APRA also collects data on behalf of the Reserve Bank of Australia and the Australian Bureau of Statistics. About 80 per cent of data collected are shared with other agencies. The statistics APRA publishes inform many decision-makers in the Australian financial system, including policy-makers, other regulators, market analysts, researchers and senior management of financial institutions. Ultimately, APRA's statistical data contribute to a more stable, competitive and efficient financial system.

For regulated institutions, APRA targets a rate of 95 per cent for submission of returns by the statutory due dates, and the remainder to be submitted within the following week. Over 99 per cent of APRA returns are now submitted on time or within one week of the due date. In 2008/09, 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 February 2009, APRA released the first edition of *Quarterly Life Insurance Performance*, a new statistical publication on life insurance. The publication was developed in consultation with the life insurance industry and follows the introduction of updated reporting requirements for life insurers from 1 January 2008. The new publication provides policyholders and the general public with a more comprehensive view of the strength and performance of the Australian life insurance industry than the *Life Insurance Trends* publication that it replaced. APRA is also designing a *Half Yearly Life Insurance Bulletin* and is considering new publications for friendly societies.

In March 2009, APRA released an expanded *Annual Superannuation Bulletin*, which now includes a 10-year trend of return on assets, key financial performance items by fund type and an estimate of the total breakdown of retirement benefits between accumulation and defined benefit.

Returns submitted by the due date



One priority for APRA's statistics unit in 2008/09 was the preparation of a publication on superannuation fund-level performance. In July 2008, over 70 industry representatives at a special forum provided feedback on APRA's superannuation collections and publications, including the possibility of APRA publishing disaggregated industry data. In August 2008, the Minister for Superannuation and Corporate Law asked APRA to consider how it might publish performance data disaggregated to the level of individual superannuation funds. In response, APRA in November 2008 released a discussion paper, *Fund level disclosure from the APRA superannuation statistics collection*, on a new statistical publication providing performance data on individual APRA-regulated superannuation funds (excluding Small APRA Funds). The discussion paper foreshadowed APRA's intention to publish, as a minimum, an annual reference publication at the individual fund level that would assist superannuation trustees and other interested parties to assess the relative performance of the long-term investment strategies adopted by each trustee for their funds.

Following industry consultation, APRA released the new fund-level performance data in August 2009. Before doing so, APRA gave the trustees of the funds involved the opportunity to raise any confidentiality concerns and asked the funds themselves to review the past five years of their annual fund performance data and correct any errors or omissions.

Separately, APRA has been considering a broader update to its superannuation statistical collections and publications. In May 2009, APRA released a discussion paper, *Enhanced APRA superannuation statistics collection*, inviting comments on a range of options for improvement, including collection of data at the sub-fund and investment option level, use of asset classifications that are consistent with industry investment practice, separate reporting in respect of all defined benefit members, separate reporting in relation to the demographic characteristics of, and assets held in respect of, active, inactive and retired members, better data on asset allocations and expanded data on fund returns.

These proposals respond, in part, to submissions to APRA's earlier discussion paper on fund-level disclosure, which argued that the comparability of fund performance could be improved through use of data at the investment option level. The Government's review of the governance, efficiency, structure and operation of the superannuation industry (the 'Cooper review'), announced in May 2009, may have implications for the currently available set of official statistics on superannuation.

Another priority for APRA's statistics unit over 2008/09 was the preparation and implementation of changes to prudential reporting requirements. APRA received the first returns of data from discretionary mutual funds (DMFs), which are not considered to be insurance companies requiring APRA authorisation but now need to provide data to APRA. The data will assist the Government to better understand the use and operation of DMFs and whether they warrant prudential supervision. APRA also developed reporting standards for providers of First Home Saver Accounts (FHSAs). This information on FHSA business is used by APRA in its supervisory activities, including assessing compliance with prudential standards.

APRA is also involved in the collection of data on insurance business placed with unauthorised foreign insurers (UFIs). The need for this collection arises from amendments to the *Insurance Act 1973*, effective from 1 July 2008, requiring all insurers operating in the Australian general insurance market to be authorised and supervised by APRA, or to only write business in Australia subject to certain exemptions. The UFI data will assist the Government to assess the operation of the limited exemption regime by providing information about continuing use of unauthorised foreign insurers. The data will also enable a better understanding of the intermediation of general insurance products in the Australian market and will inform any enforcement action required as a result of non-compliance with the new regime. A discussion paper outlining the proposed data was released by the Treasury in September 2009. APRA anticipates that the first returns will cover the six months to 30 June 2010 and will be due within two months of the end of this period.

During 2008/09, APRA continued its active involvement in the development of the Government's Standard Business Reporting (SBR) program, along with 12 other Australian, State and Territory government agencies. This whole-of-government initiative seeks to eliminate duplication and reduce reporting burdens by streamlining and automating reporting between businesses and government agencies. The SBR design was finalised during the year and the building of major components of the system has begun. The Chairman of APRA is on the SBR Board and the General Manager – Statistics is a member of the SBR Steering Group. In another initiative to reduce reporting burden on industry, APRA upgraded its electronic data collections system, Direct to APRA (D2A), during 2008/09.

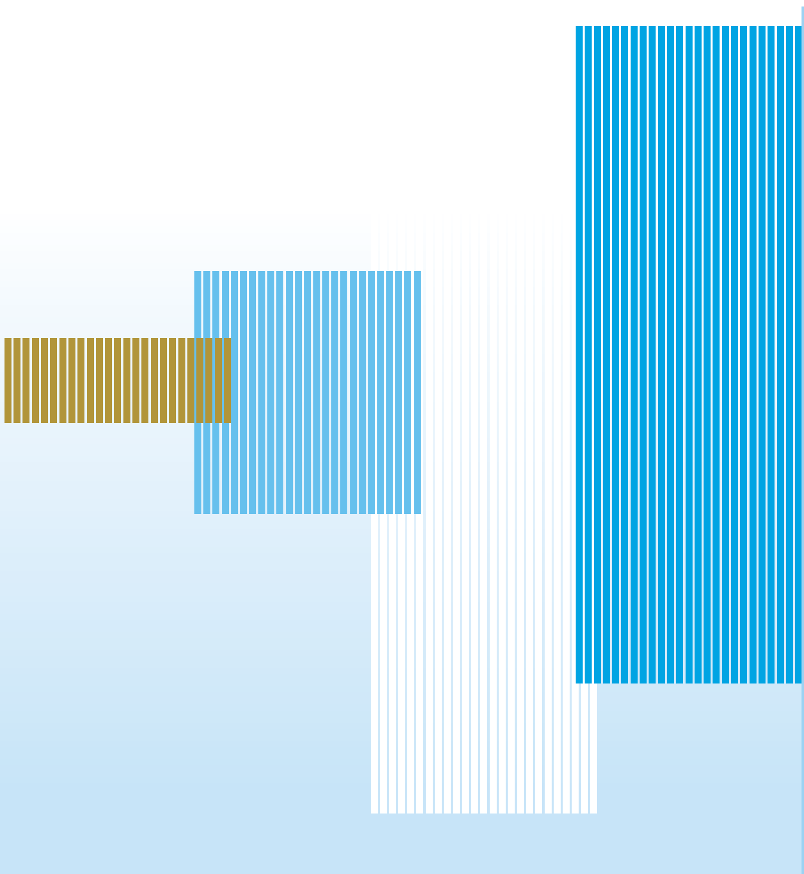
APRA's Statistics Unit fulfilled around 500 requests for customised statistics over the past year. These statistics give more detailed insight into particular aspects of the financial system than APRA's regular publications. The statistics, which have been in particular demand during the global financial crisis, are provided 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), the IMF and the 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 work by identifying emerging prudential issues that benefit from rigorous theoretical and applied analysis. The unit publishes working papers on the APRA website and papers in APRA's *Insight* publication and in reputable journals, and presents research results at conferences.

In 2008/09, the unit examined the drivers of investment performance of large superannuation funds using data from a survey undertaken by APRA in 2007. The analysis was published in APRA *Insight* (Issue 3, 2008), after presentation at the July 2008 Colloquium of the University of New South Wales Centre for Pensions and Superannuation. During the year, the unit produced two working papers on superannuation fund governance and a working paper on fund default options, and contributed to the development of APRA's proposals on remuneration. A research paper on credit risk models was published in the *Journal of the Australian Society of Securities Analysts* and a paper on superannuation fund governance was published in the *Rotman International Journal of Pension Management*.

APRA continues to support university research relevant to prudential regulation. In 2009, Professor Barry Williams from Bond University was a visiting researcher in the unit, engaged on a project on the impact of non-interest income on bank risk in Australia. The unit also engaged academic staff on three major projects: an Australian Research Council (ARC) Linkage Grant on longevity risk with researchers from the University of New South Wales (commencing in 2009); an ARC Linkage Grant with researchers from the Australian National University on dynamic portfolio selection (since 2007); and a partnership with the Capital Markets Cooperative Research Centre to co-sponsor four PhD students (since 2008).



CHAPTER FIVE

COOPERATION AND LIAISON

Strengthening the foundations of the global financial system will, as the Leaders of the G20 have emphasised, require more systematic cooperation between regulatory agencies of advanced economies as well as international agreement on enhanced prudential standards, particularly capital adequacy standards for banking institutions. As a consequence, APRA's international engagement has intensified during the course of the global financial crisis and it has stepped up another level on joining the Basel Committee on Banking Supervision, the global standard-setting body for banking regulation. Domestically, the close working relationships between APRA and the other regulatory agencies through the crisis have come to be seen as an excellent model of effective coordination.

Australia

Australia has a 'twin peaks' regulatory model with APRA as the prudential regulator alongside the Australian Securities and Investments Commission (ASIC), which has responsibility for 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 oversight 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 Council members for coordinating their responses to potential threats to financial system stability, and to advise the Government on the adequacy of Australia's financial system architecture. The Council's activities over 2008/09 had three main and related themes: monitoring and analysing the global financial crisis as it unfolded, advising the Government on policy options for managing any episodes of financial instability and distress in a financial institution (if it were to arise), and strengthening crisis management arrangements generally. The Council offered advice on the implementation of the Financial Claims Schemes in the ADI and general insurance industries and on the introduction of the Government guarantee for ADI large deposits and wholesale funding; the Council has also been monitoring experience with this guarantee. In September 2008, Council members released a joint Memorandum of Understanding (MoU) dealing specifically with crisis management arrangements. The MoU covers the objectives of financial distress management and the principles to guide decisions and actions during times of financial distress; it also sets out the responsibilities of the individual Council members during such times. 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.

Other matters discussed by the Council included agency responses to the reform initiatives of the G20 and Financial Stability Board, financial system procyclicality, short-selling and its implications for equity markets, credit rating agencies and superannuation trustee performance.

As part of the review of crisis management arrangements, a working group under the auspices of the Council has been pursuing a program to enhance APRA's crisis management capacity. This program includes the development of proposals to equip APRA with appropriate powers and of a coordinated set of policies by Council members for responding to financial distress.

APRA also meets regularly with individual members of the Council under the terms of relevant MoUs. The global financial crisis and crisis management arrangements were a recurring topic at meetings of the RBA/APRA Coordination Committee during 2008/09. Particular matters discussed included the condition of financial institutions, liquidity developments and the proposed strengthening of APRA's liquidity risk management requirements, experience with the Government guarantee scheme for large deposits and wholesale funding, contingency planning, stress-testing and APRA's proposals on remuneration.

The relationship between APRA and ASIC is maintained through three primary contact points. *Ad hoc* high-level discussions are held between the APRA Members and the ASIC Commissioners on emerging issues of mutual concern. Regular liaison meetings focus on policy issues or operational supervision matters concerning industries and institutions regulated by both agencies. These meetings are also a forum for discussion on practical supervision outcomes from changes to legislative and administrative procedures. Thirdly, joint legal and enforcement liaison meetings are held as required to discuss broad enforcement-related issues as well as to coordinate specific legal actions related to jointly regulated institutions. During 2008/09, issues under discussion between the two agencies included impacts of the global financial crisis, such as risks to conglomerate groups from their non-regulated operations, the ban on short-selling and the collection of data from unauthorised foreign insurers.

Collaborative efforts resulted in an update to the ASIC/APRA *Unit Pricing – Guide to good practice* in August 2008; an APRA contribution to a Treasury/ASIC report, *Review of credit rating agencies and research houses* in October 2008; and release of an RBA/APRA/ASIC report, *Survey of the OTC Derivatives Market in Australia* in May 2009.

The APRA Members and ASIC Commissioners also met 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 dialogue conforms with the Government's Statement of Expectations of APRA, which encouraged APRA and ASIC to explore mechanisms for joint consultation with industry. FICA comprises 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.

APRA and the Treasury worked constructively during the year on two particular legislative initiatives, the implementation of the Financial Claims Schemes that will be administered by APRA and APRA's crisis management powers. Other significant areas of coordination were proposals for product rationalisation, the collection of data from unauthorised foreign insurers and superannuation reform issues. Senior APRA and Treasury officials also held regular liaison meetings.

APRA meets with the Australian Transaction Reports and Analysis Centre (AUSTRAC) at least twice a year, through the AUSTRAC/APRA Coordination Committee, to update each other on regulatory developments and to share experiences from supervisory activities. In addition, there is regular communication at the working level on visit schedules to jointly regulated institutions, with the aim of minimising duplication. The two agencies have supported each other in training and staff development; APRA has taken AUSTRAC staff on-site and provided speakers for AUSTRAC training programs. Referrals on regulatory matters and exchange of information are conducted using protocols established to meet relevant legislative requirements.

Under its MoU on superannuation matters, APRA and the Australian Taxation Office (ATO) liaised on a range of superannuation administration and policy issues over 2008/09, including ATO rulings, determinations and Interpretative Decisions on the application of superannuation legislation for self-managed superannuation funds, illegal early access to superannuation benefits and the public register of superannuation funds maintained by the ATO. The regular interaction (including data interchange) 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 subcommittee 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 on a number of fronts, including assistance in the development of a risk-based supervision methodology to supplement PHIAC's supervisory functions, access to APRA's training and assistance in developing PHIAC's crisis management plan and enforcement functions. The two agencies regularly exchange information on jointly supervised institutions and discuss common industry issues.

APRA also works closely 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). Over the year, discussions with these bodies covered prudential supervision policies and procedures, the financial condition of insurers offering CTP products, progress of licensing applications and pandemic preparedness; APRA also made a presentation at the Heads of CTP 27th Annual Conference. APRA liaises, as well, with workers' compensation authorities on prudential matters such as capital requirements for general insurers.

APRA has continued its liaison 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 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 development of AuASB's guidance for auditors of ADIs and general insurers. APRA has also worked with the AASB to develop guidance for auditors of ADIs.

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. The World Youth Day Event (14-20 July 2008 in Sydney) provided the opportunity for BFAG to establish and test formal communications arrangements during major events; it also conducted response and recovery workshops in some State and Territory capitals.

BFAG also provided input to the Australian Government's e-security review. An outcome of this review has been the establishment of a banking and finance e-security information exchange that will facilitate the sharing of sensitive information between the industry's IT security practitioners and Government e-security specialists. BFAG conducted a number of presentations to Government agencies and departments to share information from a human influenza pandemic preparedness exercise that enabled participating institutions to test their pandemic plans.

In addition to its meetings with FICA, APRA liaises directly with a number of industry organisations including the ABA, Abacus – Australian Mutuals, the AFC, IFSA, the Insurance Council, the Association of Superannuation Funds of Australia (ASFA), the Corporate Superannuation Association and the Australian Institute of Superannuation Trustees. APRA also liaises with professional associations and institutes such as those for accountants, actuaries, administrators, auditors, company directors, 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 plays an important role in financial management and prudent risk management in the general insurance, life insurance and superannuation industries, both through statutory Appointed Actuary roles and through providing advice on financial and risk management issues to boards and management of institutions with which they are involved. APRA has regular and extensive dialogue on matters of mutual interest with the Institute of Actuaries of Australia (IAAust) and the profession generally. In addition to regular meetings with representatives of the relevant practice committees of the IAAust and with its Executive, APRA has established more formal dialogue with life insurance Appointed Actuaries as a group and proposes to do likewise with general insurance Appointed Actuaries. APRA's own actuarial staff are actively involved in various committees and task forces of the IAAust.

International liaison

APRA's international liaison activities take two main forms: direct links with overseas regulatory agencies associated with the supervision of specific financial institutions, and participation in international groups and fora that have carriage of global reform initiatives.

Direct links with overseas regulatory agencies provide important input into APRA's risk assessment of regulated institutions that also operate in other jurisdictions and of foreign financial institutions for which APRA is 'host' supervisor. In response to the global financial crisis, supervisory 'colleges' of relevant supervisors and central banks have been formed for the largest cross-border banks and insurance companies, and APRA participates in several of these colleges. Following the signing of a MoU with both the Swiss and Macau authorities in respect of insurance supervision during the year, APRA now has information-sharing arrangements (which can be viewed on the APRA website) with 19 overseas regulators. Several other information-sharing arrangements are under discussion, including arrangements to facilitate the activities of supervisory colleges. APRA has also been involved in work by the International Association of Insurance Supervisors (IAIS) to put in place a multilateral MoU template and vetting mechanism. APRA is one of 20 jurisdictions to have submitted an application for accession and it has provided staff resources to assist in the validation of applications; applications from three jurisdictions have been accepted to date.

APRA's closest links with an overseas regulatory agency are with the Reserve Bank of New Zealand (RBNZ), which is now the regulator of banks and non-bank deposit-takers in New Zealand and will become the country's insurance regulator. Australia's four major banking groups hold around a 90 per cent share of New Zealand banking systems assets and New Zealand banking assets comprise around 17 per cent of the groups' total assets. The insurance market is not as closely integrated but a number of Australian insurers have substantial operations in New Zealand. APRA and the RBNZ have an open and cooperative relationship built on regular dialogue and information-sharing, which during 2008/09 covered the implementation of the Basel II Framework, the RBNZ's proposals for the prudential regulation of insurance and supervisory issues arising out of the global financial crisis. During the year, APRA also conducted credit risk reviews of the New Zealand operations of each of the major Australian banks, with RBNZ staff participating.

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's goal is to enhance cooperation and information-sharing between the respective supervisors of trans-Tasman banks, promote and regularly review trans-Tasman crisis response preparedness relating to events that involve banks common to both countries, and guide the development of relevant policy advice to both governments. During 2008/09, the main focus of the Council's work program was crisis management. The Council is seeking to promote a high level of cooperation and coordination between its members in the event that either country experiences financial distress involving trans-Tasman banks; the objective is to ensure that the financial distress is managed in a manner that minimises the risk of instability in either country's financial system. The work includes the development of enhanced information exchange and coordinated response arrangements in a range of financial distress situations.

APRA's participation in the global reforms being pursued by the Leaders of the G20 is mainly through its involvement in global standards-setting bodies and in other fora. These include:

- **Basel Committee on Banking Supervision.** In March 2009, Australia was invited to become a member of the Basel Committee on Banking Supervision. Following a request from the Leaders of the G20, membership of the Basel Committee was subsequently expanded to include all G20 countries. APRA and the RBA are both now members, with APRA the lead representative for Australia on prudential supervision matters. APRA is also represented on the Basel Committee's three key sub-committees. The Policy Development Group identifies and reviews emerging supervisory issues and develops policies to promote high supervisory standards. The Standards Implementation Group shares information and promotes consistency in implementation of the Basel II Framework and of Basel Committee guidance and standards more generally.
  The Accounting Task Force 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 Board.

Before becoming a member, APRA had been an active participant in a number of Basel Committee sub-committees and working groups. In 2008/09, APRA was a member of the International Liaison Group (ILG), 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 two sub-groups of the Standards Implementation Group. The Validation sub-group (SIGV) 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 subgroup (SIGOR) investigates issues related primarily to the implementation of the advanced measurement approaches for operational risk.

APRA was one of the key participants in a loss data collection exercise, set up by SIGOR in 2008 as the first collaborative effort to collect major data elements relevant to the advanced measurement approaches to operational risk; the results were published in July 2009. APRA also participates in two Basel Committee sub-groups dealing with the definition of capital and with liquidity.

A senior officer of APRA will take up a secondment to the Basel Committee Secretariat in the latter part of 2009.

- 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. APRA has had a significant involvement with the IAIS since its formation, through continued representation on the IAIS Executive and Technical Committees as well as various sub-committees. APRA has been an active participant in the Accounting, Insurance Contracts, and Solvency sub-committees and, more recently, has participated in the Insurance Groups and Reinsurance sub-committees. Over 2008/09, the main priorities for the IAIS have been commencing work to extend to insurance groups its risk-based solvency framework for solo insurers, and continued liaison 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, and reinsurance and risk transfer. Work on the revision of its Insurance Core Principles also continued. 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.
- Joint Forum. APRA and ASIC represent Australia on the Joint Forum, a body working under the umbrella of the Basel Committee, the IAIS and the International 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. During 2008/09, the Joint Forum published an updated report on credit risk transfer and a report on the use of external credit ratings by regulatory agencies. Both papers were used by the Financial Stability Board in submissions to the G20 Finance Ministers. The main focus of the Forum's current work is reporting on the use of special purpose vehicles and on the differentiated nature and scope of regulation across sectors. Again, both reports will be the basis of submissions to the G20 Finance Ministers. APRA is participating in the preparation of these reports both directly in the Joint Forum and through contributions being provided from the Basel Committee and the IAIS.
- 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, Ross Jones, was elected President of IOPS for a two-year term. APRA contributed to a second series of working papers which were published by IOPS in September 2008, as well as to guidelines for the supervisory assessment of pension funds, released in December 2008. APRA is currently participating in the development of a 'toolkit' on risk-based supervision of pension funds and to a paper on the governance of supervisory authorities.

- 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, Ross Jones, is Vice-Chairman of the IPPC Working Party on Private Pensions (WPPP). During 2008/09, the IPPC and WPPP directed their efforts to analysing and considering appropriate policy and regulatory responses to the impact of the global financial crisis on insurance companies and private pension funds, and on accession reviews of a number of countries seeking to join the OECD.
- 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 (a paper on risk margins has been released) and the development and management of internal models (which is close to finalisation). Over the year, the direct involvement of senior APRA staff in IAA activities has been scaled back as APRA has refocussed its international involvement on matters of more direct prudential relevance and as APRA participation 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).

A senior APRA executive is also on the steering committee of the International Credit Union Regulators Network.

APRA meets annually with integrated supervisory agencies from a number of countries to discuss issues arising out of the integrated supervisory model. At the 11th such conference, in June 2009, the subjects considered included crisis management within an integrated supervisor, practical issues with supervisory colleges, the future of financial conglomerates and the possible retreat from globalisation.

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 implementation of the Basel II Framework, financial stability issues including liquidity risk management and liquidity stress testing, crisis management and business continuity planning, and ways to address lessons learned from the global financial crisis. EMEAP facilitates a number of training initiatives to which APRA provides speakers from time to time.

Technical assistance

APRA remains committed to supporting, where it can, the strengthening of institutional capacity among its Asian and Pacific regulatory counterparts through a series of tailored technical assistance programs, principally funded by AusAID. These programs aim 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 projects under the auspices of the Government's multilateral Pacific Governance Support Program (PGSP). 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 2008/09, APRA supervisors undertook three on-site training programs in Fiji, two in Papua New Guinea and one in the Solomon Islands. 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. Resource pressures arising from the global financial crisis saw this project placed on hold during the past year but APRA expects it to be resumed in 2009/10. Taken together, the two projects make a worthwhile contribution to deepening capacity and improving prudential supervision across the Pacific region.

In August 2008, APRA was invited to appear before the Senate Select Committee on Foreign Affairs, Defence and Trade in its inquiry into the economic and security challenges facing Papua New Guinea and the island states of the Southwest Pacific. APRA's testimony covered its relationships with Pacific supervisory agencies, problems facing Pacific supervisors and APRA's technical assistance activities and outcomes.

In Asia, APRA's engagement is primarily focussed on, but not limited to, technical assistance activities with Indonesia. APRA's key engagement is with BAPEPAM-LK, Indonesia's integrated regulator of securities markets and non-bank financial institutions. Building upon the successful introduction of a new risk-rating model (adapted from APRA's PAIRS framework) by BAPEPAM-LK's Pension Fund Bureau in 2008, APRA is now assisting BAPEPAM-LK's Insurance Bureau to develop a risk-rating model. APRA's capacity-building engagement with Bank Indonesia resumed in 2008/09, with two Bank Indonesia interns placed within frontline supervisory divisions for a period of 23 weeks. This was the second instalment of a longer-term engagement between APRA and Bank Indonesia and follows a three-month secondment program in 2006. In total, APRA hosted 14 interns from Indonesia during the past year and also received visits by a number of senior officers from Indonesian regulatory agencies.

APRA's assistance to BAPEPAM-LK and Bank Indonesia are multi-year initiatives funded under the auspices of the Government Partnership Fund (GPF) as part of the Australia-Indonesia Programme for Reconstruction and Development. By improving economic governance and public sector management, the GPF program aims to contribute to a healthy financial sector, which is an essential prerequisite to economic development and the efficient flows of resources within and between economies. 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.

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.

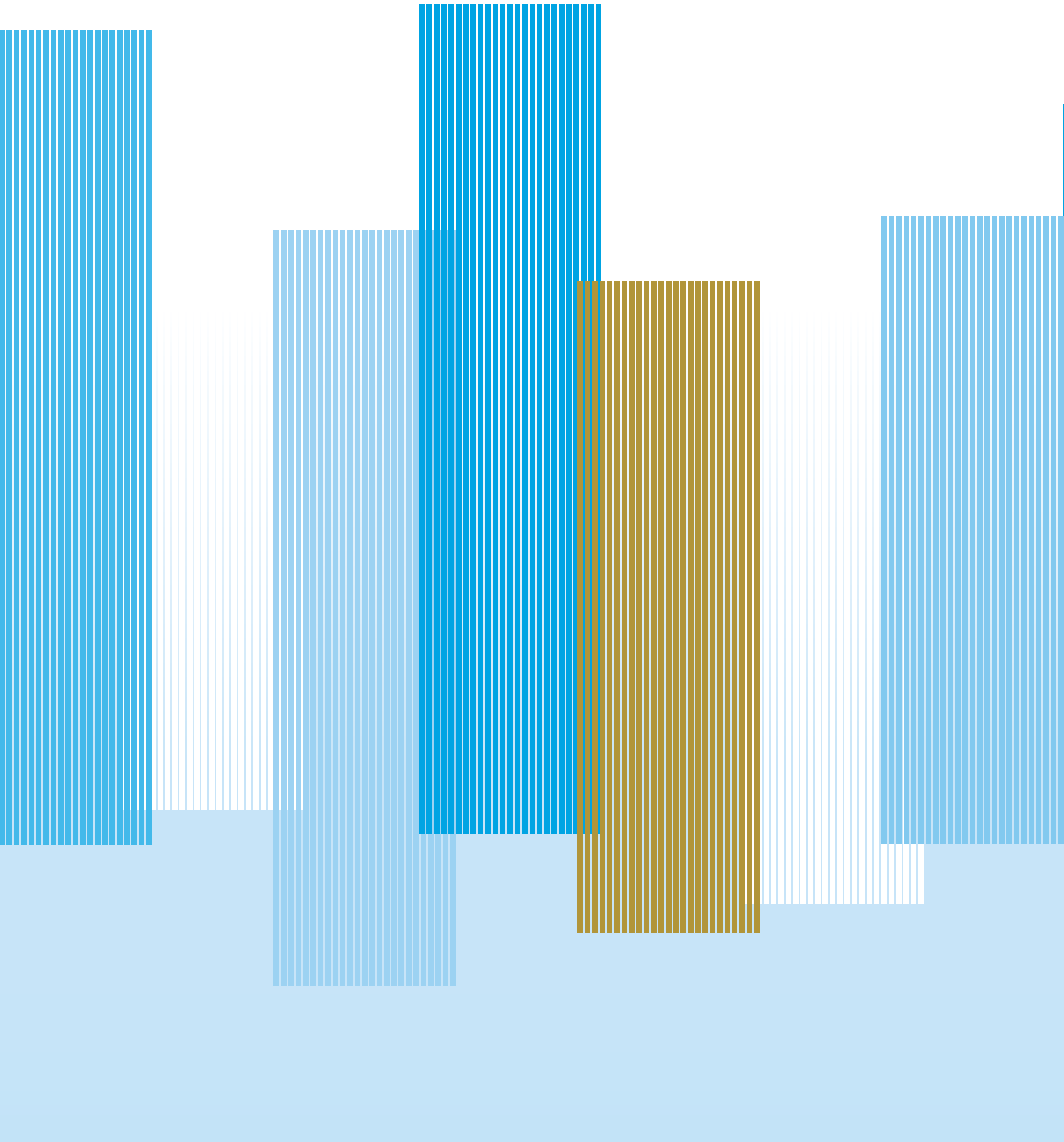
APRA is also a member of:

- 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 RMIT University (formerly at Monash University) and the SEACEN Institute. During 2008/09, APRA provided five speakers to conferences organised by the Financial Stability Institute, which are often co-hosted with other regional bodies, and five speakers to programs at the APEC Study Centre funded through AusAid. An APRA expert also provided assistance to one IMF-funded mission to Fiji.

During the year, APRA hosted 87 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 over a fifth from China. Areas of interest were wide-ranging and included APRA's functions and operations, prudential policy development, risk-based supervision, the stability of global financial markets and Australia's responses to the crisis, and superannuation prudential policy and supervisory practice. In addition, there were a significant number of visits by individual financial institutions to discuss the requirements for establishing operations in Australia.



CHAPTER SIX

APRA'S COSTS AND PERFORMANCE

Financial performance

APRA's expenditure is devoted to implementing and enhancing 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.

APRA's expenditure

APRA's total operating expenditure in 2008/09 was $103.3 million. This included costs of $0.6 million in relation to actions arising from the HIH Royal Commission, costs of $1.1 million for the Government's Standard Business Reporting program and costs of $0.7 million covered by additional revenue sources. Excluding these amounts, operating expenditure was $100.9 million, compared with the budget of $106.0 million.

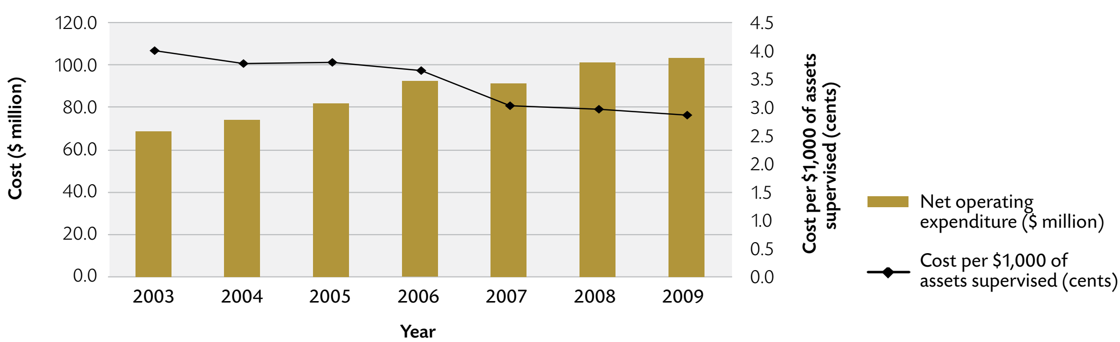
APRA's operating expenditure has risen over the past two years as a consequence of the build-up in supervisory numbers and capacity during the global financial crisis. However, relative to the value of assets supervised by APRA, costs have fallen steadily, to below three cents per $1,000 of assets supervised in 2008/09.

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 2008/09 was $9.0 million of a special appropriation from the Government to deal with the global financial crisis. This was part of a total appropriation for this purpose of $45.5 million over four years.

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 the costs incurred by industry sectors. In addition, levies are collected to cover the costs of the National Claims and Policies Database (NCPD) with a rate applied to the gross earned premiums of general insurance contributors. The total levies collected by APRA for all three agencies in 2008/09 were $106.9 million, compared with the plan of $108.0 million.

APRA's costs



APRA's total revenue in 2008/09 was $104.8 million. After adjusting for funding for the HIH Royal Commission and Standard Business Reporting and additional revenue from the recovery of direct costs, net revenue was $102.3 million, compared with the budget of $106.1 million.

Reserves

APRA had an operating surplus from ordinary activities of $1.6 million in 2008/09. As a consequence, total reserves, including accumulated surpluses, increased to $21.4 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

In June 2006, APRA launched its formal strategic planning process. The 2006-09 Strategic Plan was designed to ensure that APRA delivered on its supervisory responsibilities in an efficient and effective way. Over the latter part of the planning period, APRA's need to respond to the global financial crisis made it difficult to ensure that resources were available for the full range of strategic initiatives in the Plan. Nonetheless, APRA made considerable progress in building its capacity and skills, in line with Plan objectives.

In July 2009, APRA launched the 2009-12 Strategic Plan, which consolidates that progress and looks beyond the current challenging environment. The new Plan does not involve any major change in APRA's strategic direction but gives priority to taking on board the lessons from the crisis. The Plan will be reviewed each year in the light of developments in APRA's operating environment.

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

- sharpen APRA's risk-based approach to supervision by ensuring its supervisory processes are sufficiently flexible and responsive in challenging economic circumstances;
- enhance and support the capabilities of APRA's people to ensure that it maintains high standards in all areas and remains an attractive employer for people whose skills are also in demand in the finance sector;
- enhance APRA's document and data management capabilities by continuing to invest in new and existing solutions to ensure that appropriate technologies, processes and training are in place;
- improve the resilience and effectiveness of APRA's infrastructure to support its supervisory and regulatory activities;
- strengthen the resilience of the prudential framework in response to global reform initiatives and APRA's own reform agenda; and
- strengthen APRA's engagement with stakeholders through actively communicating APRA's position and priorities.

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). As an institution moves out of a Normal stance, routine supervision is likely to give way to greater use of APRA's more specialised intervention and enforcement powers. Institutions in Oversight are not expected to fail but there are aspects of their risk position that may create vulnerabilities in extremely adverse circumstances and that require more extensive examination by APRA. APRA does not expect institutions to be permanently classified as Mandated Improvement, while institutions in Restructure are those in which APRA has lost confidence that financial promises to beneficiaries will be met in the absence of vigorous intervention, or which have long ceased to be viable operating businesses and are being assisted to exit the industry in an orderly fashion.

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. Institutions in Mandated Improvement have moved overwhelmingly towards an improved supervision stance or have exited the industry, confirming APRA's 'behind the scenes' work to improve the risk position of institutions. The majority of institutions in Restructure have remained in that stance, with most of the others exiting the industry.

SOARS matrix (2007/09) (%)

From/to	Normal	Oversight	Mandated Improvement	Restructure	Exit
Normal	73	14	1	0	12
Oversight	26	59	1	0	13
Mandated Improvement	6	53	0	0	41
Restructure	0	11	0	56	33

Over the past six years, a total of 197 institutions have been in either Mandated Improvement or Restructure. Of that total, 51 have improved, 23 remain in their SOARS category and 123 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.

Entities in Mandated Improvement (2003/09)

Current stance	Total
Normal	13
Oversight	34
Mandated Improvement	15
Restructure	0
Exit	92
Failure	1
Total	**155**

Entities in Restructure (2003/09)

Current stance	Total
Normal	2
Oversight	2
Mandated Improvement	0
Restructure	8
Exit	30
Failure	0
Total	**42**

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.

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
2009	0	0	1028	2,049,612	100.00	100.00

[1] Failures include failures due to employer sponsors in superannuation funds but 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 $3,617 billion at end-June 2009.

[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.

These indicators are, however, silent about target outcomes against which APRA's performance can be assessed. The Government's *Statement of Expectations* of APRA (2007) confirmed that prudential regulation should not pursue a 'zero failure' objective. Rather, the objective is to maintain a low incidence of failure of supervised institutions while not impeding continued improvements in efficiency or hindering competition. APRA fully supports this objective. APRA's aim is to identify likely failures early enough so that corrective action can be initiated to prevent the failure, or at the least to set in train appropriate wind-up or other exit strategies to minimise losses to beneficiaries. Since APRA's inception in 1998, the annual PER has averaged 99.94 per cent and the annual MPR, which is dominated by the losses associated with HIH Insurance, has averaged 99.95 per cent.

Stakeholder survey

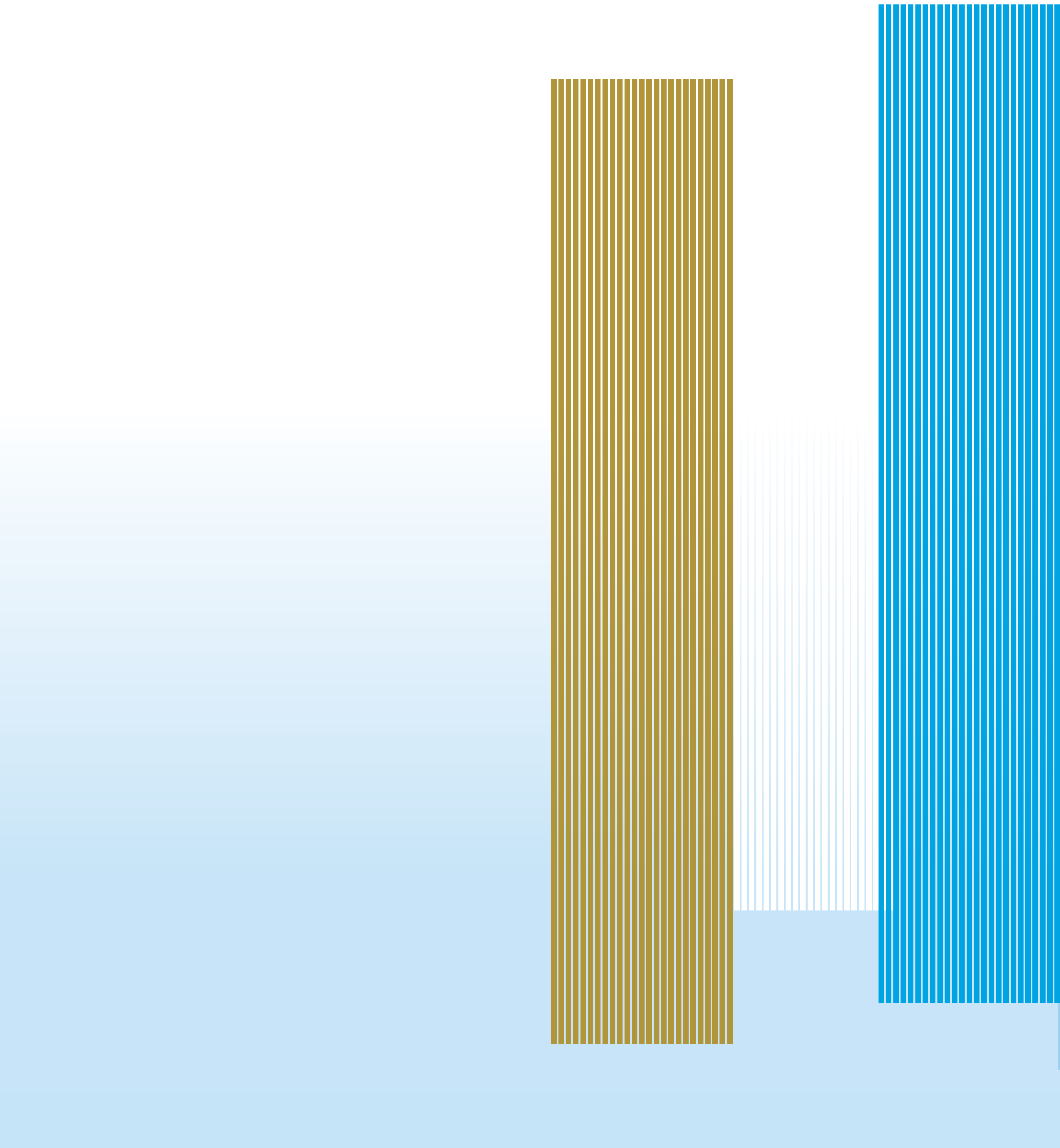
During 2009, APRA conducted its first stakeholder survey. This survey was foreshadowed in APRA's Service Charter, which said that APRA will be undertaking surveys of regulated institutions, industry bodies and other stakeholders to assist its understanding of the impact of APRA's prudential framework and the effectiveness of its supervision. Conducted by Australian Survey Research (ASR), the survey collected responses from two groups of stakholders using a similar questionnaire: one of regulated institutions and a shorter one of industry representatives and other knowledgeable observers. APRA published the results of the survey in September 2009.

The overall survey results were, according to ASR, '... a strong endorsement of APRA's prudential framework and approach to supervision. Regulated entities believe that APRA has had a positive impact on their industry.' Within the questionnaire there were 45 rated items that used a five-point rating scale. Only two items scored below 3.5 (neutral) on the five-point scale, and 58 per cent of the 45 items had 75 per cent or more positive responses.

APRA will use the ASR report as an important performance tool and as a benchmark for future surveys.

Stakeholder survey – highest scoring items	Mean
APRA staff's demonstration of integrity	4.5
APRA staff's demonstration of professionalism	4.4
A single supervisory team responsible for all group companies is appropriate	4.3
APRA's enforcement of its prudential requirements has had an impact on your industry	4.2
APRA's guidance material is of value	4.2
APRA's harmonisation of the prudential framework is important	4.2
APRA effectively communicates findings of supervisory visits	4.2

Stakeholder survey – lowest scoring items	Mean
During supervisory visits, APRA supervisors focus on principles	3.6
APRA is consistent in its supervision	3.6
The effort required of your organisation during APRA's prudential reviews is appropriate	3.6
D2A is easy to use when lodging data with APRA	3.5
The instructions to APRA's statistical forms are helpful	3.5
APRA has successfully harmonised its framework across industries	3.4
Changes to the framework consider the costs of regulation imposed on industry	2.9



CHAPTER SEVEN

GOVERNANCE

Governance structure

APRA's governance structure comprises a full-time Executive Group of at least three and no more than five Members, as specified in Part 3 of the *Australian Prudential Regulation Authority Act 1998*. 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.

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

The Executive Group meets formally on a monthly basis, and more frequently as required, to discuss and resolve 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 for decisions on more routine supervisory and organisational matters.

Members' attendance at Executive Group meetings from 1 July 2008 to 30 June 2009

	Meetings	Attended
John Laker	17	17
Ross Jones	17	12
John Trowbridge	17	16

Details on APRA Members are provided on page 75 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. In addition, regular attendees at Committee meetings are the General Manager – Risk Assessment and Internal Audit, the Manager – Risk Management, the Chief Financial Officer and a representative of the Australian National Audit Office. The Chairman of APRA may attend by invitation.

During 2008/09, the Committee met four times and reviewed all audit reports presented. The Committee also approved the Risk Assessment and Internal Audit annual audit plan and monitored the development of APRA's enterprise-wide risk management framework.

The members of the Committee in 2008/09 were:

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

Ms Alexander was appointed as Chair of the Committee in 2003 and in 2008 was reappointed for a further two-year term. She is Chair of CSL Ltd and a non-executive director of Dexus Property Group. She is an advisor to Blake Dawson 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 and an immediate former Deputy Chair of the Financial Reporting Council. A former partner of PricewaterhouseCoopers, she specialised in risk management and corporate governance issues.

Mr Norbury Rogers AO
(1 July 2008 – 31 August 2008)
BCom (Qld), AAUQ, Hon D Econ (Qld), FCA, FAICD
External member

Mr Rogers was appointed to the Committee in 2003 and completed his five-year term in 2008. He 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 a 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 W Peter Day
(1 September 2008 – 30 June 2009)
LLB (Hons), MBA, FCPA, FCA, FTIA, GAICD
External member

Mr Day was appointed for a five-year term in 2008. He is Chairman of Orbital Corporation Limited and a non-executive director of Ansell Limited, SAI Global Limited and Multiple Sclerosis Limited. He also serves as a non-executive director of the Accounting Professional and Ethical Standards Board.

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

Mr John Trowbridge
APRA Member

Mr Wayne Byres
(from 1 July 2008 to 31 December 2008)
Executive General Manager – Diversified Institutions Division

Mr Keith Chapman
(from 1 January 2009 to 30 June 2009)
Executive General Manager – Supervisory Support Division

Attendance at Risk Management and Audit Committee meetings from 1 July 2008 to 30 June 2009

	Meetings	Attended
Elizabeth Alexander	4	4
Norbury Rogers	1	1
Peter Day	3	3
John Trowbridge	4	4
Wayne Byres	2	2
Keith Chapman	2	2

Risk management in APRA

APRA has adopted an Enterprise Risk Management Framework for the identification, monitoring and management of risk within APRA. This APRA-wide approach has established defined risk categories that capture any substantial risk to APRA's mandate and objectives. For each risk category, an appropriate member of APRA's Management Group is allocated accountability for the ongoing review, management and reporting of that risk.

APRA's Enterprise Risk Management Framework is supported by the Planning and Risk Management unit. Significant development has taken place during the last two years in embedding the Framework within APRA. APRA's Executive Group and its Risk Management and Audit Committee receive consolidated risk reports on a quarterly basis. More detailed reports on each material risk category are reviewed by APRA's Management Group at least annually. The reporting process is now in place for more than half the defined risk categories and the Enterprise Risk Management Framework will be fully implemented by early 2010.

The Risk Assessment and Internal Audit unit plays an important role in APRA's governance, assurance and compliance arrangements through a detailed and structured approach to the review of APRA's systems and processes and the assessment of risks. 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 and direct access to the Executive Group. It is staffed by officers with extensive experience in audit, regulated industries and prudential supervision.

Each year, following a comprehensive review of APRA's risk profile by the unit and consultation with APRA management and staff, a broad-ranging and robust plan of internal audits is developed for approval by the Executive Group and endorsement by the Risk Management and Audit Committee. The plan 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 at an operational level, 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.

APRA has a comprehensive fraud control framework, which was the subject of detailed review during 2008/09 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 internal fraud reported for the year. Specific compulsory online fraud awareness training was delivered to all staff during 2008/09 and will be the subject of mandatory annual training.

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 made 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. Mr Jones was an Associate Professor in the School of Finance and Economics at the University of Technology Sydney (UTS) and is 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 International Network for Financial Education, and until recently was 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 on 1 July 2006 and recently accepted an extension of his appointment for a further year.

Mr Trowbridge founded Trowbridge Consulting in 1981, a firm which became a leading actuarial and management consulting firm during the next 20 years. 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. He has also held senior executive positions with two insurers (QBE Insurance and Suncorp) and has been a director of Munich Reinsurance in Australia. Mr Trowbridge is a member of the Financial Reporting Council and of the Executive Committee of the International Association of Insurance Supervisors.

Statement by Members

In our opinion, the attached financial statements for the year ended 30 June 2009 are based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997* as amended.

Dr John F. Laker
Chairman
28 August 2009

Mr K. Ross Jones
Deputy Chairman
28 August 2009

Mr John Trowbridge
Member
28 August 2009

CHAPTER EIGHT

FINANCIAL STATEMENTS

Income Statement
for the year ended 30 June 2009

	Note	2009 $'000	2008 $'000
Income			
Revenue			
Revenue from Government	4A	**100,038**	81,497
Sale of goods and rendering of services	4B	**3,854**	5,286
Rental income	4C	**22**	79
Other revenue	4D	**813**	1,163
Total revenue		**104,727**	88,025
Gains			
Other gains	4E	**110**	171
Total gains		**110**	171
Total income		**104,837**	88,196
Expenses			
Employee benefits	5A	**72,768**	68,217
Suppliers	5B	**26,566**	30,041
Depreciation and amortisation	5C	**3,738**	3,195
Finance costs	5D	**89**	2
Write-down and impairment of assets	5E	**80**	2
Loss from asset sales	5F	**31**	2
Total expenses		**103,272**	101,459
Operating surplus/(deficit)		**1,565**	(13,263)

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

Balance Sheet
as at 30 June 2009

	Note	2009 $'000	2008 $'000
Assets			
Financial assets			
Cash and cash equivalents	6A, 17B	**31,303**	31,350
Trade and other receivables	6B, 17B	**6,777**	4,163
Total financial assets		**38,080**	35,513
Non-financial assets			
Infrastructure, plant and equipment	7A	**6,861**	7,527
Intangibles	7B	**5,656**	4,897
Other non-financial assets	7C	**1,975**	1,571
Total non-financial assets		**14,492**	13,995
Total assets		**52,572**	49,508
Liabilities			
Payables			
Suppliers	8A, 17B	**–**	1,489
Other payables	8B, 17B	**2,803**	2,873
Unearned fees and charges	8C, 17B	**941**	1,244
Total payables		**3,744**	5,606
Provisions			
Employee provisions	9A	**21,463**	18,986
Other provisions	9B	**1,919**	1,935
Total provisions		**23,382**	20,921
Total liabilities		**27,126**	26,527
Net assets		**25,446**	22,981
Equity			
Contributed equity		**4,055**	3,155
Reserves		**9,809**	9,809
Retained surpluses		**11,582**	10,017
Total equity		**25,446**	22,981
Current assets		**40,055**	37,084
Non-current assets		**12,517**	12,424
Current liabilities		**21,243**	21,305
Non-current liabilities		**5,883**	5,222

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

Statement of Changes in Equity
for the year ended 30 June 2009

	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000	**2009 $'000**	2008 $'000	**2009 $'000**	2008 $'000	**2009 $'000**	2008 $'000
	Accumulated results		Asset revaluation reserves		Contingency enforcement fund		Contributed equity		Total equity	
Opening balance	**10,017**	23,280	**3,809**	368	**6,000**	6,000	**3,155**	3,155	**22,981**	32,803
Income and expense										
Revaluation adjustment				3,441						
Subtotal income and expenses recognised directly in equity				3,441						3,441
Surplus/(deficit) for the period	**1,565**	(13,263)							**1,565**	(13,263)
Total income and expenses	**1,565**	(13,263)		3,441					**1,565**	(9,823)
Equity injection: Standard Business Reporting							**900**		**900**	
Closing balance as at 30 June 2009	**11,582**	10,017	**3,809**	3,809	**6,000**	6,000	**4,055**	3,155	**25,446**	22,981

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

Cash Flow Statement
for the year ended 30 June 2009

	Note	2009 $'000	2008 $'000
Operating activities			
Cash received			
Appropriations		**99,695**	81,298
Goods and services		**1,882**	2,613
Rental income		**22**	79
Net GST received		**2,128**	2,916
Other		**924**	1,163
Total cash received		**104,651**	88,069
Cash used			
Employees		**(70,048)**	(65,638)
Suppliers		**(31,688)**	(32,985)
Total cash used		**(101,736)**	(98,623)
Net cash from/(used by) operating activities	10	**2,915**	(10,554)
Investing activities			
Cash used			
Purchase of property, plant and equipment		**(1,695)**	(2,228)
Purchase of intangibles		**(2,167)**	(2,494)
Total cash used		**(3,862)**	(4,722)
Net cash (used by) investing activities		**(3,862)**	(4,722)
Financing activities			
Capital injections		**900**	–
Net cash from financing activities		**900**	–
Net increase/(decrease) in cash held		**(47)**	(15,276)
Cash and cash equivalents at the beginning of the reporting period		**31,350**	46,626
Cash and cash equivalents at the end of the reporting period	6A	**31,303**	31,350

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

Schedule of Commitments
as at 30 June 2009

	2009 $'000	2008 $'000
By type[1]		
Other commitments		
Operating leases	**32,366**	30,627
Total other commitments	**32,366**	30,627
Commitments receivable		
GST receivable	**(2,942)**	(2,784)
Total commitments receivable	**(2,942)**	(2,784)
Net commitments payable	**29,424**	27,843
By maturity		
Operating lease commitments		
One year or less	**8,218**	6,381
From one to five years	**20,505**	21,186
Over five years	**701**	276
Total operating lease commitments	**29,424**	27,843
Net commitments by maturity	**29,424**	27,843

Nature of lease	General description of leasing arrangement
Leases for office accommodation	Lease payments in Sydney are subject to prevailing market rates. Leases for all other offices are subject to fixed annual increment. Office leases, with current expiry dates shown in brackets, are current for space in Sydney (various levels 2012), Canberra (2015), Melbourne (2012), Adelaide (2009), Brisbane (2012) and Perth (2014).
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.

Schedule of Contingencies
as at 30 June 2009

	2009 $'000	2008 $'000
Contingent assets		
New	**200**	–
Total contingent assets	**200**	–
Contingent liabilities		
Balance from previous period	**(500)**	(1,330)
New	**–**	–
Re-measurement	**–**	830
Liabilities crystallised	**–**	–
Obligations expired	**–**	–
Total contingent liabilities	**(500)**	(500)
Net contingencies	**(300)**	(500)

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

Details of each class of contingent liabilities and assets, including those not included above because they cannot be quantified or are considered remote, are disclosed in Note 11: *Contingent liabilities and assets*.

Schedule of Administered Items

	Note	2009 $'000	2008 $'000
Income administered on behalf of Government			
for the year ended 30 June 2009			
Taxation revenue			
Financial Institutions Supervisory Levies	18	**107,545**	103,754
Financial Assistance Levy	18	**–**	6
Total revenues administered on behalf of Government		**107,545**	103,760
Expenses administered on behalf of Government			
for the year ended 30 June 2009			
Supervisory Levy waivers and write-offs	19	**684**	521
Doubtful debts provision adjustment	19	**–**	(326)
Total expenses administered on behalf of Government		**684**	195
Assets administered on behalf of Government			
as at 30 June 2009			
Financial assets			
Receivables – Supervisory Levies	20	**85**	838
Total assets administered on behalf of Government		**85**	838
Liabilities administered on behalf of Government			
as at 30 June 2009			
Total liabilities administered on behalf of Government		**–**	–

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

Schedule of Administered Items (Continued)

	Note	2009 $'000	2008 $'000
Administered cash flows			
for the year ended 30 June 2009			
Operating activities			
Cash received			
Financial Institutions Supervisory Levies		109,428	104,691
Cash received from Official Public Account for refunds		2,418	682
Total cash received		111,846	105,373
Cash used			
Refunds of overpayments of levies		(1,813)	(680)
Refunds for incorrect deposits		(605)	(2)
Total cash used		(2,418)	(682)
Net cash flows from operating activities		109,428	104,691
Net increase/(decrease) in cash held		109,428	104,691
Cash at the beginning of the reporting period		–	–
Cash to Official Public Account for:			
Financial Institutions Supervisory Levies		(109,428)	(104,691)
Cash at the end of the reporting period	20	–	–

APRA administers the collection of Financial Institutions Supervisory Levies 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. Transactions and balances relating to levies are reported in Note 18: *Income administered on behalf of Government.*

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

Administered Contingencies

Details of each class of administered contingent liabilities and assets, that cannot be quantified or are considered remote, are disclosed in Note 22: *Administered contingencies*.

Notes to and Forming Part of the Financial Statements
for the year ended 30 June 2009

Note	Description
1	Summary of significant accounting policies
2	Events after the balance sheet date
3	Calculation of APRA Special Appropriation
4	Income
5	Operating expenses
6	Financial assets
7	Non-financial assets
8	Payables
9	Provisions
10	Cash flow reconciliation
11	Contingent liabilities and assets
12	Remuneration of APRA Members
13	Related party disclosures
14	Executive remuneration
15	Remuneration of auditors
16	Average staffing levels
17	Financial instruments
18	Income administered on behalf of Government
19	Expenses administered on behalf of Government
20	Assets administered on behalf of Government
21	Administered reconciliation table
22	Administered contingencies
23	Administered financial instruments
24	Appropriations
25	Compensation and debt relief
26	Special Accounts
27	Reporting of outcomes

Note 1: Summary of significant accounting policies

1.1 Objectives of Australian Prudential Regulation Authority

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

1.2 Basis of preparation of the financial statements

The financial statements and notes are required by section 49 of the *Financial Management and Accountability Act 1997* and are 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 2008; and
- Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board () 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 alternate 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 Contingencie*s.

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, liabilities and cash flows reported in the *Schedule of Administered Items* and related notes are accounted for on the same basis and using the same policies as for departmental items, except where otherwise stated at Note 1.17.

Notes to and Forming Part of the Financial Statements
for the year ended 30 June 2009

1.3 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 and estimates have been identified that have a significant risk of causing a material adjustment to carrying amount of assets and liabilities within the next accounting period.

1.4 Changes in Australian Accounting Standards

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. No new accounting standards, amendments to standards and interpretations issued by the Australian Accounting Standards Board that are applicable in the current period have had a material financial affect on APRA.

Future Australian Accounting Standard requirements

New accounting standards, amendments to standards and interpretations that are effective for future reporting periods have been issued by the Australian Accounting Standards Board. It is estimated that these changes, when effective, will have no material financial impact in future reporting periods.

1.5 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.

1.6 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.

1.7 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 12 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.

Notes to and Forming Part of the Financial Statements
for the year ended 30 June 2009

Leave

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

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

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

Separation and redundancy

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

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.

For all other employees, employer contributions are made to other superannuation (accumulation) funds, as nominated by the employee (see Note 5A).

The liability for superannuation recognised at 30 June 2009 represents outstanding contributions for the final fortnight of the year.

1.8 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. 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.

1.9 Cash

Cash and cash equivalents means notes and coins held and any deposits with a bank or financial institution with an original 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.

1.10 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*.

1.11 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.

1.12 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.

1.13 Acquisition of assets

Assets are recorded at cost on acquisition, except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken. 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.

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

Notes to and Forming Part of the Financial Statements
for the year ended 30 June 2009

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 appraisal

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 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	**2009**	2008
Leasehold improvements	**Lesser of 10 years or lease term**	Lesser of 10 years or lease term
Computer hardware and office equipment	**3 to 12 years**	3 to 12 years

Impairment

All assets are assessed for impairment at 30 June. 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.

1.15 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 (2007/08: Lesser of five years or assessed useful life).

All software assets were assessed for indications of impairment as at 30 June 2009.

1.16 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.

1.17 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 21. 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*. These administered items are distinguished from Authority items throughout these financial statements by background shading.

Notes to and Forming Part of the Financial Statements
for the year ended 30 June 2009

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 19, 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: Calculation of APRA Special Appropriation

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

Details are as follows:

	2009 $'000	2008 $'000
Table 1: Summary		
Current year levies and penalties (see Note 18, Table 1)	**107,545**	103,754
Less: Waivers, write-offs and doubtful debts (see Note 19)	**(684)**	(195)
Net current year levies and penalties (see Table 2 below)	**106,861**	103,559
Less: Amount retained in the CRF (see Table 3 below)	**(21,000)**	(25,900)
Total APRA Special Appropriation (see Table 4 below)	**85,861**	77,659
Table 2: Net current year levies and penalties by levy type		
Superannuation funds	**38,898**	44,237
Authorised deposit-taking institutions	**36,615**	31,685
Life insurers and friendly societies	**10,441**	8,242
General insurers	**20,907**	19,395
Total net current year levies and penalties	**106,861**	103,559
Table 3: Amounts retained in the CRF by levy type[1]		
Superannuation funds	**(15,400)**	(19,800)
Authorised deposit-taking institutions	**(2,300)**	(2,500)
Life insurers and friendly societies	**(1,800)**	(2,000)
General insurers	**(1,500)**	(1,600)
Total amount retained in CRF	**(21,000)**	(25,900)
Table 4: Equivalent amounts of levy payable to APRA under the APRA Special Appropriation by levy type		
Superannuation funds	**23,498**	24,437
Authorised deposit-taking institutions	**34,315**	29,185
Life insurers and friendly societies	**8,641**	6,242
General insurers	**19,407**	17,795
Total APRA Special Appropriation	**85,861**	77,659

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

Notes to and Forming Part of the Financial Statements
for the year ended 30 June 2009

Note 4: Income

	2009 $'000	2008 $'000
Note 4A: Revenue from Government		
Special Appropriations	**85,861**	77,659
Other	**14,177**	3,838
Total revenue from Government	**100,038**	81,497
Note 4B: Sale of goods and rendering of services		
Rendering of services – related entities	**1,218**	1,225
Rendering of services – external entities	**2,636**	4,061
Total rendering of services	**3,854**	5,286
Note 4C: Rental income		
Rental income	**22**	79
Total rental income	**22**	79
Note 4D: Other revenues		
Licence fees from finance sector entities	**469**	992
Superannuation trustee applications	**68**	32
Fees from foreign bank representative offices	**80**	85
Recoveries from RBA for scholarship	**23**	13
Other revenue	**173**	41
Total other revenues	**813**	1,163
Note 4E: Other gains		
Resources free of charge	**110**	110
Make good financing gain	**–**	61
Total other gains	**110**	171

Note 5: Operating expenses

	2009 $'000	2008 $'000
Note 5A: Employee benefits		
Salaries and wages	57,412	50,944
Superannuation	6,896	9,649
Leave and other entitlements	7,887	6,897
Separation and redundancies	245	317
Other employee expenses (see Note 1.7)	328	410
Total employee expenses	72,768	68,217
Note 5B: Supplier expenses		
Provision of goods – external entities	2,613	3,606
Rendering of services – related entities	1,328	1,584
Rendering of services – external entities	16,104	18,890
Operating lease rentals:		
– minimum lease payments	6,395	5,724
Workers' compensation premiums	126	237
Total supplier expenses	26,566	30,041
Note 5C: Depreciation and amortisation		
Depreciation		
Computer hardware	1,065	805
Leasehold improvements	1,291	1,346
Amortisation		
Intangibles – computer software	1,382	1,044
Total depreciation and amortisation	3,738	3,195
Note 5D: Finance costs		
Unwinding of discount	89	2
Total finance costs expense	89	2
Note 5E: Write-down and impairment of assets		
Write-down of infrastructure, plant and equipment	–	2
Impairment of internally developed software	80	–
Total write-down and impairment of assets	80	2
Note 5F: Losses from asset disposals		
Computer hardware	31	2
Total losses from asset disposals	31	2

Notes to and Forming Part of the Financial Statements
for the year ended 30 June 2009

Note 6: Financial assets

	2009 $'000	2008 $'000
Note 6A: Cash and cash equivalents		
APRA Special Account	**31,300**	31,347
Cash on hand	**3**	3
Total cash and cash equivalents	**31,303**	31,350

All cash recognised is a current asset.

	2009 $'000	2008 $'000
Note 6B: Trade and other receivables		
Special Appropriations	**85**	838
Goods and services	**5,514**	3,040
Other receivables	**900**	–
GST receivable	**278**	285
Total trade and other receivables	**6,777**	4,163
Receivables are represented by:		
Current	**6,777**	4,163
Total receivables	**6,777**	4,163
Receivables (gross) are aged as follows:		
Not overdue	**278**	983
Overdue by:		
– less than 30 days	**6,451**	2,386
– 30 to 60 days	**2**	–
– 60 to 90 days	**17**	–
– more than 90 days	**29**	794
Total receivables	**6,777**	4,163

Note 7: Non-financial assets

	2009 $'000	2008 $'000
Note 7A: Infrastructure, plant and equipment		
Computer hardware and office equipment		
– fair value	**4,390**	3,965
– accumulated depreciation	**(2,291)**	(1,677)
– work in progress	**113**	64
Total computer hardware and office equipment	**2,212**	2,352
Leasehold improvements		
– fair value	**5,958**	5,220
– accumulated depreciation	**(1,355)**	(64)
– work in progress	**46**	19
Total leasehold improvements	**4,649**	5,175
Total infrastructure, plant and equipment (non-current)	**6,861**	7,527

All assets are assessed for impairment at 30 June, 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.

Notes to and Forming Part of the Financial Statements
for the year ended 30 June 2009

Note 7: Non-financial assets (Continued)

Analysis of infrastructure, plant and equipment

Table A Reconciliation of infrastructure, plant and equipment 2008/09	$'000 Computer hardware and office equipment	$'000 Leasehold improvements	$'000 Total
As at 1 July 2008			
Gross book value	**4,029**	**5,239**	**9,268**
Accumulated depreciation/amortisation	(1,677)	(64)	(1,741)
Net book value 1 July 2008	**2,352**	**5,175**	**7,527**
Additions by purchase	–	–	–
Net revaluation increment/(decrement)	931	764	1,695
Depreciation/amortisation expense	(1,065)	(1,291)	(2,356)
Disposals by write-off (net book value)	(5)	–	(5)
As at 30 June 2009			
Gross book value	**4,503**	**6,004**	**10,507**
Accumulated depreciation/amortisation	**(2,291)**	**(1,355)**	**(3,646)**
Closing net book value	**2,212**	**4,649**	**6,861**

Table B Reconciliation of infrastructure, plant and equipment 2007/08	$'000 Computer hardware and office equipment	$'000 Leasehold improvements	$'00 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)
Disposal 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**

Note 7: Non-financial assets (Continued)

	2009 $'000	2008 $'000
Note 7B: Intangibles		
Computer software at cost:		
– internally developed – in progress	**2,411**	2,192
– internally developed – in use	**12,832**	7,208
– purchased – in progress	**116**	42
– purchased – in use	**–**	3,915
	15,359	13,357
Accumulated amortisation	**(9,703)**	(8,460)
Total intangibles (non-current)	**5,656**	4,897

Table A Reconciliation of intangibles 2008/09	$'000 Computer software internally developed	$'000 Computer software purchased	$'000 Total
As at 1 July 2008			
Gross book value	**9,400**	**3,957**	**13,357**
Accumulated depreciation/amortisation	(6,234)	(2,226)	(8,460)
Net book value 1 July 2008	**3,166**	**1,731**	**4,897**
Additions by purchase or internally developed	1,672	495	2,167
Depreciation/amortisation expenses	(618)	(764)	(1,382)
Disposals			
From disposal of entities or operations (including restructuring)	–	(26)	(26)
As at 30 June 2009			
Gross book value	**11,072**	**4,286**	**15,359**
Accumulated depreciation/amortisation and impairment	**(6,852)**	**(2,850)**	**(9,703)**
Closing net book value	**4,220**	**1,436**	**5,656**

Notes to and Forming Part of the Financial Statements
for the year ended 30 June 2009

Note 7: Non-financial assets (Continued)

Table B Reconciliation of intangibles 2007/08	$'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 expenses	(401)	(643)	(1,044)
As at 30 June 2008			
Gross book value	9,400	3,957	13,357
Accumulated amortisation and impairment	(6,234)	(2,226)	(8,460)
Closing net book value	3,166	1,731	4,897

	2009 **$'000**	2008 $'000
Note 7C: Other non-financial assets		
Prepayments	**1,975**	1,571
Total other non-financial assets	**1,975**	1,571

All other non-financial assets are current assets.

Note 8: Payables

	2009 $'000	2008 $'000
Note 8A: Suppliers		
Trade creditors	–	1,489
Total supplier payables	–	1,489

All supplier payables are current liabilities.

	2009 $'000	2008 $'000
Note 8B: Other payables		
Accrued expenses	1,392	1,570
GST payable to the ATO	352	465
PAYG withholding	–	147
Salary accrual	1,059	691
Total other payables	2,803	2,873

All other payables are current liabilities.

	2009 $'000	2008 $'000
Note 8C: Unearned fees and charges		
Unearned revenue	941	1,244
Total other payables	941	1,244

All other payables are current liabilities.

Notes to and Forming Part of the Financial Statements
for the year ended 30 June 2009

Note 9: Provisions

	2009 $'000	2008 $'000
Note 9A: Employee provisions		
Salaries and wages	**4,000**	3,531
Leave	**17,380**	15,154
Separations and redundancies	**–**	242
Other	**83**	59
Total employee provisions	**21,463**	18,986
Employee provisions are represented by:		
Current	**17,440**	15,567
Non-current	**4,023**	3,419
	21,463	18,986
Note 9B: Other provisions		
Lease incentive	**169**	304
Provisions for 'make good'	**1,750**	1,631
Total other provisions	**1,919**	1,935
Other provisions are represented by:		
Current	**59**	132
Non-current	**1,860**	1,803
	1,919	1,935

Reconciliation of other provisions	Lease incentive $'000	Provision for 'make good' $'000	Total $'000
Carrying amount 1 July 2008	**304**	**1,631**	**1,935**
Additional provisions made	**–**	**30**	**30**
Amount used	**(135)**	**–**	**(135)**
Unwinding of discount	**–**	**89**	**89**
Closing balance 30 June 2009	**169**	**1,750**	**1,919**

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

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

Note 10: Cash flow reconciliation

	2009 $'000	2008 $'000
Reconciliation of cash and cash equivalents as per *Balance Sheet* to *Cash Flow Statement*		
Cash at year-end as per *Cash Flow Statement*	**31,303**	31,350
Balance Sheet items comprising above cash:		
'Financial Asset – cash and cash equivalents' 2008/09	**31,303**	31,350
Reconciliation of operating result to net cash from operating activities		
Operating result	**1,565**	(13,263)
Add: Non-cash items		
Depreciation and amortisation	**3,738**	3,195
Net loss on disposal of assets	**31**	4
Make good financing loss/(gain)	**119**	(61)
(Increase)/decrease in net receivables	**(2,614)**	(2,482)
(Increase)/decrease in revenue in advance	**(303)**	(835)
(Increase)/decrease in prepayments	**(404)**	(669)
(Increase)/decrease in accrued revenue	**–**	211
Increase/(decrease) in employee provisions	**2,478**	2,433
Increase/(decrease) in supplier payables	**(1,559)**	634
Increase/(decrease) in other provisions	**(135)**	279
Net cash (used by)/from operating activities	**2,915**	(10,554)

Note 11: Contingent liabilities and assets

Quantifiable contingent liabilities

At 30 June 2009, 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 internal legal practitioners.

Notes to and Forming Part of the Financial Statements
for the year ended 30 June 2009

Note 12: 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 2008/09 was Chairman $603,130 (2007/08: $578,260); Deputy Chairman $504,660 (2007/08: $483,850); and Member $480,060 (2007/08: $460,260). 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.

	2009 Number	2008 Number
The remuneration of APRA Members, measured in terms of the cost to APRA, is shown below in the relevant remuneration bands:		
$465,000 – $479,999	**–**	1
$495,000 – $509,999	**1**	1
$540,000 – $554,999	**1**	1
$615,000 – $629,999	**1**	–
Total number of APRA Members	**3**	3
	$	$
Total remuneration of APRA Members, measured in terms of the cost to APRA:	**1,676,896**	1,527,309

Note 13:Related party disclosures

Transactions with APRA Member-related entities

There were no related entity transactions in 2008/09 (2007/08: $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 2008/09 (2007/08: $Nil).

Note 14: Executive remuneration

	2009 Number	2008 Number
The remuneration of officers, measured in terms of the cost to APRA, is shown in the relevant income bands:		
$160,000 – $174,999	2	–
$205,000 – $219,999	–	1
$220,000 – $234,999	1	2
$235,000 – $249,999	2	3
$250,000 – $264,999	5	6
$265,000 – $279,999	4	7
$280,000 – $294,000	1	1
$295,000 – $309,999	2	–
$310,000 – $324,000	1	–
$325,000 – $339,999	1	1
$340,000 – $354,999	–	1
$370,000 – $384,999	–	1
$385,000 – $399,999	–	1
$400,000 – $414,999	2	–
$430,000 – $444,999	–	1
$460,000 – $474,999	1	–
$495,000 – $509,999	1	–
Total	23	25
	$	$
Total remuneration of executives measured in terms of the cost to APRA:	6,792,885	7,005,228

Note 15: Remuneration of auditors

	2009 $'000	2008 $'000
Financial statement audit services were provided free of charge to APRA in 2008/09. 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.

Notes to and Forming Part of the Financial Statements
for the year ended 30 June 2009

Note 16: Average staffing levels

	2009 Number	2008 Number
The average staffing levels for the Authority during the year were:	**572**	566

Note 17: Financial instruments

Note 17A: Categories of financial instruments

	2009 $'000	2008 $'000
Financial assets		
Cash and cash equivalents	**31,303**	31,350
Loans and receivables		
Receivables	**5,599**	3,847
Other receivables	**1,178**	316
Carrying amount of financial assets	**38,080**	35,513
Financial liabilities		
Trade creditors	**–**	1,489
Other payables	**2,803**	2,873
Unearned fees and charges	**941**	1,244
Carrying amount of financial liabilities	**3,744**	5,606

Note 17: Financial instruments (Continued)

Note 17B:Fair value of financial instruments

	Carrying amount 2009 $'000	**Fair value 2009 $'000**	Carrying amount 2008 $'000	Fair value 2008 $'000
Financial assets				
Cash and cash equivalents	**31,303**	**31,303**	31,350	31,350
Receivables	**5,599**	**5,599**	3,847	3,847
Other receivables	**1,178**	**1,178**	316	316
Total	**38,080**	**38,080**	35,513	35,513
Financial liabilities				
Trade creditors	**–**	**–**	1,489	1,489
Other payables	**2,803**	**2,803**	2,873	2,873
Unearned fees and charges	**941**	**941**	1,244	1,244
Total	**3,744**	**3,744**	5,606	5,606

Note 17C: Credit risk

APRA's maximum exposure to credit risk at reporting date is the carrying amount of receivable reported in the *Balance Sheet* (2008/09: $6,777,000 and 2007/08: $4,163,000). No amounts are considered doubtful as at 30 June 2009.

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

	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
	Not past due nor impaired	Not past due nor impaired	Past due or impaired	Past due or impaired
Loans and receivables				
Receivables	**–**	667	**6,499**	3,180
Other receivables	**278**	316	**–**	–
Total	**278**	983	**6,499**	3,180

Notes to and Forming Part of the Financial Statements
for the year ended 30 June 2009

Note 17: Financial instruments (Continued)

Note 17C: Credit risk (Continued)

Ageing of financial assets that are past due but not impaired for 2009

	0 to 30 days $'000	31 to 60 days $'000	61 to 90 days $'000	90+ days $'000	Total $'000
Receivables	6,451	2	17	29	6,499

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	2,386	–	–	794	3,180

Note 17D: 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 cash flow monitoring and forecasting, expose APRA to negligible liquidity risk.

Note 17E: Market risk

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

Note 18: Income administered on behalf of Government

	2009 $'000	2008 $'000
Revenue		
Taxation		
Financial Institutions Supervisory Levies		
Current year levies and penalties (see Table 1)[1]	**107,545**	103,754
Financial Assistance Levy and penalties (see Table 2)	**–**	6
Total revenues administered on behalf of Government	**107,545**	103,760
Table 1: Financial Institutions Supervisory Levies revenue by levy type – current year levies and penalties		
Levy		
Superannuation funds	**39,507**	44,253
Authorised deposit-taking institutions	**36,616**	31,685
Life insurers and friendly societies	**10,441**	8,242
General insurers	**20,906**	19,395
Total levies	**107,470**	103,575
Late payment penalties		
Superannuation funds	**75**	86
Total late payment penalties	**75**	86
Infringement penalties		
Superannuation funds	**–**	93
Total infringement penalties	**–**	93
Total current year levies and penalties	**107,545**	103,754
Table 2: Financial Assistance Levy and penalties		
Levy No. 2004/05:1 (Superannuation)		
Levy	**–**	6
Total Financial Assistance Levy and penalties	**–**	6

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

Notes to and Forming Part of the Financial Statements
for the year ended 30 June 2009

Note 19: Expenses administered on behalf of Government

	2009 $'000	2008 $'000
Expenses		
Net write-down and impairment of assets		
Doubtful debts provision adjustment	–	(326)
Supervisory Levy waivers and write-offs	684	521
Total expenses administered on behalf of Government	684	195
Table 1: Levies and late payment penalties waived by levy type		
Superannuation funds	485	510
General insurers	192	–
Other	7	–
	684	510
Table 2 : Levies and late payment penalties written-off by levy type		
Superannuation funds	–	11
	–	6

Note 20: Assets administered on behalf of Government

	2009 $'000	2008 $'000
Financial assets		
Cash and cash equivalents	–	–
Receivables		
Financial Institutions Supervisory Levies	85	838
Total receivables	85	838
Receivables are aged as follows:		
Not overdue	–	37
Overdue by:		
– less than 30 days	82	10
– 60 to 90 days	2	–
– more than 90 days	1	791
Total receivables (gross)	85	838
Total assets administered on behalf of Government	85	838

Note 21: Administered reconciliation table

	2009 $'000	2008 $'000
Opening administered assets less administered liabilities as at 1 July	**838**	1,281
Plus administered revenues	**107,545**	103,760
Less administered expenses	**(1,289)**	(195)
Plus transfers from the Official Public Account for refunds	**1,813**	683
Less transfers to Official Public Account	**(108,822)**	(104,691)
Closing administered assets less administered liabilities as at 30 June	**85**	838

Note 22: Administered contingencies

Financial Claims Schemes

The Australian Government has established Financial Claims Schemes to provide depositors of authorised deposit-taking institutions (ADIs) and general insurance policyholders with timely access to funds in the event of a financial institution failure. APRA is responsible for the administration of the two Schemes.

Claims by depositors and general insurance policyholders against the Commonwealth under a Financial Claims Scheme would arise only in the unlikely event that an institution failed to meet commitments that were covered by the Scheme.

Each Scheme is to be funded by a standing appropriation to the Financial Claims Scheme Special Account (see also Notes 24 and 26). Should the Minister declare a Scheme in relation to an ADI or general insurer, the Minister must specify the amount to be credited to that Special Account for the purpose of paying claims. APRA's contingent liability on behalf of the Commonwealth for depositor and general insurance policyholder payments under a Scheme is considered remote and unquantifiable. APRA has the ability to recover depositor and insurance claimant payments on behalf of the Commonwealth by claiming on the relevant institution in the liquidation of that institution. Should recoveries from the institution fall short of payments to depositors or insurance claimants, an industry levy may be applied to recover the difference, as allowed under the Financial Claims Scheme legislation.

The legislation also allows for the Minister to activate a maximum appropriation of up to $20 billion per failure for payments to insurance claimants and a maximum appropriation of $100 million for Financial Claims Scheme administration expenses. No maximum appropriation applies in the case of payments to depositors arising from the failure of an ADI. Total deposits of ADIs as at June 2009 were approximately $660 billion.

Notes to and Forming Part of the Financial Statements
for the year ended 30 June 2009

Note 23: Administered financial instruments

Note 23A: Categories of financial instruments

	2009 $'000	2008 $'000
Financial assets		
Receivables	**85**	838
	85	838
Financial liabilities		
	–	–

Note 23B: Fair value of financial instruments

	Carrying amount 2009 $'000	Fair value 2009 $'000	Carrying amount 2008 $'000	Fair value 2008 $'000
Financial assets				
Receivables	**85**	**85**	838	838

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. No amounts are considered doubtful as at 30 June 2009.

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 2009 $'000	Not past due nor impaired 2008 $'000	Past due or impaired 2009 $'000	Past due or impaired 2008 $'000
Loans and receivables				
Receivables	**84**	37	**1**	801

Ageing of financial assets that are past due but not impaired for 2009

	0 to 30 days $'000	31 to 60 days $'000	61 to 90 days $'000	90+ days $'000	Total $'000
Loans and receivables					
Receivables	–	–	–	1	1

Note 23: Administered financial instruments (Continued)

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 APRA.

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

	2009 $'000	2008 $'000
Particulars	Departmental Outputs	
Purpose: funding of APRA – Outcome 1		
Appropriations Act:		
Appropriation Act (No. 1) 2008/09	**5,036**	2,580
Appropriation Act (No. 3) 2008/09	**8,336**	260
Appropriations credited to Special Accounts (excluding GST)	**(11,772)**	(2,840)
Balance carried forward to next year	**1,600**	–

Notes to and Forming Part of the Financial Statements
for the year ended 30 June 2009

Note 24: Appropriations (Continued)

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

	2009 $'000	2008 $'000
Particulars	Outcome 1	
***Australian Prudential Regulation Authority Act 1998* – section 50**		
Amount available carried from previous period	**838**	1,287
Appropriation for reporting period	**85,861**	77,659
Available for payments	**86,699**	78,946
Appropriations credited to Special Account	**(86,614)**	(78,790)
Refunds paid from Special Account	**–**	682
Amount available carried to the next period	**85**	838
Represented by		
Appropriation receivable	**85**	838

Special Appropriations – Financial Claims Schemes

Subsection 21(1) of the *Financial Management and Accountability Act 1997* provides for an appropriation from the CRF for expenditure for the purpose of a Special Account established under another Act, up to the balance for the time being of the Special Account.

Section 54A of the *Australian Prudential Regulation Authority Act 1998* establishes the Financial Claims Scheme Special Account. Section 54C identifies its main purpose as meeting Financial Claims Scheme claims under the *Banking Act 1959* and the *Insurance Act 1973*.

Subsection 16AD(2) of the *Banking Act 1959* provides that if the Minister declares the Financial Claims Scheme in relation to an ADI, the Minister must specify the amount (if any) to be credited to the Financial Claims Scheme Special Account for the payment of claims. Subsection 62ZZC(2) of the *Insurance Act 1973* makes a similar provision where the Financial Claims Scheme established under that Act is declared in relation to a general insurer.

The combined effect of these provisions is that an amount determined by the Minister when declaring a Financial Claims Scheme is appropriated from the CRF for the purpose of making payments under that Scheme.

Note 25: Compensation and debt relief

	2009 $	2008 $
40 waivers of amounts owing to the Commonwealth were made pursuant to section 12 of the *Financial Institutions Supervisory Levies Collection Act 1998* (2007/08: 277)	**683,849**	521,480

Note 26: Special Accounts

APRA Special Account	2009 $'000	2008 $'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.		
Balance carried from previous year	31,347	46,606
Appropriation for reporting period	86,614	78,790
Appropriation Bill No 1 Transfer	5,036	2,580
Appropriation Bill No 3 Transfer	6,736	260
Available for payments	129,733	128,236
Transferred to Special Account	(98,433)	(96,889)
Balance carried to next period	31,300	31,347
Represented by:		
Cash transferred to the Official Public Account	31,268	30,535
Cash held by Authority	32	812
Total balance carried to the next period	31,300	31,347

Lloyd's Deposit Trust Special Account	2009 $000	2008 $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.*		
Balance carried from previous year	2,000	–
Transferred from Treasury	–	2,000
Available for payments	2,000	2,000
Payments made	–	–
Balance carried to next year	2,000	2,000
Represented by		
Securities held by APRA	2,000	2,000
Total balance carried to the next year	2,000	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.

Notes to and Forming Part of the Financial Statements

for the year ended 30 June 2009

Note 26: Special Accounts (Continued)

Services for Other Entities and Trust Moneys – APRA Special Account	**2009 $'000**	2008 $'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.		
Balance carried from previous year	**–**	24
Available for payments	**–**	24
Unclaimed Superannuation Money returned to the ATO	**–**	(24)
Balance carried to next year	**–**	–

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 2008/09 (2007/08: $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.

Financial Claims Scheme Special Account

The Financial Claims Scheme Special Account is established by section 54A of the *Australian Prudential Regulation Authority Act 1998* as a Special Account for the purpose of the *Financial Management and Accountability Act 1997*.

All amounts received by APRA, on behalf of the Commonwealth, via the standing appropriation discussed in Note 24 and/or under an approved borrowing arrangement to fund payments to depositors or general insurance policyholders must be credited to the Financial Claims Scheme Special Account, as described in Note 24.

Amounts specified in the Minister's declaration activating a Scheme, amounts borrowed and amounts appropriated for the purpose of that Financial Claims Scheme can only be spent for the purpose of the Financial Claims Scheme Special Account as specified in section 54C of the *Australian Prudential Regulation Act 1998*.

Amounts received under an appropriation for the costs of Financial Claims Scheme administration will be credited to the APRA Special Account as specified in section 53(1)(e) of the *Australian Prudential Regulation Authority Act 1998*.

At 30 June 2009, neither Financial Claim Scheme had been activated by the Minister and the carrying balance of the Financial Claims Scheme Special Account was nil.

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.

Note 27A: Net cost of outcome delivery

	2009 $'000	2008 $'000
	Outcome 1	
Expenses		
Administered	**684**	195
Authority	**103,272**	101,459
Total expenses	**103,956**	101,654
Costs recovered from provision of goods and services to the non-government sector		
Administered	**–**	–
Authority	**2,636**	4,061
Total costs recovered	**2,636**	4,061
Other external revenues		
Administered		
Financial Institutions Supervisory Levies	**107,545**	103,754
Financial Assistance Levy	**–**	6
Total administered	**107,545**	103,760
Authority		
Sale of goods and services – to related entities	**1,218**	1,225
Rental recoveries	**22**	79
Licence fees and other revenue	**813**	1,163
Total Authority	**2,053**	2,467
Total other external revenue	**109,598**	106,227
Net cost/(contribution) of outcome	**(8,278)**	(8,634)

Output reporting is derived from APRA's internal activity system which captures the time spent by each employee on the three published outputs. 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.

Notes to and Forming Part of the Financial Statements
for the year ended 30 June 2009

Note 27: Reporting of outcomes (continued)

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

	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000	**2009 $'000**	2008 $'000	**2009 $'000**	2008 $'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	**9,533**	8,936	**60,834**	57,029	**2,401**	2,252	**72,768**	68,217
Suppliers	**3,480**	3,936	**22,209**	25,116	**877**	991	**26,566**	30,043
Depreciation and amortisation	**490**	419	**3,125**	2,671	**123**	105	**3,738**	3,195
Write-down of assets	**14**	1	**93**	3	**4**	–	**111**	4
Finance cost	**12**	–	**74**	–	**3**	–	**89**	–
Total operating expenses	**13,529**	13,292	**86,335**	84,819	**3,408**	3,348	**103,272**	101,459
Funded by								
Revenues from Government	**13,106**	10,676	**83,631**	68,132	**3,301**	2,689	**100,038**	81,497
Sale of goods and services	**505**	692	**3,222**	4,419	**127**	175	**3,854**	5,286
Rent recoveries	**3**	10	**18**	66	**1**	3	**22**	79
Other revenues	**121**	175	**772**	1,115	**30**	44	**923**	1,334
Total operating revenues	**13,735**	11,553	**87,643**	73,732	**3,459**	2,911	**104,837**	88,196

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

Note 27: Reporting of outcomes (continued)

Note 27C: Administered revenues and expenses by outcome

	2009 $'000	2008 $'000
	Outcome 1	
Administered revenues		
Financial Institutions Supervisory Levies	**107,545**	103,754
Financial Assistance Levy	**–**	6
Total administered revenues	**107,545**	103,760
Administered expenses		
Levies waived	**684**	521
Doubtful debts adjustment	**–**	(326)
Total administered expenses	**684**	195

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 Minister for Financial Services, Superannuation, and Corporate Law

Scope

I have audited the accompanying financial statements of the Australian Prudential Regulation Authority (the Authority) for the year ended 30 June 2009. The financial statements comprise: a Statement by Members; Income Statement; Balance Sheet; Statement of Changes in Equity; Cash Flow Statement; Schedule of Commitments; Schedule of Contingencies; Schedule of Administered Items and Notes to and forming part of the Financial Statements, including a Summary of Significant Accounting Policies.

The Responsibility of the Members for the Financial Statements

The Authority's Members 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*, including Australian Accounting Standards, which include Australian Accounting Interpretations. This includes establishing and maintaining internal controls relevant to the preparation and fair presentation of 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 my audit. I have conducted my audit in accordance with Australian National Audit Office Auditing Standards, which incorporate Australian Auditing Standards. These auditing standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves obtaining audit evidence about the amounts and disclosures in the financial statements. The audit 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 these risk assessments, the auditor considers internal controls relevant to the Authority's preparation and fair presentation of the financial statements 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Authority's Members, as well as evaluating the overall presentation of the financial statements.

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

Independence

In conducting the audit, I 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:

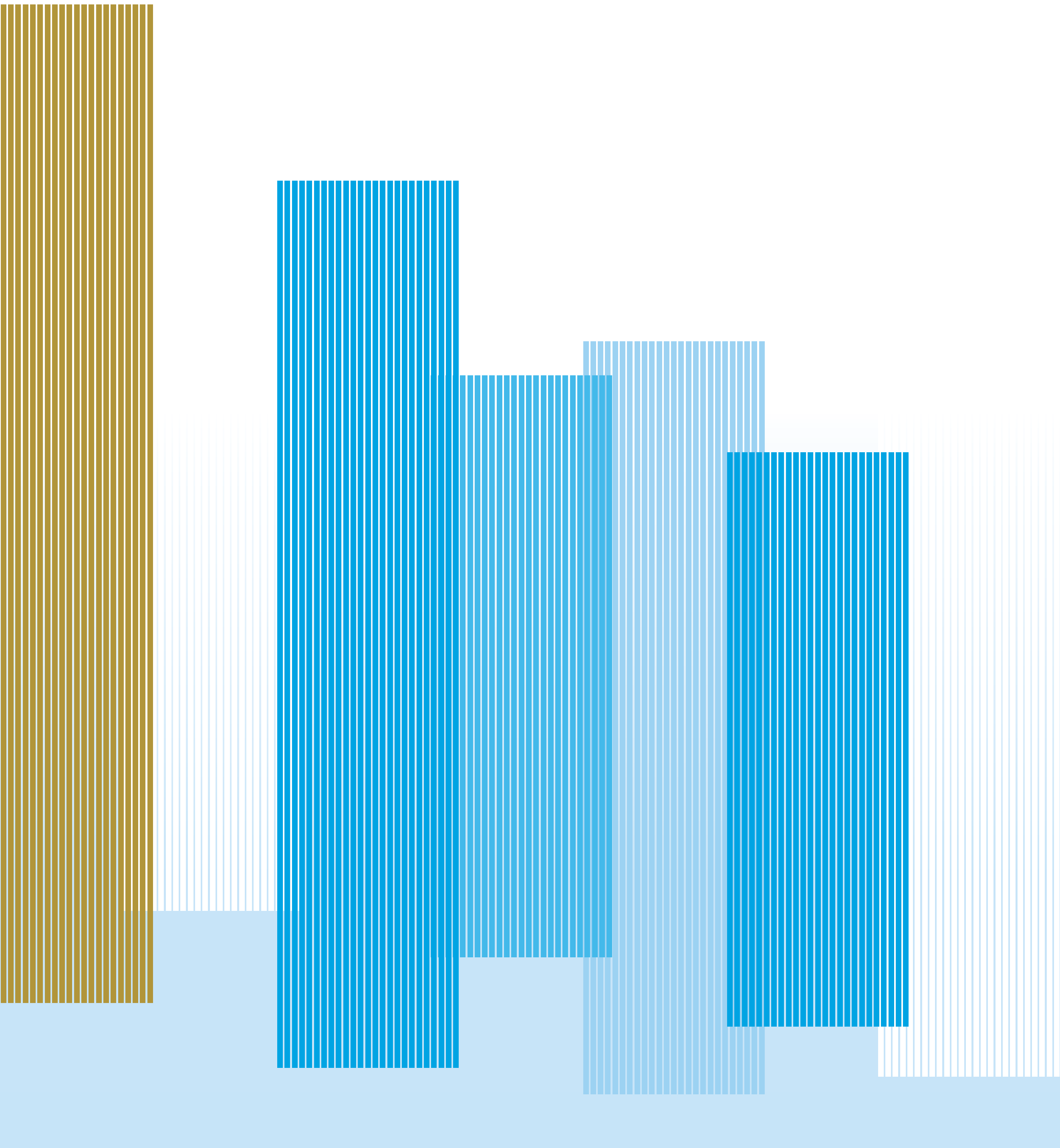
(a) have been prepared in accordance with Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, including Australian Accounting Standards; and

(b) give a true and fair view of the matters required by the Finance Minister's Orders including the Australian Prudential Regulation Authority's financial position as at 30 June 2009 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
27 August 2009



CHAPTER NINE

STATUTORY REPORT

Statutory reporting requirements

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

- *Australian Prudential Regulation Authority Act 1998*;
- *Environment Protection and Biodiversity Conservation Act 1999;*
- *Equal Employment Opportunity (Commonwealth Authorities) Act 1987*;
- *Freedom of Information Act 1982*;
- *Occupational Health and Safety (Commonwealth Employment) Act 1991;*
- *Commonwealth Fraud Control Guidelines;* and
- *Requirements for annual reports for departments, executive agencies and FMA Act bodies*.

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

Australian Prudential Regulation Authority Act 1998 (APRA Act)

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

- the activities of ADI statutory managers within the meaning of the *Banking Act 1959* and persons conducting investigations under Division 2 of Part II and section 61 of that Act; 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 2008/09. There were no continuing appointments during the year.

APRA did not exercise its powers under Part 15 of the RSA Act in 2008/09.

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

Exemption number	Date	Provision of SIS Act/regulations exempted
A17 of 2008	03/07/2008	Regulation 9.29
A20 of 2008	15/07/2008	Subsection 29DC(2) and 29(MB)(2)
A22 of 2008	14/08/2008	Section 36
A23 of 2008	07/08/2008	Subsection 29DC(1) and 29(MB)(1)
A24 of 2008	14/08/2008	Section 93(3)
A26 of 2008	11/09/2008	Subsection 29DC(1) and 29(MB)(1)
A27 of 2008	15/09/2008	Subsection 29DC(1) and 29MB(1)
A28 of 2008	15/09/2008	Subsection 29DC(1) and 29MB(1)
A29 of 2008	15/09/2008	Subsection 29DC(1) and 29MB(1)

Exemption number	Date	Provision of SIS Act/regulations exempted
A30 of 2008	23/09/2008	Subsection 29DC(1) and 29MB(1)
A31 of 2008	17/09/2008	Subsection 29DC(1) and 29MB(1)
A32 of 2008	22/10/2008	Section 93(3)
A33 of 2008	24/09/2008	Subsection 29DC(1) and 29MB(1)
A34 of 2008	22/09/2008	Section 29MB(1)
A35 of 2008	23/09/2008	Subsection 29DC(1) and 29MB(1)
A36 of 2008	23/09/2008	Subsection 29DC(1) and 29MB(1)
A37 of 2008	23/09/2008	Subsection 29DC(1) and 29MB(1)
A38 of 2008	23/09/2008	Section 29MB(1)
A39 of 2008	23/09/2008	Subsection 29DC(1) and 29MB(1)
A40 of 2008	23/09/2008	Subsection 29DC(1) and 29MB(1)
A41 of 2008	24/09/2008	Subsection 29DC(1) and 29MB(1)
A42 of 2008	24/09/2008	Section 29MB(1)
A43 of 2008	01/10/2008	Regulation 6.34
A44 of 2008	09/10/2008	Regulation 9.09(2)
A45 of 2008	22/10/2008	Section 29DC91)
A46 of 2008	22/10/2008	Section 29DC(1)
A47 of 2008	24/10/2008	Regulation 9.04D(2)
A48 of 2008	10/11/2008	Regulation 6.17(2)
A49 of 2008	10/11/2008	Regulation 6.17(2)
A50 of 2008	30/10/2008	Section 36
A1 of 2009	21/01/2009	Regulation 7.04(3)(a)
A2 of 2009	02/06/2009	Regulation 13.17A
A3 of 2009	31/01/2009	Section 93(4)

Exemption number	Date	Provision of SIS Act/regulations exempted
A4 of 2009	26/02/2009	Section 18(7)
A5 of 2009	09/04/2009	Regulation 6.17(2)
A6 of 2009	15/06/2009	Section 93(4)
A7 of 2009	25/05/2009	Section 93(3)(a)(ii)
A8 of 2009	21/05/2009	Section 36
A9 of 2009	05/06/2009	Regulation 6.34
A10 of 2009	05/06/2009	Regulation 6.34
A12 of 2009	10/06/2009	Regulation 9.04D(1)
A13 of 2009	10/06/2009	Regulation 9.04D(1)
A14 of 2009	09/06/2009	Regulation 9.04D(1)
A15 of 2009	09/06/2009	Regulation 9.29(1)
A16 of 2009	05/06/2009	Section 93(3)
A17 of 2009	04/06/2009	Regulation 7.04(3)
A18 of 2009	22/06/2009	Regulation 6.34
A19 of 2009	12/06/2009	Regulation 6.34
A20 of 2009	23/06/2009	Regulation 6.17(2)
A21 of 2009	23/06/2009	Regulation 9.29(1)

Modification declaration number – Class	Date	Provision of SIS regulations modified
1 of 2008	21/11/2008	Regulation 9.09

Modification declaration number – Particular entity	Date	Provision of SIS regulations modified
A25 of 2008	29/09/2008	Regulation 3A.02

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 Environment Policy, which outlines its commitment to operating in an ecologically sustainable manner, was revised and approved by the APRA Members in December 2008. This Policy re-affirms APRA's commitment to taking practical steps to reduce its environmental impact in all of its offices. Existing measures APRA takes include zone-controlled lighting; energy-efficient power management settings on office equipment; recycling of paper, cardboard and printer cartridges; and staff awareness.

During 2007/08, APRA engaged a specialist environmental consultant to advise on ways it could improve its environmental management and reporting systems, and to identify tangible measures APRA could take to reduce its consumption of energy and minimise waste. In 2008/09, APRA implemented a number of the consultant's recommendations and other initiatives. These included undertaking a lighting refit resulting in 50 per cent fewer globes used per fitting; recarpeting using a low carbon footprint tile; increasing recycling participation; replacing taps with water-efficient flow taps; and implementing an APRA-wide after-hours computer shut-down policy to reduce power consumption. APRA will continue to make improvements in its environmental management and, where possible, adopt environmentally friendly options.

EEO staff data – staff diversity as at 30 June 2009

Level	Female	Male	ATSI	NESB1	NESB2	PWD
Level 1	45	17	0	15	0	1
Level 2	61	36	0	24	1	0
Level 3	81	84	0	46	8	0
Level 4	78	123	1	47	2	2
Senior	14	68	0	7	2	1
Executive	0	7	0	1	0	0
Total	279	335	1	140	13	4

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

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

Workplace diversity program report

APRA takes a proactive and innovative approach to meeting its responsibilities under the EEO Act. This includes 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.

Each year, members of APRA's Staff Consultative Group and selected human resources staff receive detailed training by a specialist diversity provider, Diversity Council Australia, in order to perform the important role of Contact Officer. APRA's Contact Officers are available to provide confidential and impartial assistance to any staff with workplace diversity concerns at APRA.

To assist staff balance their work, home, family and other personal commitments, APRA offers a range of flexible work arrangements. These include coreless variable hours, a compressed work week and purchased additional leave, job sharing, telecommuting, and leave options for the purpose of family responsibilities and career/personal development. APRA also provides a range of 'family friendly' benefits including 14 weeks paid maternity leave, two weeks paid partner's leave and a 'Keep-in-Touch' program for women on maternity leave. In addition, APRA is committed to retaining the skills, expertise and corporate knowledge of staff approaching retirement age through a 'Transition to Retirement' program and other measures.

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 2008/09, APRA received 20 applications for access to documents under section 15 of the FOI Act and three applications for internal review under section 54. APRA had no applications on hand at the beginning of the period.

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

Granted in full	2
Granted in part	11
Access refused	7
Withdrawn	0
Transferred to another agency	0
On hand at 30 June 2008	0
Total	20

Charges collected were $2,278 and the estimated cost of handling initial FOI requests and internal review requests in 2008/09 was approximately $42,800.

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 makes its publications available to the public on the APRA website, free of 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 used by APRA in making decisions or recommendations for the purposes of legislation administered by APRA has been lodged with the Freedom of Information Controller at National Archives of Australia in Canberra, in compliance with section 9 of the FOI Act.

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 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 consents 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

In compliance with reporting obligations under section 74 of 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. They included the identification and training of two new health and safety staff representatives in Melbourne.

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

Drawing on the assistance of a consultant ergonomic specialist, APRA has developed a policy and procedures aimed at identifying, assessing and controlling hazards associated with work processes, particularly computer-based work. In 2008/09, sessions informing staff of the ideal ergonomic set-up for their individual workstations were held in Sydney and Melbourne.

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.

Comprehensive health assessments are provided to staff at senior levels as well as to those aged 50 and over. Shorter health checks are provided to staff aged 40-49 and a 15-minute 'healthy heart' check to all other staff. These assessments are not compulsory and APRA is provided with statistical data only (not personal details or results of the assessments). As in previous years, all staff are offered an annual influenza vaccination; about 40 per cent of staff accept this offer.

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

APRA has arrangements for consultation on all occupational health and safety issues, including maintenance of the 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, neither of which required a report to Comcare under section 68 of the OHS Act. Neither incident was on APRA premises.

Other reporting

Advertising and market research

The *Commonwealth Electoral Act 1918* requires Commonwealth agencies to report annually on their expenditure on advertising and market research. In 2008/09, APRA spent $433,000 on recruitment advertising and market research.

Auditor-General's activities

The Australian National Audit Office (ANAO) undertook the required statutory financial audits of APRA for 2008/09. APRA was not subject to any performance audits by the ANAO during the year.

Certified Employment Agreements

As at 30 June 2009, 525 staff were covered by the collective *APRA Employment Agreement, 2008.* Eighty-six senior staff were covered by common law agreements. No staff member was 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 TRP pay ranges for non-executive staff as at 30 June 2009 were:

Level 4	$104,754 – $174,522
Level 3	$72,930 – $121,482
Level 2	$50,898 – $84,762
Level 1	$36,414 – $60,792

Commonwealth Disability Strategy

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

As a regulator and policy adviser, APRA continues to ensure that those with disabilities face no obstacles in public access to information through APRA's internet website. For those services that are not provided electronically (particularly early release of superannuation benefits), there is regular assessment to ensure that particular groups are not excluded by virtue of either their financial circumstances or their physical or intellectual disability.

APRA supports access for people with speech or hearing disabilities via Telstra's service for TTY (Text Telephone) users and maintains a freecall number and email address to accept and respond to enquiries and feedback.

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. All staff and managers are responsible for supporting the principles of workplace diversity. APRA is a member of Diversity Council Australia, an independent, not-for-profit diversity adviser to business in Australia.

APRA's recruitment policy ensures that recruitment advertising does not dissuade people with disabilities who have the necessary experience, skills and qualifications from submitting applications for employment. The policy also ensures that selection processes take into account the special needs of applicants, so that those with disabilities are not disadvantaged.

Commonwealth Fraud Control Guidelines

The Chairman of APRA certifies that he is satisfied that:

- fraud risk assessments and fraud control plans have been prepared that 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 Ombudsman

In 2008/09, the Commonwealth Ombudsman conducted investigations into 56 matters, 53 of which related to applications for early release of superannuation benefits.

As a result of these investigations, the Commonwealth Ombudsman proposed to record an 'administrative deficiency' in six cases. Of the four that have been finalised, three made negative comment about APRA's activities. APRA has used the lessons from each of these matters to improve its processes to prevent recurrence of these situations.

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* (CPGs). In particular, they ensure that the core procurement principle of value for money is observed.

As an FMA Act agency, APRA is required to conduct its procurement processes within the CPGs, including but not limited to:

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

In 2008/09, APRA had no Austender-exempt contracts and all APRA competitively tendered contracts over $100,000 provided for the Auditor-General to have access to the contractor's premises.

Consultancies

APRA Chairman's Finance Instructions and Financial Policies, and associated operational procedures, include specific provisions on consultants. 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 2008/09 were training; financial and accounting services; IT consultancies; legal advice; litigation services; recruitment selection, administration and counselling; and professional services.

During 2008/09, APRA entered into 40 consultancy contracts with a contract value of $1.5 million. Total expenditure for new and existing contracts during the year was $3.24 million: $3.16 million on 32 suppliers over $10,000 and $0.08 million on 14 suppliers under $10,000.

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.

Courts and tribunals

Over 2008/09, a number of judicial decisions had or may have a significant effect on APRA's operations. These included:

- *Motor Trades Association of Australia Superannuation Fund Pty Ltd v Rickus (No 3) [2008] FCA 1986 (24 December 2008)* concerned the refusal of a former director of the trustee of a superannuation fund to provide to the trustee copies of documents that had been provided to APRA under Notice. APRA intervened as *amicus curiae* as the application concerned interpretation of section 299 of the *Superannuation Industry (Supervision) Act 1993* (SIS Act). The Federal Court held that the director owed a duty to provide copies of the documents to the trustee and that section 299 of the SIS Act did not protect the director from legal action arising out of breach of the duty. The director has appealed against the decision and APRA has sought leave to intervene in the appeal.

The *APRA's supervisory activities in 2008/09* section of this Report contains details of court and tribunal decisions relating to enforcement action taken by APRA during the year.

Executive and consultative committees from 1 July 2008 to 30 June 2009

Management Group

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

Leadership Team

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

Steering Groups

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

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

Industry groups

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

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

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

Basel II Steering Group

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

International committees

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

Occupational Health and Safety Committee

This 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

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

Security Group

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

Grant Programs

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

- Brian Gray Scholarship;
- UNSW Co-op Actuarial Scholarship;
- Australian National University Subject Prize; and
- Capital Markets Co-operative Research Centre Participation Agreement.

Winners of the Brian Gray Scholarship are recorded on APRA's website. The names of winners of the other scholarships that APRA supports are available upon request.

Indemnities and insurance premiums

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

Legal Services Directions 2005

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

During 2008/09, APRA's total expenditure on external legal advice and litigation services was $2.81 million (incl. GST).

Parliamentary committees

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

During 2008/09, APRA Members and officers made themselves available for public hearings before the:

- Senate Standing Committee on Economics (sitting as Senate Estimates) on 23 October 2008, 25 February 2009 and 3 June 2009;
- House of Representatives Standing Committee on Economics in its Inquiry into Competition in the Banking and Non-banking Sectors on 14 August 2008; and
- Senate Standing Committee on Foreign Affairs, Defence and Trade in its Inquiry into the Main Economic and Security Challenges facing Papua New Guinea and the Island States of the Southwest Pacific on 25 March 2009.

APRA also made submissions to:

- the Senate Standing Committee on Economics in its Inquiry into Aspects of Bank Mergers in March 2009;
- the House of Representatives Standing Committee on Economics in its Inquiry into Competition in the Banking and Non-banking Sectors in July 2008; and
- the Senate Standing Committee on Foreign Affairs, Defence and Trade in its Inquiry into the Main Economic and Security Challenges facing Papua New Guinea and the Island States of the Southwest Pacific in August 2008.

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

Performance pay

APRA has a performance bonus system, designed in consultation with staff and management and covering all employees. For 2008/09, the aggregate bonus pool was $3.85 million. Under deferred bonus arrangements introduced in the APRA Employment Agreement, 2008 bonuses will be paid in December 2009 to eligible staff still in APRA's employ at that date.

Privacy Commission

There were no investigations by the Privacy Commissioner under section 36 of the *Privacy Act 1988* during 2008/09. 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

The Hon Wayne Swan MP, Treasurer of the Commonwealth of Australia, has portfolio responsibility for APRA.

He is assisted in this role by the Hon Chris Bowen MP who was Assistant Treasurer and Minister for Competition Policy and Consumer Affairs until 9 June 2009 and was then appointed Minister for Financial Services, Superannuation and Corporate Law and Minister for Human Services. Prior to 9 June 2009, he was also assisted by the Minister for Superannuation and Corporate Law, Senator the Hon Nick Sherry.

Staff statistics

Staff by location and full-time/part-time as at 30 June 2009

Location	Full-time	Part-time	Total
Adelaide	6	0	6
Brisbane	12	2	14
Canberra	18	12	30
Melbourne	67	5	72
Perth	4	2	6
Sydney	461	25	486
Total	**568**	**46**	**614**

Staff by division and full-time/part-time as at 30 June 2009

Division	Full-time	Part-time	Total
Corporate	107	19	126
Diversified Institutions	116	2	118
Policy, Research and Statistics	72	5	77
Specialised Institutions	139	11	150
Supervisory Support	134	9	143
Total	**568**	**46**	**614**

Executive Group

Dr John Laker (Chairman)
Mr Ross Jones (Deputy Chairman)
Mr John Trowbridge (Member)

Executive General Manager Diversified Institutions
Wayne Byres

- General Manager Branch 1 — **Puay Sim**
- General Manager Branch 2 — **Heidi Richards**
- General Manager Branch 3 — **Denis Wilkinson**
- General Manager Branch 4 — **Helen Rowell**

Executive General Manager Specialised Institutions
Brandon Khoo

- General Manager Central Region — **Senthamangalam Venkatramani**
- General Manager South West Region — **Stephen Glenfield**
- Head of Northern Region — **Clayton Osborne**

General Manager Supervision Framework Team — **David Lewis**

Executive General Manager Supervisory Support
Keith Chapman

- General Manager Industry Technical Services — **Graham Johnson**
- General Manager AMIRS[1] — **Greg Brunner**
- General Manager CORS[2] — **Harvey Crapp**
- General Manager Legal and Enforcement — **Warren Scott**

Risk Management and Audit Committee

Secretary
Thea Rosenbaum

Executive General Manager
Policy, Research and Statistics
Charles Littrell

General Manager
Policy Development
David Rush

General Manager
Statistics
Steve Davies

Head of International Relations
Chris Gaskell

Head of Research
Katrina Ellis

Chief Financial Officer
Jim Flaye

General Manager
Human Resources
Peter Vodicka

General Manager
Business Services
Colin Cayless

General Manager
Risk Assessment and Internal Audit
Paul Thompson

Head of Public Affairs
Stuart Snell

[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
BCBS	Basel Committee on Banking Supervision
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)
FSB	Financial Stability Board
FSF	Financial Stability Forum
GFC	Global financial crisis
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 Organisation 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
UFI	Unauthorised Foreign Insurer

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

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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:
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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:
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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**