ANNUAL REPORT

AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY

18/19

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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, general insurers and reinsurance companies, life insurers, private health insurers, friendly societies and most members of the superannuation industry.

APRA currently supervises institutions holding $6.4 trillion in assets for Australian depositors, policyholders and superannuation fund members.

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WAYNE BYRES
Chairman

20 September 2019

The Hon Josh Frydenberg, MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer,

In accordance with sections 43 and 46 of the *Public Governance, Performance and Accountability Act 2013*, I am pleased to submit the Australian Prudential Regulation Authority Annual Report and Financial Statements for the year ended 30 June 2019.

Yours sincerely,

Contents

Glossary

ADI	Authorised deposit-taking institution
ANAO	Australian National Audit Office
APRA	Australian Prudential Regulation Authority
APRA Act	*Australian Prudential Regulation Authority Act 1998*
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
BEAR	Banking Executive Accountability Regime
CFR	Council of Financial Regulators
D2A	Direct to APRA
FCS	Financial Claims Scheme
FSI	Financial System Inquiry
MoU	Memorandum of Understanding
PHI	Private health insurers
RBA	Reserve Bank of Australia
RSE	Registrable Superannuation Entity

CH/1

FROM THE CHAIR

Chapter 1 – From the Chair

The Australian community continued to benefit from a sound, stable and resilient financial system during the 2018/19 year. However, as Australia enjoys a long period of sound financial health, this should not be taken for granted. Throughout the year, APRA has taken every opportunity to emphasise that the Australian financial system's stability and safety does not happen by itself, and is only achieved by continued vigilance and through effective prudential supervision and system oversight.

Maintaining a stable financial system characterised by confidence in the strength and resilience of financial institutions is critical to supporting and promoting economic growth and development in Australia.

Australian economic conditions remain relatively benign, although there is a range of vulnerabilities domestically and internationally. These include the impact of very low interest rates, high asset prices, trade tensions, slowing growth rates and high debt levels. These are compounded by the accelerating industry risks posed by, for example, potential cyber-attacks and technological disruptions.

In addition, Australian community trust in the fairness of financial institutions has been eroded due to a number of high profile incidents and public inquiries which have revealed behaviours within institutions that led to very poor customer outcomes.

While APRA's primary role is to maintain and protect the stability and soundness of the financial system, its activities over the past year have necessarily responded to these issues. APRA has been applying more of its resources to issues outside of the traditional realm of financial risks and delving more deeply into so-called non-financial risks such as culture, remuneration and governance. It has also increased its attention on matters such as competition and contestability in the financial system.

As at 30 June 2019, APRA supervised a wide range of institutions across banking, insurance and superannuation, protecting about $6.8 trillion in assets for bank depositors, superannuation members and insurance policyholders.

Corporate Plan

APRA's 2018-2022 Corporate Plan set out an ambitious change agenda, focusing on six strategic priorities to strengthen APRA. These were:

- Broadening risk-based supervision – by enhancing APRA's ability to identify and respond to emerging risks, modernising APRA's supervision framework, and optimising the use of internal and external skills;
- Improving data-enabled decision-making – by articulating a well-understood data strategy, and delivering the required infrastructure through a major investment in data collection and analytical capabilities;
- Building resolution capability – by building a strong prudential framework for managing failure, ensuring internal readiness to respond to a crisis, and promoting industry preparedness for a crisis;

- Strengthening external engagement and collaboration – by expanding communication activity to promote better prudential outcomes as well as demonstrate accountability, and adopting a 'whole of system' mindset to collaborating with peer agencies;
- Enhancing leadership, people and culture – by building strong and inclusive leadership, fostering APRA's desired culture, and improving APRA's employee experience; and
- Lifting organisational capability – by improving APRA's ability to manage organisational change, improving risk and performance management, measurement and reporting, and creating a dynamic, flexible and collaborative operating model.

In Chapter 3 of this Annual Report, our Annual Performance Statement reports on progress against the Corporate Plan.

APRA's updated Corporate Plan for 2019-23 was released at end August. The updated plan builds on these objectives, as well as incorporating more than 150 recommendations from various reviews and inquiries conducted during the year (discussed further below), to ensure APRA is best equipped to continue to fulfil its important role of protecting the financial well-being of the Australian community in a rapidly changing environment.

Prudential supervision framework

Critical to APRA's success is ensuring its prudential supervision and framework are effective, and responsive to the environment in which it, and the financial services sector more broadly, is operating. During 2018/19, the following significant pieces of work were instigated or completed:

Mortgage lending – APRA has overseen a substantial strengthening of mortgage lending standards across the prudentially regulated sector. This allowed APRA to remove the temporary mortgage lending benchmarks on investor and interest-only lending that it had instituted during the preceding years. APRA also amended its guidance on the minimum interest rate floor in Prudential Practice Guide *APG 223 Residential Mortgage Lending (APG 223)* that it expected prudent lenders should use in borrower serviceability assessments, in response to the very low interest rate environment that is likely to prevail for the foreseeable future.

Information security – APRA developed and finalised an important new prudential standard focused on information security management, *CPS 234 Information Security,* and updated guidance on cloud computing services in Prudential Practice Guide *CPG 234 Information Security*. APRA continues to prioritise work in this area, as the digitisation of financial services continues apace and the need for heightened information security and cyber resilience grows exponentially.

Remuneration – After a thorough development process in early 2019, APRA issued a draft prudential standard *CPS 511 Remuneration* (July 2019) aimed at clarifying and strengthening remuneration and accountability requirements in APRA-regulated entities, responding – amongst other things – to the recommendations of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. The package of measures is materially more prescriptive than APRA's existing remuneration requirements and is intended to position Australia in line with better international remuneration practice.

Among the key reforms, APRA is proposing a requirement that financial performance measures must not comprise more than 50 per cent of performance criteria for variable remuneration, to elevate the importance of managing non-financial risks (including misconduct).

APRA is also proposing minimal deferral periods for variable remuneration of up to seven years for senior executives in larger, more complex entities. The proposal includes a requirement for boards to approve remuneration policies for all employees and regularly confirm they are being applied in practice to ensure individual and collective accountability.

The consultation on the remuneration package is due to close in late October 2019.

Member outcomes in superannuation – Building on APRA's efforts over the last few years to manage underperforming funds and products, APRA worked to finalise a new prudential standard imposing stronger requirements on superannuation trustees to demonstrate how they are delivering good outcomes for their members. The stronger requirements and intensified scrutiny of the superannuation sector means the industry continues to consolidate, with many funds electing to merge or otherwise leave the industry in response to heightened standards.

In March 2019, APRA set out its sharpened superannuation agenda in a letter to industry, highlighting its focus on lifting trustee board capability, developing a stronger fiduciary culture and tackling conflicts of interest.

During the year, APRA also announced plans to enhance the consistency and granularity of its superannuation data collection, especially for choice products. APRA also outlined plans to make more data publicly available – and easier to interpret – so members can make informed decisions about who to entrust with their retirement savings.

In April, the Parliament passed the *Treasury Laws Amendment (Improving Accountability and Member Outcomes in Superannuation Measures No 1) Act 2019*. The Act provides APRA with a broad and long sought-after directions power. It also gives APRA the power to take civil penalty action against trustees and their directors for breaching their obligations to members, including the duty to act in members' best interests. These powers are game-changers for APRA and enhance its ability to deliver better outcomes for superannuation members.

APRA welcomed these new powers and has already used them to resolve a number of entity issues.

Unquestionably strong capital for ADIs – APRA's program of work to embed unquestionably strong capital ratios in the ADI sector, as recommended by the 2014 Financial System Inquiry (FSI), continued with the release of additional discussion papers on the proposed new framework. However, it is important to note on this point that APRA has ensured the ADI sector by and large already meets these new requirements in aggregate, with risk-based capital ratios at an all-time high.

Loss absorbing capacity for ADIs – APRA's work on capital strength was supplemented by the completion of another FSI recommendation: that is, to institute requirements that oblige the largest ADIs to have additional loss absorbing capacity to facilitate, should a crisis occur, their orderly resolution and reduce the need for taxpayer support.

APRA released a discussion paper in November 2018 that proposed to increase the Total Capital requirement for the largest banks as the means of delivering this extra loss absorbing capacity. In July 2019, APRA released its response to submissions and modified its initial proposal, following concerns raised during the consultation process about a lack of sufficient market capacity to absorb an extra four to five per cent of risk weighted assets (RWA) in Tier 2 issuance. APRA will now require, as an interim measure, the major banks to hold additional Total Capital equivalent to three percentage points of RWA by 1 January 2024. APRA's long-term target of an additional four to five percentage points of loss absorbing capacity remains unchanged. Over the next few years, APRA will consider the most feasible alternative method of sourcing the remaining one to two percentage points.

Banking Executive Accountability Regime (BEAR) – The new regime for the four major Australian banks came into effect in July 2018. After implementing the regime for the large banks, APRA turned its attention to medium and small ADIs, spending many months engaging with these institutions to help them understand their BEAR obligations and prepare to implement them from the 1 July 2019 start date set by legislation.

In addition to the four major banks, the BEAR now applies to an additional 144 banks, credit unions and building societies. The number of accountable persons registered with APRA and subject to the BEAR's heightened accountability obligations expanded to more than 1,400.

Licensing – APRA's new licensing framework for banking, designed to aid new entrants and facilitate competition, saw the granting of nine new ADI authorisations to five domestic and four foreign bank applicants. As a result, the number of ADIs in Australia increased in 2018/19, the first such increase in more than a decade.

Life insurance claims and disputes – In March 2019, the Australian Securities and Investment Commission (ASIC) and APRA jointly released information and an online tool which allowed policyholders for the first time to compare life insurers' performance in handling claims and disputes, bringing much greater transparency to this issue. This followed the release of APRA's Life Insurance Claims and Disputes Statistics publication, with more than 22,000 data points from 20 insurers including claims and disputes information across all cover types and distribution channels. The data was collected under APRA's new reporting standard *LRS 750 Claims and Disputes*, which came into effect in October 2018.

Private health insurance – APRA launched a review of capital requirements for private health insurers in November 2018, to ensure they remain sufficient to protect policyholders, having completed a program of review of the sector's risk management and governance standards earlier in the year.

Supervision activity

APRA's supervisory approach is risk-based and requires APRA to identify and assess risk and respond to the areas of greatest risk. Risk assessments and supervisory action plans are maintained on a dynamic basis and reviewed at least annually.

In forming these assessments, APRA undertakes a number of routine supervisory activities. In addition to ongoing analysis of data and assessments of documents required to be submitted under its Prudential Standards, APRA undertakes a series of engagement activities designed to take action and inform our assessments.

These activities include regular prudential consultations and meetings aimed at forming a view on an entity's risks, strategy, financial position and performance and more detailed prudential reviews to take action on specific issues and gain a more detailed understanding of key prudential risks. On a periodic basis, supervisors engage with the home regulator of any foreign-owned entities to obtain information that may inform the supervisor's risk assessment of that entity. APRA also assesses applications for specific approvals and applies sanctions under our legislation and prudential standards. These approvals and sanctions uphold minimum standards required of its entities.

The table below shows a range of activities undertaken by APRA supervisors across regulated industries:

Activity	2018/19
Entity Risk Assessments	551
Supervisory Action Plans	447
Prudential Reviews	164
Prudential Consultations and Meetings	308
Approvals / Sanctions	415
Contact Home Regulator	72

Stakeholder survey

In its role as an independent statutory authority that supervises institutions across banking, insurance and superannuation, APRA undertakes biennial stakeholder surveys to help assess its performance and effectiveness. APRA undertook its biennial survey of regulated entities, as well as "Knowledgeable Observers", such as auditors, actuaries, and industry associations in the second half of the 2018/19 financial year and released the results on 31 July. The survey was conducted independently by Orima Research, which received responses from 280 regulated entities and 70 Knowledgeable Observers. This is the sixth such survey undertaken since 2011.

The survey found more than 90 per cent of regulated entities believe APRA's supervision helps to protect both their industry and the Australian community, a finding consistent with previous stakeholder surveys. A similar proportion of entities reported that APRA's supervision has had a positive impact on their risk management practices.

Other key findings included:

- 86 per cent believe APRA's increased focus on risk culture has had a positive impact on their entity;
- 81 per cent believe APRA is effective in identifying risks across their industry;

- 86 per cent believe APRA's supervision enhances the financial and operational strength of their entity; and
- 92 per cent agree that APRA's public communications are clear and effective.

Notwithstanding the overall high and positive results, the survey picked up a slight downward trend in overall perceptions of APRA compared to the 2017 survey. The survey highlighted industry concern about the costs of regulatory compliance, identified that a third of respondents thought APRA collected too much statistical data, and indicated that entities were placing less importance on the harmonisation of the prudential framework across regulated industries.

The full 2019 Stakeholder Survey results are published on APRA's website[1].

New Data Collection Solution

APRA's multi-year data modernisation program is well underway, with the biggest component being the new Data Collection Solution (DCS), scheduled to replace the existing D2A system next year. The new online platform is a key enabler for APRA's strategic priority to improve data-enabled decision-making, and will be a more effective and efficient means for entities to submit regulatory data. It will also enable easier changes to reporting requirements as they evolve in the future.

A vendor, Vizor Software, was engaged for the solution design in April 2019, swiftly followed by the release of the draft implementation plan to industry, also in April 2019. Further updates to the plan will be released throughout this calendar year as the plan evolves.

The new solution will be a modern, efficient web-based solution for entities to submit regulatory data to APRA and represents a step-change for the industry.

Reviews and inquiries

In 2018/19, there were six important reviews and inquiries that examined various aspects of APRA's activities and operations.

Aspects of APRA's operations (as well as those of other domestic regulatory agencies) and the outcomes they achieve for the Australian community were examined by:

- The International Monetary Fund's (IMF) Financial Sector Assessment Program (FSAP);
- The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry;
- The Productivity Commission's reviews on 'Competition in the Australian Financial System' and 'Superannuation: Assessing Efficiency and Competition';
- APRA's own Strategic Enforcement Review; and
- The APRA Capability Review.

[1] "2019 APRA Stakeholder Survey" https://www.apra.gov.au/stakeholder-survey

Collectively, these reviews required considerable APRA resources, provision of tens of thousands of documents, statements and reports, and delivered over 150 recommendations to APRA.

At a high level, the overall conclusions of these reviews were that APRA has delivered well on its core mandate to protect the financial well-being of the Australian community. Furthermore, when taken together, the recommendations from these reviews largely align with the intentions and strategic direction behind the 2018-2022 Corporate Plan.

However, in an increasingly complex operating environment, with changing community expectations about regulators and their role, a consistent theme to emerge was that APRA needed to do a lot more in a number of areas if it wished to successfully fulfil its mandate into the future.

Below are some of the key findings of the various reviews:

Royal Commission

In December 2017, the Hon Kenneth Hayne AC QC was appointed Royal Commissioner into Misconduct in the Banking, Superannuation and Financial Services Industry. In accordance with its terms of reference, the focus of the Royal Commission included:

- identifying conduct of financial services entities that might have amounted to misconduct or conduct falling below community expectations;
- recommending how the system can be strengthened; and
- examining the effectiveness of regulators, including APRA.

During the 2018/19 financial year, two rounds of public hearings focused on APRA-regulated institutions: superannuation in August and insurance in September. APRA provided large volumes of documents in response to the Royal Commission's requests and made written submissions on matters identified in both rounds. For the superannuation round (Round 5), senior executives also provided witness statements and testimony. APRA also made a written submission on the Commission's October interim report.

APRA's submissions to the Royal Commission are available on its website.

In November 2018, Round 7 hearings focused on policy questions for senior executives from regulated institutions and the regulators, including APRA. As Chair, I provided a written witness statement and gave evidence.

The Commissioner submitted his final report to the Governor-General on 1 February 2019. In that report, he identified a series of failings in the manner in which financial institutions treat their customers. The report identified as contributing factors the connection between conduct and reward, the asymmetry of power and information between financial services entities and their customers, the effect of conflicts between duty and interest, and the need to better hold institutions to account when things go wrong. Although noting that primary responsibility for misconduct lies with entities, the Commissioner also identified areas where the regulation and supervision of financial institutions must be strengthened. The Commissioner made 76 recommendations, 10 of which were within APRA's direct control. These focused on APRA expanding its work on governance, culture and remuneration, increasing engagement with ASIC, including greater shared responsibility for superannuation regulation and making some adjustments to its prudential framework. The report also found that APRA should adopt a stronger stance on enforcement and referred 12 specific cases to APRA for review.

After the Commissioner's report was released, APRA published a response, setting out how it would respond to the 10 recommendations requiring APRA's direct attention. Nine of these are expected to be completed by the end of 2020 and of those, four are expected to be completed in 2019. The specific cases referred to APRA are being actively examined for further action.

The Commissioner also recommended that the Government commission a capability review of APRA as soon as reasonably practical. This had been a recommendation of the 2014 Financial System Inquiry that was later endorsed by the Productivity Commission and follows from a capability review of ASIC that was completed in 2015. The Commissioner further recommended that these reviews be conducted every four years.

Productivity Commission

Two inquiries by the Productivity Commission were published during the past financial year: Competition in the Australian Financial System in August 2018, and Superannuation: Assessing Efficiency and Competitiveness in January 2019. APRA made formal submissions on both reports and provided industry data and background briefings.

The Productivity Commission's final report into the efficiency and competitiveness of the superannuation industry made 31 recommendations, following several years of work completed in three stages. The report concluded that inadequate competition, governance and regulation had led to a number of weaknesses within the superannuation sector including prevalent high fees, unintended multiple accounts, underperformance of certain funds and lack of competition in the default fund system.

APRA supported the report's findings and the recommendations, which closely reflected the work APRA had been doing on identifying underperforming funds and improving member outcomes. The Government responded to a number of the report's findings through recent legislative amendments developed through consultation with APRA and other key stakeholders.

The Productivity Commission's final report into competition in the financial system made 34 recommendations focusing on, amongst other things, the residential mortgage market, financial advice and general insurance, the payments system and the financial system regulators. A number of recommendations of the report were consistent with those made by the Royal Commission.

APRA is a member of a number of the working groups established by the Council of Financial Regulators (CFR) that are undertaking work in response to the report. These groups include those related to the recommendations for improved transparency of mortgage interest rates and a review of the regulation of payment providers that hold stored value, or purchased payment facilities. Separately, APRA has released proposals in line with the recommendation for a broader schedule of risk weights for ADIs' small business exposures.

IMF FSAP

During the financial year, the International Monetary Fund completed a Financial Sector Assessment Program (FSAP) report on Australia, which concluded that the Australian financial system has been further strengthened since the IMF's previous assessment in 2012. The 2018 FSAP underscored the strength and resilience of the Australian financial system.

As part of the FSAP review, APRA was subject to a comprehensive assessment of its supervisory approach and capabilities in banking and insurance supervision. The IMF also assessed the adequacy of systemic risk oversight by APRA and other members of CFR, crisis preparedness and financial safety nets.

The IMF concluded that Australia benefits from a robust regulatory framework and that prudential supervision shows generally high conformity to international best practices, but with opportunities to strengthen practices further in some areas.

It found that bank capital requirements have been raised and applied more conservatively than minimum Basel standards, and Australian authorities had taken welcome steps to further strengthen the resilience of banks through stress testing programs.

It also found that bank solvency appeared resilient to stress based on the IMF's own stress testing exercise with the results broadly in line with stress testing undertaken by APRA and that policy action had lowered financial stability risks in the banking system through the introduction of stronger lending standards.

The IMF also noted that APRA has undertaken comprehensive reform of prudential regulation for insurance companies, while improving the consistency of the framework between life and general insurers since the IMF's last assessment in 2012.

APRA welcomed the release of the IMF review in February 2019 and said it remained committed to continued improvement of regulatory frameworks and supervision practices.

APRA also noted that the report cited the need for additional investment in data and analytical tools to strengthen prudential supervision and systemic risk oversight. APRA had recognised this as part of its 2018-2022 Corporate Plan, which included a major data transformation program to ensure APRA keeps pace with advancements in data, analytics and technology.

APRA Capability Review

In February 2019, following the recommendation by the Royal Commission, the Government appointed Graeme Samuel AC, Diane Smith-Gander AO and Grant Spencer to conduct a capability review of APRA, to provide a forward-looking assessment of APRA's ability to respond to an environment of growing complexity and emerging risks for APRA's regulated sectors.

As with the Royal Commission, a dedicated team of APRA employees was established to facilitate the work of the review panel, coordinating responses to document requests and briefings and arranging presentations on APRA's operations. The Panel met with Members and employees, and engaged an external consultant to review an APRA employee survey and conduct a series of focus groups.

The Panel's final report was submitted to the Government on 28 June 2019 and publicly released on 17 July. The report recognised that:

> *"Since APRA's inception in 1998 there have been very few failures of significant financial institutions and no systemic financial crisis in Australia. Such a track record is rare internationally. APRA is highly respected by its global and Australian peers and by the entities that it regulates. This respect is well deserved."*[2]

However, it concluded that, while not jeopardising its strengths, APRA also needed to expand its capabilities in a number of areas. These included strengthening its own leadership capabilities, culture and organisational structure; increasing resourcing and supervisory focus in governance, culture and remuneration; giving greater prominence to member outcomes in superannuation; and better communicating what it does and how it does it. APRA supports all 19 recommendations that were directed at it; a further five were directed to Government.

Enforcement Review

In April 2019, APRA released its new Enforcement Approach, as well as the review report that led to its development.

APRA is not primarily an enforcement agency, but following the review of the past approach, it has committed to using its existing and new enforcement tools more quickly, particularly on uncooperative institutions, and to make this action more transparent where appropriate.

APRA's new 'constructively tough' enforcement approach came into effect immediately on announcement in April. A new Resolution and Enforcement Committee led by an APRA Deputy Chair is ensuring potential enforcement matters are considered in line with the new approach. This is being reinforced through ongoing and regular training for supervisors and is a fundamental building block that will form part of APRA's broader supervisory approach, which is currently being refreshed.

In line with the Report's recommendation, APRA's investigation and litigation specialists were combined into the Legal group under APRA's General Counsel. These teams are being expanded to meet the new demands anticipated as a result of the shift in APRA's enforcement appetite.

Resourcing and funding

The Federal Government's Budget announced in April 2019 included an additional $150 million over four years to substantially upgrade APRA's supervisory capabilities in three main ways:

- enhancing the supervisory framework and approach for governance, culture and remuneration applying to all APRA-regulated entities, including through building internal technical expertise and accessing technical specialists outside of APRA, supporting APRA's response to key areas of concern raised by the Royal Commission;
- extending the Banking Executive Accountability Regime (BEAR) to all APRA-regulated entities including insurers and superannuation licensees, again as recommended by the Royal Commission; and

[2] "Australian Prudential Regulation Authority Capability Review - June 2019", Executive Summary, page xvii.

- boosting APRA's broader supervision capacity across all regulated entities, and ensuring this can be sustained in future years.

This additional funding comes on top of an additional $60 million over four years announced in November 2018. That funding has been directed to:

- improve APRA's data collection, storage and analysis systems to improve supervisory assessment and decision-making;
- increase the number of frontline supervisors for the largest and most complex financial institutions;
- enhance APRA's ability to address new and emerging risk areas by strengthening internal technical expertise and increasing access to specialists outside APRA.

These new funding measures have significantly increased APRA's available resources, with staffing levels set to increase in 2019/20 by around 100 permanent employees and enabling a substantial upgrade in APRA's supervisory capabilities.

APRA's leadership was strengthened in October 2018 with former Treasury Deputy Secretary John Lonsdale taking up a new Deputy Chair position, bringing the number of APRA Members to four. I was also honoured to be reappointed as APRA Chair for a further five year term in November 2018.

Finally, on behalf of all of the APRA Members, I would like to acknowledge all of the talented people who work at APRA, whose commitment has been unflagging throughout a very intense period of activity. The Capability Review emphasised that notwithstanding recent budget increases, APRA is still a lean organisation and it cannot afford to jeopardise existing strengths while developing new capability.

APRA has quite a challenge ahead of it and everyone at APRA is keen to ensure that it is an effective regulator that delivers on its mandate and meets the community's expectations.

The APRA Members and I are grateful for their steadfast dedication and commitment to excellence in prudential supervision and we wish to extend our thanks to each and every one of them.

CH/2

ABOUT APRA

Chapter 2 - About APRA

APRA is an independent statutory authority established for the purpose of prudential supervision of financial institutions and for promoting financial system stability in Australia. APRA also acts as a central statistical agency for the Australian financial sector, plays a role in preserving the integrity of Australia's retirement incomes policy and administers the Financial Claims Scheme (FCS).

Legislative underpinnings

Under the *Australian Prudential Regulation Authority Act 1998* (the APRA Act), APRA's main purposes are to regulate the banking, insurance and superannuation institutions under five 'industry Acts' and to administer the FCS for depositor and insurance policyholders.[3]

The industry Acts provide for licensing and regulatory oversight of:

- authorised deposit-taking institutions (ADIs), including banks, credit unions and building societies;
- general insurers;
- life companies and friendly societies;
- private health insurers; and
- registrable superannuation entity (RSE) licensees.

APRA also has responsibilities under other Acts, including:

- data collection from regulated and non-regulated entities under the *Financial Sector (Collection of Data) Act 2001* (FSCOD Act); and
- transfers of ownership under the *Financial Sector Shareholdings Act 1998*.

The APRA Act requires that, in performing and exercising its functions and powers, APRA must '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.'[4]

Statements of Expectations and Intent

From time to time the Government issues APRA with a Statement of Expectations, setting out its key expectations for APRA in undertaking its role. APRA responds with a Statement of Intent outlining its intended approach to fulfilling its role. These documents are published, with the most recent being finalised in 2018.[5]

[3] The industry Acts are *Banking Act 1959*, *Insurance Act 1973*, *Life Insurance Act 1995*, *Private Health Insurance (Prudential Supervision) Act 2015* and *Superannuation Industry (Supervision) Act 1993*.

[4] Section 8, APRA Act

[5] The 2018 statement of expectations is available at: https://www.apra.gov.au/statement-expectations-2018

The Statement of Expectations provides important context and guidance for APRA, such as that the Government:

- expects APRA to focus on preventative aspects to safeguard Australia's financial system;
- acknowledges that, in performing its role, APRA is required to balance several objectives and that, at times, this may not be straightforward and the appropriate balance will require professional judgement;
- regards competition in the system as a key Government policy priority and expects APRA to facilitate an environment where innovation and competition are encouraged and barriers to entry are minimised;
- expects APRA to publicly communicate how it has balanced its regulatory responsibilities and objectives in acting to promote financial system stability in Australia; and
- recognises that prudential regulation cannot and should not seek to guarantee a zero failure rate of prudentially regulated institutions or provide absolute protection for market participants.

APRA's Statement of Intent acknowledges these points and notes:

- APRA cannot eliminate the risk that any institution might fail and it recognises that attempting to do so would impose an unnecessary burden on institutions and the financial system. APRA's aim is to identify likely failure of an APRA-regulated institution early enough so that corrective action can be promptly initiated or orderly exit achieved;
- APRA's approach is based on the fundamental premise that the primary responsibility for financial soundness and prudent risk management within an APRA-regulated institution rests with its board of directors and senior management;
- APRA adopts a risk-based approach to prudential supervision that is designed to identify and assess those areas of greatest risk to an APRA-regulated institution (or to the financial system as a whole) and then direct attention and resources to those risks; and
- in undertaking its role and in setting its strategic priorities, APRA will take into consideration emerging trends and risks and the Government's policy priorities for the financial system, where this does not conflict with APRA's core objectives.

APRA's vision and values

APRA's mandate, put simply, is to protect the Australian community by establishing and enforcing prudential standards and practices designed to ensure that, under all reasonable circumstances, financial promises made by the institutions it supervises are met within a stable, efficient and competitive financial system.

In seeking to deliver on this mandate, APRA's vision is to deliver a sound and resilient financial system, founded on excellence in prudential supervision.

APRA's organisational values are a critical foundation on which APRA's success is built. APRA established a statement of its values early in its life and refreshed these in 2017 following a broad collaborative employee effort.

APRA, and its employees, seek to demonstrate the APRA values in their work and in their interactions with each other. These values are:

- integrity – we act without bias, are balanced in the use of our powers, and deliver on our commitments;
- respect – we are always respectful of others, and their opinions and ideas;
- collaboration – we actively seek out and encourage diverse points of view, to produce well-founded decisions;
- excellence – we maintain high standards of quality and professionalism in all that we do; and
- accountability – we are open to challenge and scrutiny, and take responsibility for our actions.

APRA's core functions

To meet its mandate, APRA's three core functions are:

- supervision – APRA seeks to identify and respond promptly to issues and risks at an individual entity, industry and financial system level, including enforcement activity as necessary;
- policy – APRA seeks to establish and maintain a robust prudential regulatory framework; and
- resolution – APRA seeks to plan for and implement prompt and effective responses to an entity failure or financial crisis.

Performing these functions requires APRA to have three core capabilities:

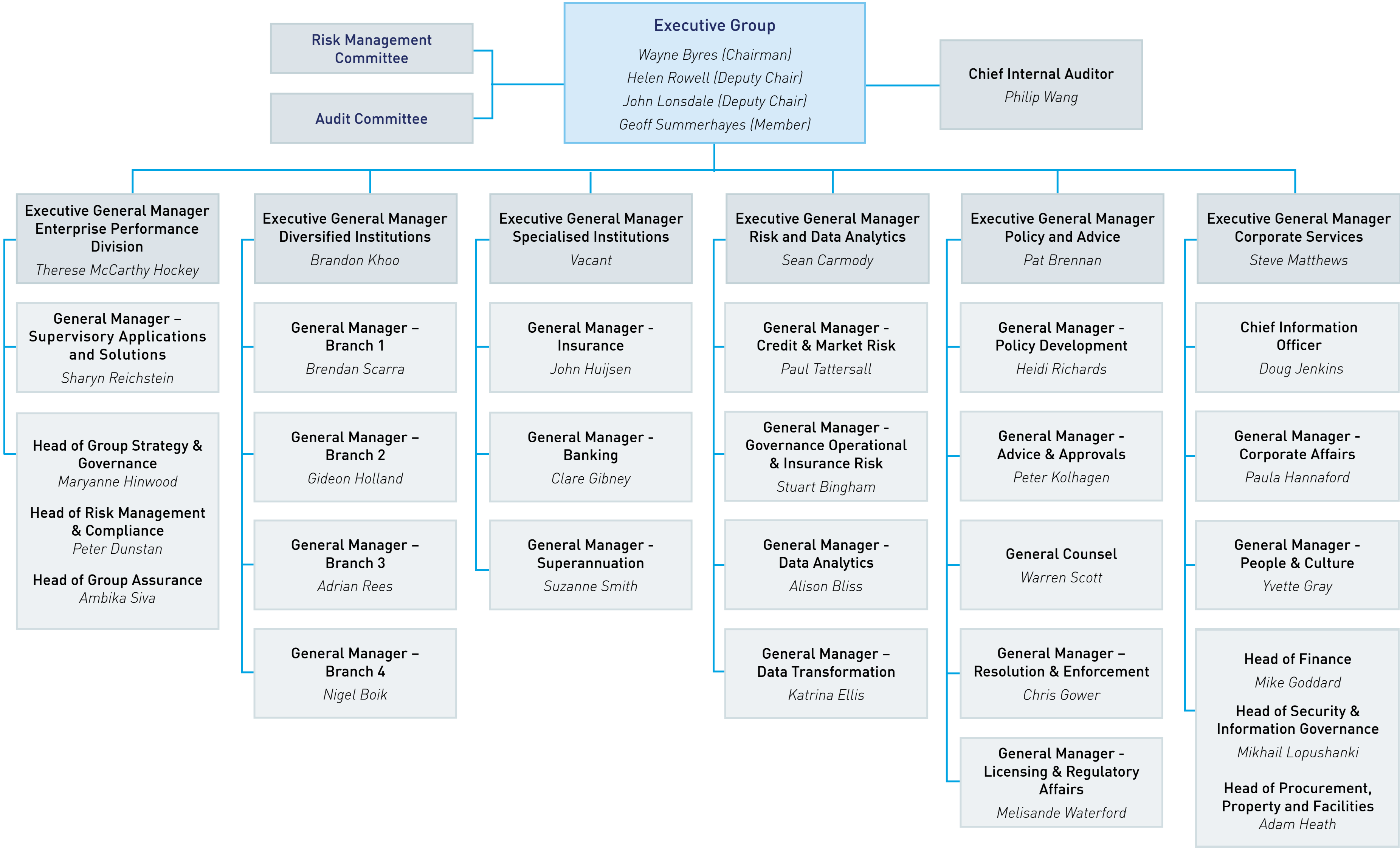
- people and culture – APRA seeks to maintain its highly skilled and engaged workforce, supported by strong leaders, within a values-aligned corporate culture;
- risk intelligence and frameworks – APRA seeks to maintain strong analytical capabilities, using available data and specialist expertise within structured frameworks, to support well-founded, risk-based decisions; and
- organisational effectiveness and infrastructure – APRA seeks to maintain robust and efficient business support, transparent and accountable practices, and secure and reliable premises and systems.

These functions and capabilities, and the strategic initiatives designed to improve them, are discussed further in APRA's Annual Performance Statement (Chapter 3).

APRA's organisation structure

Under the APRA Act, the APRA Members are collectively responsible and accountable for APRA's operation and performance. APRA Members are appointed by the Governor-General, on the advice of the Australian Government, for terms of up to five years.

Organisation chart (as at 30 June 2019)



Domestic and international liaison and cooperation

Domestic liaison and cooperation

APRA has strong working relationships with Australia's key financial regulatory agencies – the RBA and ASIC. APRA also maintains a close and cooperative working relationship with the Commonwealth Treasury. The four agencies cooperate on a multilateral basis through their shared membership of the Council of Financial Regulators (CFR). Beyond the members of the CFR, APRA also has active engagement with a range of other domestic bodies. These engagements are typically guided by a Memorandum of Understanding (MoU) which, although not legally binding, signifies a commitment to cooperate and share relevant information, and establishes the practical arrangements by which this will occur. Many of these MoUs are available on APRA's website.

Table of domestic MOUs

- Australian Bureau of Statistics
- Australian Capital Territory Compulsory Third-Party Insurance Regulator
- Australian Competition and Consumer Commission
- Australian Crime Commission
- Australian Federal Police
- Australian Securities and Investments Commission
- Australian Taxation Office
- Australian Transaction Reports and Analysis Centre
- Commonwealth Treasury
- Council of Financial Regulators
- Department of Health
- Motor Accidents Authority of NSW
- Motor Accident Insurance Commission of Queensland
- Office of Fair Trading
- Reserve Bank of Australia
- South Australia Compulsory Third-Party Insurance Regulator
- WorkCover Tasmania

Stakeholder engagement

APRA engages with a variety of stakeholders including regulated institutions, industry bodies, government departments, other regulatory agencies, media and the general public. APRA uses a diverse range of channels to communicate various policy, statistical and other announcements with stakeholder groups, as shown in the table below.

	2017/18	2018/19
Policy consultations conducted	15	31
Information letters issued to industry	30	14
Presentations at formal speaking engagements	93	80
Media releases issued	70	93
Parliamentary hearings attended	12	14
Submission to formal inquiries	6	11

Table of domestic organisations APRA met with during 2018/19

Public Sector

- Australian Accounting Standards Board
- Australian Auditing and Assurance Standards Board of Australia
- Australian Bureau of Statistics
- Australian Capital Territory Compulsory Third Party Insurance Regulator
- Australian Competition and Consumer Commission
- Australian National Audit Office
- Australian Reinsurance Pool Corporation
- Australian Securities and Investments Commission
- Australian Taxation Office
- Australian Transaction Reports and Analysis Centre
- Commonwealth Treasury
- Council of Financial Regulators
- Department of Foreign Affairs and Trade
- Department of Health
- Motor Accident Insurance Commission of Queensland
- Productivity Commission
- Reserve Bank of Australia
- South Australia Compulsory Third Party Insurance Regulator
- State Insurance Regulatory Authority (NSW)

Private Sector

- Actuaries Institute
- Association of Superannuation Funds
- Australian Banking Association
- Australian Financial Markets Association
- Australian Institute of Superannuation Trustees

- Australian and New Zealand Institute of Insurance and Finance - Reinsurance Discussion Group
- Banking and Finance Sector Group
- Corporate Superannuation Association
- Criminal Justice Law Enforcement Forum
- Customer Owned Banking Association
- Financial Services Council
- FinTech Australia
- Friendly Societies of Australia
- Industry Super Australia
- Insurance Council of Australia
- InsureTech Australia
- Members Health Fund Alliance
- Private Healthcare Australia
- RegTech Association

International activities

APRA's primary international activities take two main forms:

- liaison with overseas home and host supervisory agencies on the activities of internationally active firms, including through participation in supervisory colleges; and
- participation in global standard-setting bodies to ensure relevant characteristics of the Australian financial system are taken into account in how international standards evolve.

APRA has formal bilateral information sharing arrangements with 32 overseas regulatory agencies through MoUs and letters of exchange. APRA is one of 70 signatories to the International Association of Insurance Supervisors (IAIS) multilateral MoU. APRA also participates in institution-specific multilateral arrangements to support the sharing of confidential information in supervisory colleges involving internationally active financial institutions, including those headquartered in Australia.

APRA's engagement with international agencies and standard-setting bodies is summarised in the lists below.

International organisations that APRA was a member of or participated in during 2018/19:

- Asian Forum of Insurance Regulators
- Basel Committee on Banking Supervision
- Executives' Meeting of East Asia-Pacific Central Banks (Working Group on Banking Supervision)
- Financial Stability Board
- International Association of Deposit Insurers
- International Association of Insurance Supervisors
- International Credit Union Regulators Network
- International Forum of Insurance Guarantee Schemes
- International Organisation of Pension Supervisors
- OECD Working Party on Private Pensions
- Sustainable Insurance Forum
- Trans-Tasman Council on Banking Supervision

International organisations APRA liaised with or assisted during 2018/19:

- Asian Development Bank
- Asia-Pacific Economic Cooperation – Financial Regulators Training Initiative
- Association of Financial Supervisors of Pacific Countries
- Financial Stability Institute
- International Monetary Fund (IMF)
- Network for Greening the Financial System
- South-East Asian Central Banks (SEACEN)
- South Pacific Central Bank Governors
- World Bank
- Central Banks of South-East Asia, New Zealand and Australia (SEANZA)

In addition to these activities, APRA receives visits from international delegations for a range of core business and other purposes. Over 2018/19, APRA received visits from 38 international delegations from 18 countries, most commonly from South Korea and China. Interest was focused on APRA's risk-based supervision model, policy developments and licensing processes.

Technical assistance

In addition to international engagements for core business purposes, APRA undertakes targeted technical assistance activities, primarily in the Asia-Pacific region. These activities support whole of Government initiatives that seek to improve governance in the region, and provide valuable interactions with the partner countries involved, including in respect of Australian institutions operating in those jurisdictions. Most of these activities are funded under programs agreed with agencies responsible for administering international aid, particularly the Department of Foreign Affairs and Trade (DFAT) and, to a lesser extent, the IMF and the World Bank.

With limited employee resources available for these activities, APRA favours multilateral initiatives and can only accommodate a small number of the requests it receives. As well as strengthening the prudential frameworks and activities of the partner agencies involved, these activities offer APRA valuable employee development and retention benefits.

APRA engages with the Indonesian agencies – Otoritas Jasa Keuangan (OJK) and Bank Indonesia (BI) – under the DFAT funded PROSPERA program. PROSPERA is a three year funding facility that commenced 1 July 2018 to assist with government-to-government technical assistance. During 2018/19 many activities were postponed due to core business priorities and other commitments at APRA, OJK and BI. APRA provided a speaker at the joint BI-SEACEN Workshop on Liquidity and Risk Management.

APRA's DFAT funded program Government Partnership for Development finished on 30 June 2018. Under this program, APRA undertook up to five on-site training activities annually with 13 regulatory agencies across 11 jurisdictions in the Pacific region.

APRA also plays its part in supporting the training activities of the Financial Stability Institute and various regional groups in the Asia-Pacific region, such as the Asian Development Bank, SEACEN and SEANZA. Over the year, APRA provided speakers to three regional conferences in Thailand, Philippines and Korea. APRA experts participated in the IMF's technical assistance missions in Vanuatu, the Seychelles and Singapore.

APRA-regulated institutions

	Number of entities[1]			Assets ($ billion)[2]		
	30 Jun 18	30 Jun 19	% change	30 Jun 18	30 Jun 19	% change
ADIs[3]	145	148	2.1	4,322	4,540	5.0
Banks	87	93	6.9	4,268	4,483	5.0
Building societies	3	2	-33.3	12	12	-5.0
Credit unions	47	45	-4.3	37	40	8.3
Other ADIs	7	7	0.0	5	5	11.1
Restricted ADIs	1	1	0.0			
Representative offices of foreign banks	12	15	25.0			
General insurers	95	96	1.1	121	128	5.8
Life insurers	29	29	0.0	233	201	-13.8
Friendly societies	12	12	0.0	8	8	4.0
Licensed trustees	130	114	-12.3			
Superannuation entities[4]	2,000	2,012	0.6	1,774	1,916	8.0
Public offer funds	129	128	-0.8	1,437	1,565	9.0
Non-public offer funds	54	52	-3.7	331	344	3.7
Small APRA funds	1,768	1,784	0.9	2	2	4.8
Approved deposit funds	12	12	0.0	0	0	
Eligible rollover funds	8	8	0.0	4	5	12.5
Pooled superannuation trusts[5]	29	28	-3.4	158	148	-6.1
Private health insurers	37	37	0.0	14	15	6.3
Non-operating holding companies	27	29	7.4			
TOTAL	**2,475**	**2,477**	**0.1**	**6,472**	**6,808**	**5.2**

Notes:

[1] Number of entities for end-June 2018 has been revised where better source data has become available.

[2] Asset figures for end-June 2019 are based on the most recently submitted returns. Asset figures for end-June 2018 have been revised slightly from APRA's 2018 Annual Report in line with audited returns received during the year.

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

[4] This data excludes superannuation entities that APRA does not regulate, that is, exempt public sector superannuation schemes and Australian Tax Office regulated self-managed superannuation funds.

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

CH/3

STATEMENT OF PERFORMANCE

Chapter 3 – Statement of Performance

I, Wayne Byres, as the accountable authority of the Australian Prudential Regulation Authority (APRA), present the annual performance statement of APRA for the 2018/19 reporting period, as required under paragraph 39(1)(a) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). In my opinion, this annual performance statement accurately presents the performance of APRA and complies with subsections 39(2) of the PGPA Act.

Purpose

APRA is an independent statutory authority established for the purpose of prudential supervision of financial institutions and for promoting financial stability in Australia.

APRA's role is to regulate relevant financial institutions through a robust prudential framework of legislation, prudential standards and guidance, which aims to ensure that risk-taking is conducted within reasonable bounds and that risks are clearly identified and well-managed.

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 doing so to promote financial system stability in Australia *[Outcome 1: Portfolio Budget Statement 2018/19].*

This performance statement reports on the results of APRA's performance against its purpose and objectives as set out in its 2018-2022 Corporate Plan.

Results

APRA takes a risk-based approach to identifying and assessing areas of greatest risk to regulated institutions meeting their obligations to beneficiaries, and to financial stability in Australia, and directs its resources to address those risks.

APRA endorses the view expressed in the Government's Statement of Expectations[6] that *'…prudential regulation cannot and should not seek to guarantee a zero failure rate of prudentially regulated institutions or provide absolute protection for market participants. A regulatory approach with such intensity would remove the natural spectrum of risk that is fundamental to well-functioning markets, and ultimately reduce the efficiency and growth of the Australian economy'.* As such, APRA seeks to maintain a low incidence of failure of APRA-regulated institutions while not unnecessarily hindering efficiency, competition or otherwise impeding the competitive neutrality or contestability of the financial system[7]. APRA aims to identify likely failures early enough so that corrective action can be promptly initiated or orderly exit achieved.

[6] Statement of Expectations (September 2018)

[7] Statement of Intent (September 2018)

Protecting the interests of beneficiaries and promoting financial stability

Given APRA's role is to protect the interests of depositors, policyholders and superannuation fund members (which APRA refers to collectively as its 'beneficiaries'), there are two important indicators used to measure APRA's performance – the Performing Entity Ratio (PER) and the Money Protection Ratio (MPR). These metrics have been calculated since APRA's establishment in 1998. The results presented below for the PER and MPR indicate that APRA has continued to perform well against its objectives.

Performance Indicator	Description	2018/19 result (%)	10 Year average (%)	20 Year average (%)
Performing Entity Ratio (PER)	The PER is an indicator of the incidence of failure amongst regulated institutions. It is determined as the number of regulated institutions that met their commitments to beneficiaries in a given year divided by the total number of regulated institutions. The higher the percentage, the lower the incidence of failure.	100.00	99.94	99.94
Money Protection Ratio (MPR)	The MPR is an indicator of the incidence of loss in the financial sector. It is determined as the dollar value of liabilities to beneficiaries held in Australia in regulated institutions less any prudential losses to beneficiaries in a given year, divided by the total dollar value of liabilities to beneficiaries in Australia in regulated institutions. Again, the higher the percentage, the lower the incidence of loss.	100.00	100.00	99.97

Table 1 – 10 year and 20 year PER and MPR averages by industry

	ADI		GI		LI		Super		PHI*
Average (%)	10 year	20 year	10 year	20 year	10 year	20 year	10 year	20 year	4 year
PER	100.00	100.00	99.92	99.76	100.00	100.00	99.92	99.93	100.00
MPR	100.00	100.00	100.00	99.34	100.00	100.00	100.00	99.99	100.00

* APRA became the prudential regulator for private health insurers from 1 July 2015. Therefore only 4-year PER and MPR averages are reported for that industry.

Table 2 – 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 %
2000	3	308	4,407	993,369	99.93	99.97
2001	8	5,341[4]	4,350	947,923	99.82	99.44
2002	6	140	3,803	1,006,845	99.84	99.99
2003	5	19	3,252	1,066,480	99.85	100.00
2004	1	0[5]	2,744	1,207,241	99.96	100.00
2005	0	0	2,099	1,347,813	100.00	100.00
2006	0	0	1,596	1,546,338	100.00	100.00
2007	1	0	1,244	1,832,609	99.92	100.00
2008	0	0	1,129	1,923,369	100.00	100.00
2009	0	0	1,028	2,048,163	100.00	100.00
2010	1	1	965	2,231,887	99.90	100.00
2011	4	72	832	2,462,275	99.52	100.00
2012	0	0	780	2,650,832	100.00	100.00
2013	0	0	724	2,973,705	100.00	100.00
2014	0	0	706	3,319,391	100.00	100.00
2015	0	0	681	3,628,841	100.00	100.00
2016	0	0	660	3,870,659	100.00	100.00
2017	0	0	602	4,100,235	100.00	100.00
2018	0	0	573	4,451,132	100.00	100.00
2019	0	0	555	4,685,336	100.00	100.00

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

2 The number of institutions excludes small APRA funds, representative offices of foreign banks and non operating holding companies. From 1 July 2015, APRA became the prudential regulator for private health insurers. This has been reflected in Table 1.

3 Protected Accounts is an estimate of the funds protected by APRA as defined by relevant legislation and is less than the total assets held by APRA-regulated institutions, which were $4,685 billion at end-June 2019. From 1 July 2015, APRA became the prudential regulator for private health insurers. This has been reflected in Table 1.

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.

Table 2 on the previous page provides a further breakdown of the number of failures, the dollar value of losses, the dollar value of Protected Accounts and the annual PER and MPR by financial year. While the incidence of loss has declined since APRA's formation, the value of Protected Accounts has considerably increased reflecting strong growth in the size of the Australian financial system.

Administration of the Financial Claims Scheme

As specified in Section 8 of the *Australian Prudential Regulation Authority Act 1998,* APRA has responsibility for administering the Financial Claims Scheme (FCS). The FCS is an Australian Government scheme designed to protect Australian depositors and general insurance policyholders in a situation in which an authorised deposit-taking institution (ADI) or general insurer fails[8]. Under the *Banking Act 1959* (Banking Act) or the *Insurance Act 1973* (Insurance Act), the relevant Minister may make a declaration which activates the FCS, if certain conditions are met. Administration of the FCS, once activated, is one of APRA's primary responsibilities.

APRA primarily measures the efficiency with which it performs its function in relation to the FCS for ADIs by measuring the percentage of FCS payments paid to account holders within seven calendar days of an FCS declaration. Although the circumstance of each declaration will vary the timeliness of payment, this measure is consistent with APRA's endeavours to pay most account holders, or enable them to access, their FCS payment within seven days[9].

Given the long tail nature of insurance claims, which do not easily lend themselves to measures of efficiency, APRA reports on the number of outstanding claims in the event of an FCS declaration.

In the 2018/19 financial year, no declarations of the FCS for banking or general insurance were made. The only time the FCS has been activated to date has been the failed general insurer Australian Family Assurance Limited in 2009[10]. Due to extenuating circumstances, one claim remains outstanding in relation to this institution.

Operational efficiency

As well as striving to maintain a low incidence of failure and efficiency in administering the FCS, APRA seeks to operate efficiently. APRA's total operating expenditure for the 12 months to 30 June 2019 was $158.4 million, against the original budget of $145.6 million (prior to additional funding received during the year.)

Relative to the size of the industries that APRA supervises, the cost per $1,000 of assets supervised was 2.3 cents in 2018/19. This compared with approximately 3.0 cents per $1,000

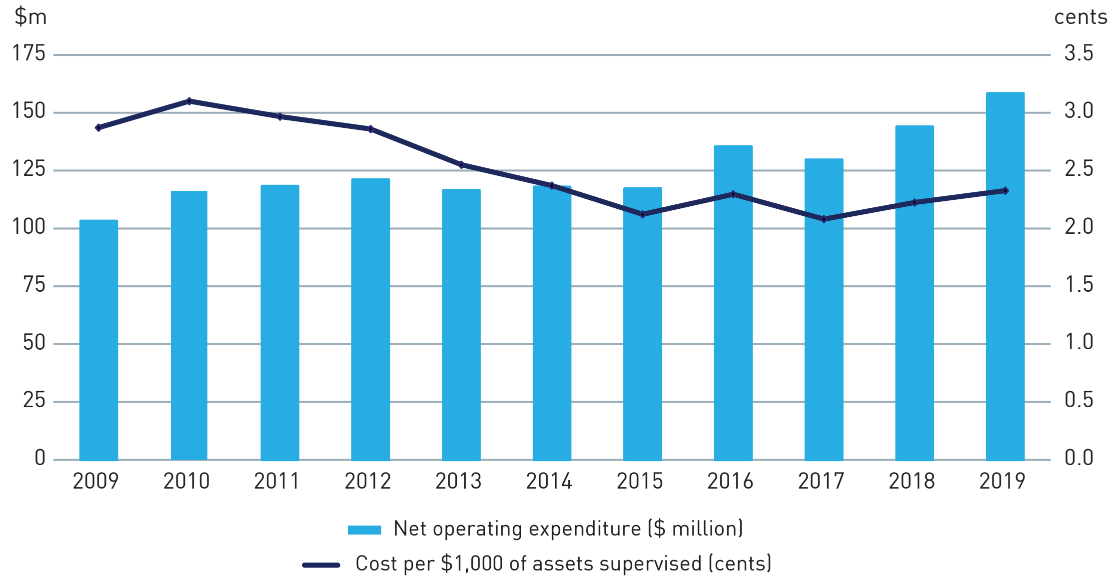
[8] The FCS does not apply to life insurance companies or to private health insurers. Separate arrangements for compensating members are in place for instances of fraud or theft in superannuation.

[9] https://www.fcs.gov.au/about-apra

[10] On 15 October 2009, the Minister made a declaration under section 62ZZC of the *Insurance Act 1973* that Division 3 of Part VC of that Act applied in relation to Australian Family Assurance Limited.

of assets supervised at the start of the decade. The increase from 2015 to 2016 shown in Figure 1 below reflects the inclusion of private health insurers (PHIs) from 1 July 2015.

Figure 1: Costs per $1,000 of assets supervised by APRA



During 2018/19 APRA's funding was significantly increased through two funding measures announced in the Mid-Year Economic and Fiscal Outlook and Federal Budget processes. These increased APRA's funding over the forward estimates by approximately $210 million. The measures related to, amongst other things, responding to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry and APRA's new and expanded functions including roll out of the Bank Executive Accountability Regime (BEAR) across all regulated industries. These new funding measures have significantly increased APRA's available resources, with staffing levels set to increase in 2019/20 by around 100 permanent staff, enabling a substantial upgrade in APRA's supervisory capabilities.

This uplift is expected to result in an increase in the cost per $1,000 of assets supervised in 2019/20, reflecting an expansion in APRA's capabilities rather than a decline in APRA's operational efficiency.

Analysis of performance against purpose

The strength of the annual PER and MPR and no declarations of the FCS during 2018/19 reflect an Australian financial system that is broadly in good health. This is primarily due to the strength of the domestic economy[11], but is also reflective of APRA's proactive supervision and the continuous evolution of the prudential framework across all regulated industries in a number of important areas in response to idiosyncratic risks, broader financial stability vulnerabilities and the global regulatory agenda.

[11] Reinforced by the International Monetary Fund's (IMF's) report issued in 2019 on the outcomes of its Financial Sector Assessment Program (FSAP) concluding that the Australian financial system has been further strengthened since their previous assessment in 2012 underscoring the strength and resilience of the Australian financial system.

It is with the rapid evolution of the operating environment very much in mind that APRA released its 2018-2022 Corporate Plan in August 2018. The Plan set out APRA's strategic priorities, designed to improve APRA's ability to perform its core functions and fulfil its purpose by strengthening its core capabilities.

To recap, the core functions that allow APRA to deliver on its purpose are:

- Supervision – directed to protecting beneficiary interests and promoting financial stability by identifying and responding to significant risks in regulated institutions in a timely and effective manner;
- Policy – directed at protecting beneficiary interests by setting minimum standards for institutions and empowering supervisors to achieve supervisory outcomes; and
- Resolution – directed at protecting beneficiary interests by planning for and implementing prompt and effective responses to a failure or crisis in the financial system.

To fulfil these core functions, APRA utilises three core capabilities:

- People and culture – APRA seeks to maintain a highly skilled and engaged workforce, supported by strong leaders, within a values-aligned culture;
- Risk intelligence and frameworks – APRA seeks to maintain strong analytical capabilities, using available data and specialist expertise within structured frameworks, to support well-founded, risk-based decisions; and
- Organisational effectiveness and infrastructure – APRA seeks to maintain robust and efficient business support, transparent and accountable practices, and secure and reliable premises and systems.

The 2018-2022 Corporate Plan set out six strategic priorities to strengthen APRA. These were:

- *Broadening risk-based supervision* – by enhancing APRA's ability to identify and respond to emerging risks, modernising APRA's supervision framework, and optimising the use of internal and external skills;
- *Improving data-enabled decision-making* – by articulating a well-understood data strategy, and delivering the required infrastructure through a major investment in data collection and analytical capabilities;
- *Building resolution capability* – by building a strong prudential framework for managing failure, ensuring internal readiness to respond to a crisis, and promoting industry preparedness for a crisis;
- *Strengthening external engagement and collaboration* – by expanding communication activity to promote better prudential outcomes as well as demonstrate accountability, and adopting a 'whole of system' mindset to collaborating with peer agencies;
- *Enhancing leadership, people and culture* – by building strong and inclusive leadership, fostering APRA's desired culture, and improving APRA's employee experience; and
- *Lifting organisational capability* – by improving APRA's ability to manage organisational change, improving risk and performance management, measurement and reporting, and creating a dynamic, flexible and collaborative operating model.

The 2018-2022 Corporate Plan set out an ambitious change agenda for APRA. The need for these changes was reinforced by a range of reviews conducted during the 2018/19 financial year. Aspects of APRA's operations (as well as those of other domestic regulatory agencies) were examined by the International Monetary Fund's (IMF) Financial Sector Assessment Program (FSAP), the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, and the Productivity Commission's reviews on 'Competition in the Australian Financial System' and 'Superannuation: Assessing Efficiency and Competition'. APRA was also subject to a Capability Review by an external panel of independent experts; the report from this review was released in July 2019[12].

In 2018/19, APRA also undertook a comprehensive review of its enforcement approach, assisted by an independent advisory panel of experts in the administration of law and regulatory enforcement. The review was a forward-looking examination of APRA's historical enforcement strategy and how it interacts with APRA's supervisory approach. As a result of this review, APRA published a new enforcement approach[13] in 2019 and has begun to implement recommendations designed to better leverage its enforcement powers to achieve sound prudential outcomes. This new approach will be embedded in the review of APRA's supervision model that is currently underway.

In summary, the outcome of these reviews is the recognition that APRA has been successful in delivering on its core mandate being the financial safety of the institutions it regulates and a sound and resilient financial system. However, the reviews acknowledge that APRA's operating environment is rapidly evolving and becoming increasingly complex, and APRA needs to expand its focus and capabilities to enable it to remain fit for purpose and meet its mandate into the future.

The reviews identified opportunities to strengthen regulation and supervision practices and collectively provided 157 recommendations and suggestions for APRA to consider. APRA supports all recommendations from the Royal Commission and Capability Review directed at APRA together with APRA's own review of its enforcement approach. These recommendations, in addition to those directed at APRA by the IMF as part of the FSAP (and supported) and the Productivity Commission findings, have been factored into APRA's 2019-2023 Corporate Plan with elevated importance given to maintaining financial system resilience; improving outcomes for superannuation members; improving cyber resilience across the financial system; and transforming governance, culture, remuneration and accountability across all APRA-regulated institutions, in addition to uplifting APRA's internal capabilities.

The following analysis provides a summary of performance against APRA's core functions, capabilities and strategic priorities outlined in APRA's 2018-2022 Corporate Plan.

[12] The Royal Commission recommended an independent panel of external experts complete a review to assess APRA's capability to deliver upon its statutory mandate, its ability to respond to an environment growing in complexity and the emerging risks for APRA's regulated sectors.

[13] https://www.apra.gov.au/media-centre/media-releases/apra-releases-new-enforcement-approach

Core functions – supervision, policy and resolution

Supervision

Supervision of regulated entities is APRA's core business. APRA's supervision function is directed at protecting the Australian community by identifying and responding to significant risks to financial institutions and the financial system in a timely and effective manner.

APRA's approach to supervision is risk-based, taking account of risks and their potential impact, from the perspective of individual entities, the industry and the broader financial system. Day-to-day supervision is the responsibility of teams in APRA's frontline divisions, supported by risk specialists who review entity and industry risk through the lens of specific risk categories: providing in-depth risk assessment; identifying emerging risks; and offering horizontal risk insights across the industry. The specialist teams cover credit risk, credit risk modelling, insurance risk, investment risk, IT risk, liquidity risk, market risk, operational risk, actuarial, accounting, and most recently, governance, culture, remuneration and accountability. Further advice and insight is provided by different teams through statistical and industry analysis, tools and systems, including exception reports, risk dashboards, industry analysis and toolkits. Other support teams include Advice and Approvals, Legal and Resolution and Enforcement.

APRA conducted a broad range of onsite and offsite supervision activities during 2018/19 notwithstanding a reduction in resources diverted to support the reviews conducted during the year.

As noted in APRA's 2018-2022 Corporate Plan, APRA continued its focus on monitoring risks and vulnerabilities in the Australian housing market with adjustments to lending standards, guidance on serviceability assessments and industry benchmarks made where needed. The outcome of this work was assessed and published by APRA in January 2019. Broadly speaking, APRA considers that the prudential measures taken in the residential mortgage lending sector have been effective in meeting the objectives of strengthening resilience at both an ADI and financial-system level for the benefit of consumers.

There was also a significant emphasis in APRA's activities on improving the risk culture and governance practices in APRA-regulated industries. Following the completion of APRA's prudential inquiry into the Commonwealth Bank of Australia (CBA), APRA requested a self-assessment against the findings of the prudential inquiry to be conducted by 36 of the country's largest banks, insurers and superannuation licensees. The overall conclusions from these self-assessments were published by APRA in May 2019[14], noting that significant uplift is required across industries to bring governance and the management of non-financial risks to an appropriate standard. This includes embedding robust frameworks that incentivise delivery of sound outcomes, proactive management of issues and consistent application of rewards and consequences. As a result of the self-assessment process, APRA has imposed additional capital requirements on a number of regulated institutions and this remains under consideration for other institutions. APRA is seeking action from Boards of regulated institutions to address weaknesses identified in the self-assessments as a matter

[14] https://www.apra.gov.au/sites/default/files/information_paper_self-assessment_of_governance_accountability_and_culture.pdf

of priority in an effective and sustainable manner and will take appropriate action, including imposing additional capital requirements, to ensure this occurs.

Building on this work, and with extra resources provided by the Government, APRA is currently developing a strategy focused on transforming governance, culture, remuneration and accountability (GCRA) within APRA-regulated institutions. The strategy is multi-faceted and will strengthen APRA's supervision of regulated institutions' practices in these areas. This work will form a key pillar of APRA's 2019-2023 Corporate Plan and includes, amongst other things: strengthening the prudential framework to lift minimum GCRA standards; sharpening supervisory practices to deliver better GCRA outcomes through refreshing existing practices and adopting innovative techniques where available; and sharing cross industry insights and GCRA best practices to reinforce APRA's expectations to relevant stakeholders.

In parallel, APRA completed the roll out of the Banking Executive Accountability Regime (BEAR) during the year for all ADIs. The BEAR establishes heightened standards of accountability among ADIs and their most senior executives and directors, designed to enhance governance and risk management and engender trust in the ADI industry by the Australian community. In order to provide a clear and consistent understanding of expectations, APRA published an information paper *Implementing the Banking Executive Accountability Regime*[15] in 2018/19 to assist regulated institutions in implementing the BEAR. As at 30 June 2019, all ADIs had lodged all required information. As a result more than 1,400 accountable persons have been registered under the regime.

In respect to the supervision of superannuation, APRA has maintained its focus on addressing underperformance to improve member outcomes and lifting governance and risk management practices across the industry. APRA continues to sharpen its supervisory focus in these areas, including developing an enhanced methodology and benchmarks for assessing superannuation performance and outcomes for members. APRA is expecting to publicly release the results of this analysis in late 2019, with the initial scope of work targeted at MySuper products. The scope will extend to choice products in 2020 as APRA extends its superannuation data collection and use of other available data. This work by APRA is being supplemented by enhanced requirements in legislation and prudential standards (see below) for RSE licensees to strengthen their focus on enhancing outcomes for members. Improving outcomes for members of APRA-regulated superannuation institutions is a key pillar in APRA's 2019-2023 Corporate Plan.

Policy

Underpinning effective supervision is the prudential policy framework, directed at protecting the Australian community by setting minimum standards for institutions and empowering supervisors to achieve supervisory outcomes. The prudential policy framework provides the overarching set of requirements and expectations applying to regulated institutions through legislation, prudential standards, reporting standards and guidance. APRA's Prudential Standards are made under the respective industry Acts. The framework also includes

[15] https://www.apra.gov.au/sites/default/files/information_paper_implementing_the_bear.pdf

Reporting Standards made under the *Financial Sector (Collection of Data) Act 2001*. As delegated legislation, prudential and reporting standards are legally enforceable regulation.

Where possible, APRA's prudential framework is 'principles-based', which means that regulatory requirements are not highly prescriptive but instead set out expectations of prudential outcomes that allow regulated entities to take different approaches to achieve those outcomes. APRA's prudential framework and supervision focus on the underlying principles to be met (such as in relation to robust risk management), although there are areas where a high degree of prescription is required (such as minimum capital requirements).

Prudential and reporting standards are developed taking account of changes in industry practice, matters identified through supervision, identified risk areas and international standards. These include standards issued by the Basel Committee on Banking Supervision (BCBS), the International Association of Insurance Supervisors (IAIS), the International Organisation of Pension Supervisors (IOPS), the Financial Stability Board (FSB) and the Organisation for Economic Co-operation and Development (OECD).

APRA continued to deliver prudential framework reforms across all regulated industries through a thorough and consultative policy process consistent with the Office of Best Practice Regulation (OBPR) principles. In setting its policy priorities, in addition to taking into account key international standards, APRA has had regard to the relevant inquiries, external reviews and legislative actions over the course of the last year and maintained its focus on protecting beneficiary interests by setting minimum expectations for institutions. For all changes to the prudential framework in 2018/19, APRA achieved 100 per cent compliance with OBPR requirements.

A key policy priority in 2018/19 was the ongoing review of capital requirements for ADIs to implement revisions to the BCBS capital framework known as Basel III and APRA's targets for 'unquestionably strong' capital ratios. APRA progressed this initiative with the release of a major package of revised prudential standards for public consultation[16]. This project will result in amendments to capital calculations across a range of areas, including a simplified approach for small, less complex ADIs and improved transparency, comparability and flexibility of capital ratios. This multi-year project is expected to be implemented by ADIs in 2022, consistent with international timelines. The project seeks to maintain the financial resilience of the ADI industry to absorb unexpected losses and has been managed in a way as to facilitate an orderly but material build-up in ADIs' capital strength, without causing market disruption.

In the superannuation sector, APRA released a package of new and enhanced prudential requirements to strengthen the focus of registerable superannuation entity (RSE) licensees on the delivery of quality outcomes for their members. A new prudential standard is scheduled to commence from 1 January 2020 and will introduce a number of requirements, including requiring licensees to annually evaluate their performance in delivering sound outcomes to all members and working to improve those outcomes through their strategic and business planning process. Following the passage in April 2019 of the *Treasury Laws*

[16] https://www.apra.gov.au/consultations-revisions-capital-framework-authorised-deposit-taking-institutions

Amendment (Improving Accountability and Member Outcomes in Superannuation Measures No. 1) Act 2019, APRA consulted on and is close to finalising revisions to align the requirements in the prudential standard with the new legislative requirements for RSE licensees to conduct an annual outcomes assessment.

APRA continued to integrate PHIs into its prudential framework by aligning expectations to those for other APRA-regulated industries by retuning minimum expectations to achieve greater consistency and uplift the maturity of industry practice where needed. A major milestone was the release of prudential standards and guidance aimed at improving governance and decision-making in the PHI industry. APRA also commenced a review of the capital framework for PHIs. Following consultation with industry and other stakeholders, APRA released a discussion paper[17] outlining the proposed framework during the year. Improving the financial strength of the PHI industry will be a key focus area for APRA next year.

In late 2018, APRA released *Prudential Standard CPS 234 Information Securit*y, which seeks to strengthen APRA-regulated institutions' resilience against information security incidents (including cyber-attacks), and their ability to respond swiftly and effectively in the event of a breach. The standard requires institutions to maintain an information security capability commensurate with the size and the extent of threats to their information assets, implement controls to protect information assets, and undertake regular testing and assurance of the effectiveness of those controls. The standard is effective from 1 July 2019, and is an important step forward in strengthening information security across the financial sector. APRA sees this as a critical area for improvement across all regulated institutions, reinforced by the Capability Review findings, and as such has elevated its importance as a key pillar in APRA's 2019-2023 Corporate Plan. In this respect, APRA has developed a cyber strategy which involves working with external experts, other regulatory agencies and whole of government centres of excellence (as well as building its own internal capability and resources) to ultimately build consumer confidence in the ability of APRA-regulated institutions to minimise disruption caused by information security events.

In delivering policy reforms, APRA continued to play an active role in relevant domestic and international groups and forums for banking, insurance and superannuation to bring an Australian perspective to efforts to strengthen the global financial system, to remain informed on international developments and to determine how they should be applied in the Australian context.

Resolution

APRA's resolution function is directed at protecting the Australian community from financial loss and disruption by planning for and implementing prompt and effective responses to a crisis in the financial system.

APRA aims for institutions to be appropriately prepared to recover from severe adversity, supported by credible plans for effective resolution at the point of failure (where necessary). This involves working with institutions to ensure they are prepared for the effective implementation of resolution plans and, working with domestic and international

[17] https://www.apra.gov.au/review-private-health-insurance-capital-framework

counterparts, to ensure readiness for cooperation if needed. The operational capability to resolve failures and near-failures in an orderly manner, and the ability to identify any potential threats to the viability of institutions early enough so that corrective action can be promptly initiated or orderly exit achieved, is key. It is also important to have sound operational processes for communications, enforcement activity, maintaining or applying resolution strategies and readiness to administer the FCS, which protects individuals' deposits and ability to claim on their insurance policy in the event of an institution failing.

APRA is continuing a large body of work to develop its resolution capabilities following the passage of major legislative reform in 2018.

Given that APRA does not seek to guarantee a zero failure regime, an important task for APRA as the resolution authority is to plan for and, if required, execute the orderly resolution of any failing institutions it regulates. Building APRA's resolution capability is a strategic focus area for APRA and continues to be one of its multi-year strategic priorities. In addition to this work, APRA maintained its efforts to ensure operational preparedness to administer the FCS. This included the development of procedural guidelines, ongoing case work and crisis exercise planning, and the commencement of the formal semi-annual collection of FCS data and systems information at the end of 2018, when the *Reporting Standard ARS 910 Financial Claims Scheme Data Collection* took effect. Further, APRA also continued to engage with the Council of Financial Regulators (CFR) and Trans-Tasman Council on Banking Supervision on its crisis related work program, which will extend into the 2019/20 financial year.

Core capabilities

People and Culture

APRA fosters a progressive, high-performing and inclusive culture underpinned by APRA's Values (*Integrity, Collaboration, Accountability, Respect* and *Excellence*) through a broad range of opportunities for the reward, recognition and professional and personal development of its employees. APRA strives to support the health and well-being of its employees and embrace the principles of diversity.

APRA's leaders endeavour to inspire employees to achieve business outcomes through clear and consistent communication on its organisational priorities, establishing inclusive workplaces and effectively engaging staff.

APRA continues to build a performance-based culture by establishing and measuring the achievement of performance goals and desired behaviours. A major milestone achieved during the year was to replace several of APRA's standalone systems with a new fully integrated People Management platform designed to reduce system maintenance costs, improve efficiencies and enhance the user experience of APRA employees and their managers.

In 2018/19, APRA also undertook a number of activities directed at enhancing employee engagement. Major work included the delivery of a new Enterprise Agreement together with revision of all supporting people-related policies; development of a new enterprise-wide behavioural capability framework; and a refreshed performance management framework ready for implementation in 2019/20. The new Enterprise Agreement and frameworks create a foundation for delivering improved workplace conditions and more contemporary workplace practices to maintain an engaged workforce that is incentivised and rewarded appropriately.

Risk intelligence and frameworks

APRA seeks to maintain strong analytical capabilities, using available data and specialist expertise within structured frameworks, to support well-founded, risk-based decisions.

APRA's broad range of risk and analytical specialists are integral to delivering its core functions. APRA's risk specialists partnered with APRA's frontline supervision teams throughout the year in the conduct of prudential reviews of institutions. Risk and analytical specialist teams also continued to provide 'horizontal insights' from reviews conducted across regulated sectors to supplement in-depth institutional analysis.

APRA continued to invest in uplifting its stress testing capability through the development of a stress testing strategy which aims to identify vulnerabilities at an institutional and systemic level. This strategy includes, amongst other things, approaches to better integrate stress testing and outcomes into supervision processes as well as working with other domestic regulatory agencies including the Reserve Bank of Australia to coordinate efforts and share information on stress testing outcomes. Additional resources are being recruited and deployed to support this uplift in internal capability, as reinforced by the IMF's review.

APRA's strategic insights teams within the Risk & Data Analytics Division, dedicated significant resources to reviewing the capabilities and current state of the industries APRA regulates, including assessing industry risks and vulnerabilities. These assessments have informed the development of strategic options for APRA to consider in formulating its four year industry strategies and Corporate Plan, as well as laying the foundation for the risk-based allocation of APRA's resources and areas of prudential focus so as to continue to deliver on its mandate.

Organisational effectiveness and infrastructure

APRA's infrastructure is the backbone of its operations. APRA seeks to maintain robust and efficient business support, transparent and accountable practices, and secure and reliable premises and systems. APRA also aims to ensure data and insights are made available to its stakeholders in a timely and efficient manner to enable effective decision-making and in performing its responsibilities as the national statistical agency for the financial sector.

APRA is committed to focus on the efficiency of its operations and ensure that it operates in accordance with relevant legislative and Government requirements. APRA adopts contemporary practices that meet the spirit and intent of relevant Government policies and frameworks and the standards it expects of financial institutions including those for internal audit, risk management, compliance and performance reporting.

In addition to the Royal Commission, FSAP, Productivity Commission reviews, APRA's Capability Review and APRA's review of its enforcement approach highlighted above, APRA also conducted a review of its own governance arrangements to ensure they remain fit for purpose. The review was combined with addressing the Royal Commission recommendation to implement the BEAR regime within APRA (and ASIC). APRA is planning to publicly release its own Accountability Statements by December 2019 to coincide with a review of its organisational and governance committee structures with a view to enhancing governance and accountability arrangements to best position APRA for future success and ultimately deliver on its strategy and mandate.

Strategic priorities

Broadening risk-based supervision

APRA began a significant review of its supervision model during the year. Fundamental to this review is a redesign of APRA's risk assessment methodology to elevate non-financial risk and better cater for industry nuances and emerging risks. A key enabler is the development of a new supervision training unit aimed at bolstering supervisory capabilities from a technical and behavioural perspective. This multi-faceted program will deliver a strengthened, more contemporary supervision model that is fit for purpose and is better able to respond to a changing environment.

During the year, APRA also finalised its quality assurance framework designed to support APRA's organisational effectiveness (initially focusing on the core function of supervision). The framework is due to be formally approved early in 2019/20 for subsequent implementation and will identify opportunities for continuous improvement and provide additional assurance on the quality of supervisory outcomes.

Improving data-enabled decision-making

As noted in APRA's Annual Report 2017/18, the modernisation of APRA's data collection, storage and business intelligence systems infrastructure, delivered through a data transformation program, began in 2018. APRA continued with the implementation of this multi-year program, which is intended to transform how data is collected, stored and delivered to supervisors, industry, and other agencies and to the public. A vendor, Vizor Software, has been contracted and the development of the new data collection system is underway, with delivery scheduled for 2020. APRA is committed to understanding the impacts and needs of stakeholders and is undertaking considerable engagement and consultation with industry and other regulatory agencies as part of delivering the program.

In conjunction with the data transformation program, APRA is developing a comprehensive data strategy to better enable decision-making and support the transformation of data into a strategic asset. In 2018/19, APRA developed a high-level data strategy that outlines how data should be captured, shared, used and managed throughout the organisation. A multi-agency data committee was also established with membership covering the CFR agencies. The purpose of this committee is to avoid duplication and gaps in individual data strategies of each member agency and to promote a more coordinated approach to data collections and use. Member agencies have agreed that the role of the committee should be, in part, to assess potential future data needs as recommended by the IMF and to explore opportunities to streamline activities associated with the collection and use of data across agencies.

Building resolution capability

Building APRA's resolution capability continues to be one of its multi-year priorities. However, during 2018/19 some resolution specialists were redirected to supporting a number of the reviews highlighted previously, in particular APRA's review of its own enforcement approach. As a result of the repointing of resources, the initiatives focused on building APRA's resolution capability have been adversely impacted, with progress slower than planned. Despite this, changes to the prudential framework and activity to improve APRA's readiness to administer the FCS and uplift recovery planning occurred as outlined below.

One component designed to support the orderly resolution of ADIs, in a manner that protects depositors and supports the continuity of critical functions, is ensuring that they have adequate loss-absorbing capacity available. In 2018/19, APRA developed a framework for increasing the loss-absorbing capacity of ADIs and released a discussion paper in November 2018. Submissions closed in February 2019 and in July 2019, APRA released its response to submissions on the proposed changes to the application of the capital adequacy framework[18].

The changes to the capital adequacy framework are designed to increase, particularly for the largest banks, the financial resources available for APRA to safely resolve an ADI, and minimise the need for taxpayer support, in the unlikely event of failure. It also fulfils a recommendation from the 2014 Financial System Inquiry that APRA implement a framework for minimum loss-absorbing and recapitalisation capacity, and seeks to do so in a manner that is appropriate for the distinctive features of the Australian financial system.

Given the important role that the FCS plays in supporting the stability of the Australian financial system, APRA continued to conduct reviews of regulated institutions and other initiatives focused on improving FCS readiness throughout 2018/19. This included the release of a letter[19] to the ADI industry that set out APRA's observations and recommendations on the industry's FCS operational preparedness. The letter asked each ADI to undertake a self-assessment against the themes and observations outlined in the letter and prepare a detailed action plan (incorporating timeframes) to strengthen FCS readiness in accordance with *Prudential Standard APS 910 Financial Claims Scheme* requirements and APRA's expectations.

APRA also continued to work on developing its framework for recovery and resolution planning following the passing of the *Financial Sector Legislation Amendment (Crisis Resolution Powers and Other Measures) Act 2018*. APRA completed a pilot thematic review with a group of large and medium-sized insurers to develop recovery plans, and has undertaken further work with ADIs to enhance recovery plans.

Strengthening external engagement and collaboration

APRA's strategic priority to strengthen its external collaboration progressed this year albeit slower than planned. APRA has initially focused on increasing engagement and coordination with ASIC, developing a new engagement model and a revised MoU, which will be finalised by the end of 2019.

[18] https://www.apra.gov.au/consultation-increasing-loss-absorbing-capacity-authorised-deposit-taking-institutions-support

[19] https://www.apra.gov.au/sites/default/files/letter_apras_observations_and_recommendations_on_the_adi_industrys_financial_claims_scheme_fcs_operational_preparedness.pdf

The revised principles and operating model will be progressively applied (and tailored as needed) to other domestic and international peer regulatory agencies over time, to improve information sharing, coordination and efficiency in responding to risks. External engagement and collaboration remains an area of focus in APRA's 2019-2023 Corporate Plan, the importance of which has been reinforced by the findings of the Royal Commission and APRA's Capability Review.

Enhancing leadership, people and culture

In addition to activities directed at enhancing employee engagement (as noted in the People and Culture section above), APRA also undertook activities to build its leadership capability. During the year, APRA developed eight foundational leadership behaviours and initially focused on embedding three (authenticity, courage and accountability) throughout its leadership cohort. Further work on rolling out the remaining leadership attributes and developing reporting to monitor and measure performance will continue next year. Work on APRA's stream to articulate and embed APRA's desired culture will also continue in 2019/20. APRA sees strengthening its leadership capability and corporate culture as a long-term strategic investment to ultimately drive improved organisation performance. This was reinforced by the findings from APRA's Capability Review, with strategic work to be escalated in priority as part of resetting APRA's 2019-2023 Corporate Plan.

Lifting organisational capability

Following on from its 2018-22 Corporate Plan, APRA commissioned independent experts to undertake a review of its organisational structure to improve APRA's operating model and best position it for future success in a rapidly changing external environment. Various options were presented, guided in part by examining the structures of peer regulators overseas. Formal consideration of the options was put on hold pending the outcomes of APRA's Capability Review. In light of the Review's findings and in consideration of the various options presented, APRA will be refreshing its organisational structure in late 2019 to move towards a more industry aligned structure, along with a small number of other changes designed to improve APRA's ability to deliver on its Corporate Plan.

During the year, APRA developed and rolled out a new strategic planning framework designed to establish and embed a holistic, integrated approach to setting its four-year strategy in conjunction with uplifting its internal strategic capabilities. APRA also undertook a large body of work to rationalise key performance indicators (KPIs) used to measure organisational performance and iteratively develop performance targets. This work resulted in a large reduction in the total number of KPIs, resulting in more focused indicators and targets and streamlined dashboard style reporting to enable better decision making by APRA's executive management and governance committees. APRA also undertook a holistic review of its enterprise risks and implemented a substantial project designed to uplift internal compliance frameworks and underlying systems and processes to provide increased assurance that APRA is meeting its legislative obligations on an ongoing basis.

Accountability

APRA is committed to appropriate transparency in the pursuit of its mandate, and demonstrates this principle in a number of ways, including publications, reporting, speeches and appearance before Parliamentary Committees. An overview of APRA's wide-ranging accountability mechanisms is on its website[20]. These mechanisms will be further enhanced by the establishment of a new financial regulation oversight body as recommended by the Royal Commission.

Progress against APRA's strategy continues to be monitored by APRA's Executive Board, supported by its Audit Committee.

This annual performance statement, together with other information included in the Annual Report, provides a summary to Parliament and the public on APRA's performance and how it continues to focus on achieving its purpose.

[20] https://www.apra.gov.au/accountability-and-reporting

CH/4

MANAGEMENT AND ACCOUNTABILITY

Chapter 4 – Management and accountability

APRA's governance

APRA is governed by an executive group of APRA Members (Executive Board) who are collectively responsible and accountable for APRA's operation and performance. APRA Members are appointed by the Governor-General, on the advice of the Australian Government, for terms of up to five years. Biographies for APRA's four Members are included below.

The Executive Board is supported by six Executive General Managers and six governance committees, including the Audit and Risk Management Committees, which are chaired by one of two independent committee members.

APRA's Members

Mr Wayne Byres, Chair, BEc (Hons), MAppFin, SF Fin, GAICD

Mr Byres was appointed as a Member and Chair of APRA from 1 July 2014 for a five-year term. He was subsequently reappointed for a second five-year term commencing 1 July 2019. Mr Byres' early career was in the Reserve Bank of Australia (RBA), which he joined in 1984. After more than a decade with the RBA, including a secondment to the Bank of England in London, he transferred to APRA on its establishment in 1998. Mr Byres subsequently held a range of senior executive positions in APRA, covering both its policy and supervisory divisions. In late 2011, Mr Byres left APRA to take up the appointment as Secretary General of the Basel Committee on Banking Supervision, the global standard-setting body for banks based at the Bank for International Settlements in Basel, Switzerland. He held this position until his return to Australia in mid-2014. Mr Byres is APRA's representative on the Payments System Board, the Council of Financial Regulators, the Trans-Tasman Council on Banking Supervision, the Basel Committee and its oversight body, the Governors and Heads of Supervision, and Australian representative on the Financial Stability Board's Standing Committee of Supervisory and Regulatory Cooperation.

Mrs Helen Rowell, Deputy Chair, BA FIAA

Mrs Rowell was appointed as Deputy Chair of APRA in November 2015, and reappointed for a further five-year term from 1 July 2018. Mrs Rowell joined APRA in 2002 as General Manager, Industry Technical Services and was appointed APRA Member, with primary responsibility for superannuation, for a five-year term from 1 July 2013. Prior to that, Mrs Rowell held other senior roles including General Manager, Policy Development, General Manager, Diversified Institutions Division and Executive General Manager, Supervisory Support Division. She was the Chair of APRA's (cross-divisional) general insurance industry group from 2006 to 2011. Mrs Rowell has represented APRA at various subcommittees of the International Association of Insurance Supervisors, on the FSB's Supervisory Intensity and Effectiveness Group and was previously co-Chair of the Joint Forum Financial Conglomerates Committee. Prior to joining APRA, Mrs Rowell was a partner at the international consulting firm Towers Perrin; she is also a Fellow and past President of the Institute of Actuaries of Australia. Mrs Rowell is the APRA representative on the OECD Working Party on Private Pensions, and the International Organisation of Pension Supervisors.

Mr John Lonsdale, Deputy Chair

Mr Lonsdale was nominated by the Government as an additional Deputy Chair of APRA on 30 May 2018 and commenced in his role on 8 October 2018. As an Executive Board Member of APRA, Mr Lonsdale's responsibilities include oversight of APRA's work on culture and remuneration (including the implementation of the Banking Executive Accountability Regime), building APRA's crisis resolution capability, strengthening APRA's collaboration with peer regulators and supervision of ADIs. Prior to joining APRA, Mr Lonsdale worked for the Australian Treasury. He was a member of Treasury's Executive Committee and held the position of Deputy Secretary, Markets Group at Treasury. In this role Mr Lonsdale had responsibility for financial system, consumer and foreign investment policy. In 2014 he led the Secretariat to the Financial System Inquiry, based in Sydney. Mr Lonsdale had been with the Treasury since 1986 and worked across key areas in the Department including Budget policy, tax policy, retirement incomes and the financial system. In 2008 and 2009 he worked as the Chief Advisor in the Secretariat supporting Australia's Future Tax System Review, a major review of Australia's tax and transfer systems.

Mr Geoff Summerhayes, Executive Board Member, B. Bus, GMQ (AGSM)

Mr Summerhayes was appointed a Member of APRA from 1 January 2016 for a five-year term. As an Executive Board Member of APRA his responsibilities include the oversight of the General, Life and Private Health Insurance sector. He is a member of the Executive Committee of the International Association of Insurance Supervisors and a member of its Audit and Risk Committee, and Chair of the Sustainable Insurance Forum, which was established under the UN Environment Program. Mr Summerhayes was Chief Executive Officer of Suncorp Life from 2008 to 2015, as well as being a director of Suncorp Portfolio Services Ltd and of Asteron Life NZ. Before joining Suncorp he held a number of senior roles at the National Australia Bank (NAB) in strategy, product and distribution. Prior to that he was CEO of Retail Investment at MLC and also held senior roles at Lend Lease. Mr Summerhayes was a director of the Financial Services Council and was co-chair of their Life Board Committee.

Risk management and audit committees

The Audit Committee and Risk Management Committees are led by independent non-executive members and provide independent assurance and advice to the APRA Chair. Further information on the mandate, membership, activities and attendance of these committees is set out below. The current non-executive independent members are:

Ms Sam Lewis, BA (Hons), CA, ACA, GAICD

Audit Committee – Chair; Risk Management Committee – Independent member

Ms Lewis was appointed Chair of APRA's Audit Committee and an independent member of APRA's Risk Management Committee for a three-year term in 2016.

Ms Lewis is a chartered accountant, and has been lead auditor to a number of Australian-listed entities. She has extensive expertise in accounting, finance, auditing, risk management and corporate governance. After 24 years with Deloitte, where Ms Lewis was an Assurance and Advisory Partner for 14 years, she has more recently taken on roles as a non-executive director of Aurizon Limited (since February 2015), acting as Chair of the Audit, Governance and Risk Management Committee and as a non-executive director of Orora Limited (since March 2014), where she is Chair of the Audit and Compliance Committee and non-executive director of Nine Entertainment Co. Holding Limited (since March 2017), where she is Chair of the Audit and Risk Committee.

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

Risk Management Committee – Chair; Audit Committee – Independent member

Ms Bennett originally joined APRA's previous Risk Management and Audit Committee (RMAC) as an independent member on 1 January 2011. With the restructure of the RMAC into separate risk and audit committees, Ms Bennett was appointed as independent Chair of APRA's Risk Management Committee on 1 January 2015 for a three-year term. She was reappointed for a further two-year term on 1 January 2018. She remains an independent member of the Audit Committee.

Ms Bennett is Chair of the Victorian Legal Services Board and a non-executive director of BWX Limited, Hills Limited and Select Harvests Limited. During her executive career, Fiona held senior executive positions at BHP Limited and Coles Group Limited, and has been Chief Financial Officer in several organisations in the health sector.

Audit Committee

The Audit Committee comprises two independent non-executive members and an APRA Member. It provides independent assurance and advice to the APRA Chair on APRA's financial reporting, management and system of internal control, performance reporting, and system of risk oversight and management. The Committee meets formally five times annually, and more frequently as required. In addition to its members, the Australian National Audit Office (ANAO), APRA's Chief Internal Auditor and Chief Risk Officer are regular attendees at meetings of this committee.

During 2018/19, the Audit Committee reviewed and endorsed APRA's internal and external audit plans and monitored progress against those plans. The Committee provided attestations to the APRA Chair in relation to its activities and whether it was aware of any impediments with regards to APRA's annual financial statements and annual performance statement.

Attendance at Audit Committee meetings from 1 July 2018 to 30 June 2019:

Member	Meetings	Attended
Sam Lewis (Chair, external)	5	5
Fiona Bennett (external)	5	5
Helen Rowell (to November 2018)	2	2
Geoff Summerhayes (from November 2018)	3	3

Risk Management Committee

The Risk Management Committee comprises two independent non-executive members and an APRA Member. It provides independent assurance and advice to the Audit Committee and APRA Chair on APRA's risk management, compliance and performance reporting.
The Committee meets formally five times a year and more frequently as required. In addition to its members, the Australian National Audit Office (ANAO), APRA's Chief Internal Auditor and Chief Risk Officer are regular attendees at meetings of this Committee.

During 2018/19, the Risk Management Committee reviewed and assessed the Enterprise Risk Management Framework, Compliance Framework and Performance Reporting Framework, including their application and use across APRA. It obtained regular briefings from APRA executives, and assessed the approach to managing APRA's key risks, including those associated with high-risk projects, programs and activities.

Attendance at Risk Management Committee meetings from 1 July 2018 to 30 June 2019:

Member	Meetings	Attended
Fiona Bennett (Chair, external)	5	5
Sam Lewis (external)	5	5
Helen Rowell (to November 2018)	2	2
Geoff Summerhayes (from November 2018)	3	3

Governance committees

Executive Board

The Executive Board comprises the four APRA Members and meets formally on a monthly basis and more frequently as required, to carry out its responsibilities as defined in its Charter. The Board deals with matters that require formal approval or decisions such as APRA's strategic plans, financial statements and budgets, policy priority agenda, audit plan and meeting APRA's obligations.

Attendance at Executive Board meetings from 1 July 2018 to 30 June 2019:

Member	Meetings	Attended
Wayne Byres	13	13
John Lonsdale (From October 2018)	9	9
Helen Rowell	13	13
Geoff Summerhayes	13	11

The Executive Board has established a number of supporting committees and working groups. The most significant of these are set out below.

Executive Committee (ExCo)

The Executive Committee comprising the four APRA Members and the Executive General Managers also meets monthly or more frequently as required. The ExCo focuses on monitoring APRA's organisational performance, progress on APRA's strategic priorities, APRA's risk profile, people and culture matters, and general organisational effectiveness. The objective of the ExCo is to strengthen alignment and accountability for these issues across the Members and EGMs.

Supervision Oversight Committee (SOC)

The Supervision Oversight Committee is the primary forum for strategic oversight and review of APRA's core supervision function, including all related strategic initiatives and risks. The SOC meets monthly. Its membership comprises two of APRA's Members, plus Executive General Managers and General Managers from APRA's divisions responsible for risk and supervision.

Prudential Policy Committee (PPC)

The Prudential Policy Committee is the primary forum for senior-level discussion and coordination in relation to the development of prudential policy. The PPC meets twice monthly. Its membership comprises all APRA's Members, its General Counsel, plus Executive General Managers and General Managers from APRA's divisions responsible for policy, risk and supervision.

Resolution and Enforcement Committee (REC)

The Resolution and Enforcement Committee is the primary forum for strategic oversight and review of APRA's enforcement strategy and resolution function, including all related strategic initiatives and risks. The REC, meets twice monthly. Its membership comprises all APRA's Members, its General Counsel, plus Executive General Managers and General Managers responsible for policy, risk and supervision.

Other committees and groups

Reporting to the governance committees listed above are other more focused committees and working groups, typically chaired by a General Manager. These include:

Industry groups: reporting to the SOC, there are industry groups comprising representatives of the various divisions of APRA, covering each of APRA's regulated industries: authorised deposit-taking institutions, superannuation, general insurance, life insurance (including friendly societies), and private health insurance. These groups monitor industry developments to identify emerging risks and issues and act as a sounding board for prudential policy issues in the different industries.

Inclusion and Diversity Council: The Inclusion and Diversity Council promotes awareness of workplace inclusion and diversity and is responsible for implementing and monitoring certain aspects of the strategy for APRA.

International committees: reporting to the PPC, two committees coordinate APRA's involvement with international bodies – one for banking and one for insurance. Their purpose is to: prioritise the allocation of resources for APRA's involvement in international activities; coordinate consistent and timely responses to issues raised in the relevant international forums; and ensure information from international sources is communicated effectively within APRA.

Staff Consultative Group: reporting to the ExCo, this Group facilitates communication and consultation with all APRA employees below the senior management level on the terms and conditions of their employment and the impact of these on APRA's organisational culture and values.

Work Health and Safety Committee: reporting to the ExCo, this Committee focuses on issues concerning the health, safety and wellbeing of employees, and ensures these are integrated into broader management systems and practices.

See also page 123 for details of APRA's Work Health and Safety management.

Financial Resources

APRA's expenditure

APRA's total operating expenditure for the 12 months to 30 June 2019 was $158.4 million against an original budget of $145.6 million. The over-expenditure related to additional funding approved during the Mid-Year Economic and Fiscal Outlook.

APRA's income

APRA's total income in 2018/19 was $148.5 million, against a budget of $148.4 million. Income is marginally higher than budget through an over-collection of Financial Institutions Supervisory Levies due to higher than expected June quarter assets growth in the superannuation industry offset by lower cost recovery activities.

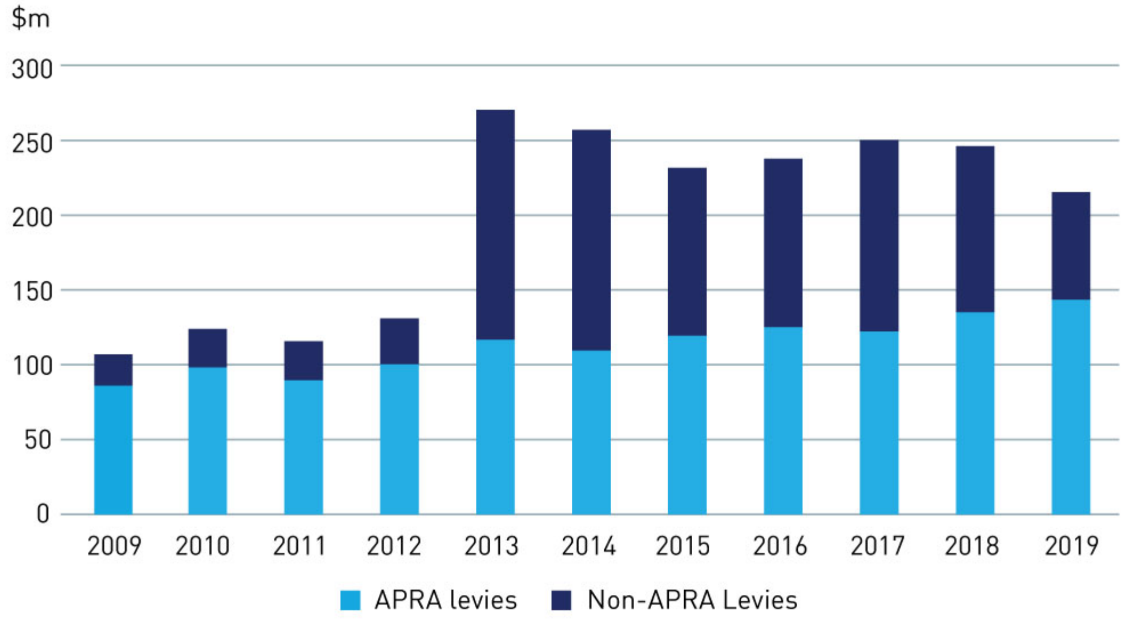
Industry levies are raised according to *the Financial Institutions Supervisory Levies Collection Act 1998*, the *Supervisory Levy Imposition Acts 1998* relevant to each of APRA's regulated industries, and the *Private Health Insurance Supervisory Levy Imposition Act 2016*. Following consultation with industry, the relevant Minister determines the levy rates for each regulated industry prior to the beginning of each financial year. Industry levies are based on the costs incurred by APRA in discharging its duties with respect to each sector. For industries APRA regulates, other than private health insurance, the levy rate is applied on the relevant institution's total assets, subject to a minimum and maximum amount per institution. Exceptions to this are non-operating holding companies and small APRA-regulated superannuation funds, which are levied at a flat rate. For private health insurers, the levies are based on the number of policies held by each insurer at 30 June.

Levies are also collected to cover the costs of the National Claims and Policies Database (NCPD) for which a rate is applied to the gross earned premiums of general insurers that contribute to this database. The amount raised for NCPD purposes in 2018/19 was $1.0 million.

The total levies collected by APRA also cover certain costs attributable to ASIC, the ATO, the ACCC and the Gateway Network Governance Body Ltd. Total levies collected by APRA in 2018/19, including on behalf of these agencies, were $215.4 million.

On an annual basis, APRA releases a Cost Recovery Implementation Statement to provide further transparency on the APRA component of the levies collected from industry. APRA also administers the Risk Equalisation Special Account whereby revenue collected by APRA for the purposes of risk equalisation across the private health insurance industry is treated by the Government as revenue and expenses. Total Risk Equalisation collections and payments in 2018/19 were $463.2 million.

Figure 1 – Financial industry levies



Reserves

The components of APRA's reserves were subject to the following changes during the year:

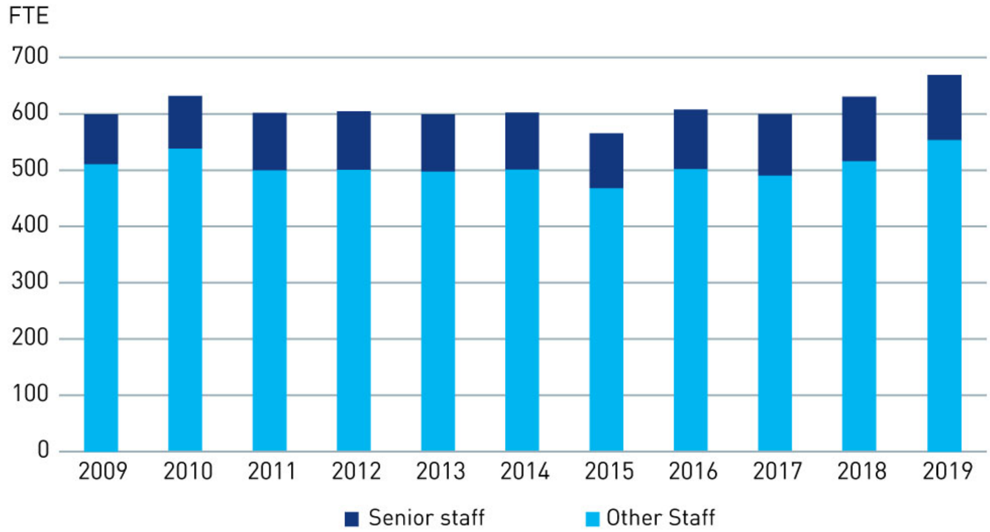
- APRA's retained surpluses decreased by $10.9 million to $9.5 million, attributable to an operating deficit from ordinary activities of $9.9 million further increased by a transfer of $1.0 million to the Contingency Enforcement Fund;
- APRA's Asset Revaluation Reserve increased by $0.3 million to $7.5 million; and
- The Contingency Enforcement Fund was increased by $1.0 million from retained surpluses to $8.0 million, attributable to a planned growth in the size of the fund arising from the BEAR and the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

With these items, total reserves decreased to $41.7 million. This included contributed equity of $16.7 million, which was unchanged over the year.

Management of human resources

At 30 June 2019, APRA's total permanent employee headcount was 666.7 on a full-time equivalent (FTE) basis, which was an increase from 630.6 at 30 June 2018 (see Figure 2).

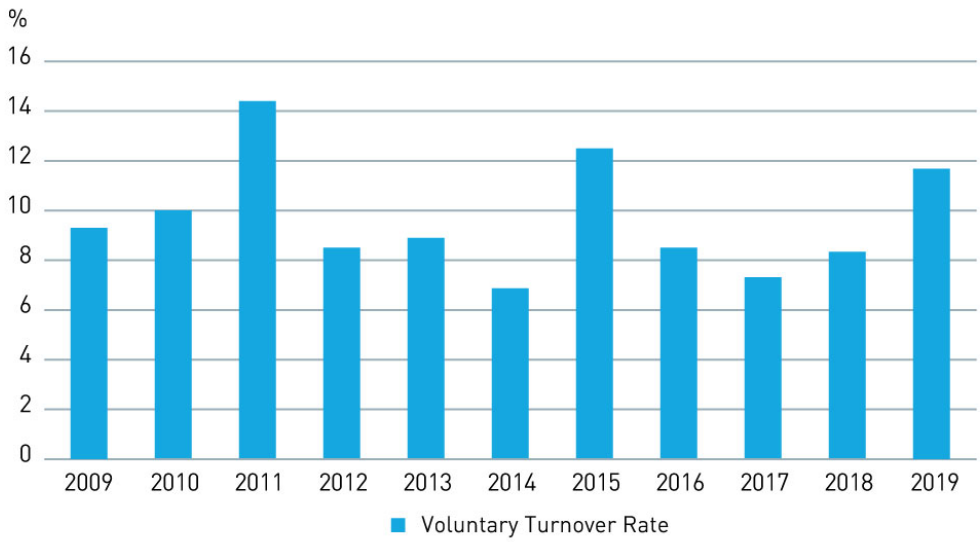
Figure 2 – Total permanent employees as at 30 June 2019



	Female	Male	Grand Total
LVL1	14.0	13.1	27.1
LVL2	55.4	31.5	86.9
LVL3	78.3	97.5	175.8
LVL4	98.9	161.1	260.0
LVL5	29.7	54.9	84.6
GNRL	10.3	12.0	22.3
EXEC	1.0	5.0	6.0
MEMBER	1.0	3.0	4.0
Grand Total (FTE)	288.6	378.1	666.7

Figure 3 – Voluntary turnover rate

APRA's voluntary turnover increased from 8.3 per cent in 2017/18 to 11.8 per cent during 2018/19.



APRA is focused on maintaining a highly skilled workforce that comprises a strong blend of supervisory and industry expertise. This is essential for a supervision-led regulator such as APRA, which relies heavily on the judgement and experience of its employees to achieve sound prudential outcomes. While APRA has been reasonably successful in building and retaining supervisory experience within its employee base, overall experience levels have declined somewhat in recent years (see Figure 4).

Figure 4 - Employee supervisory experience levels (in years)

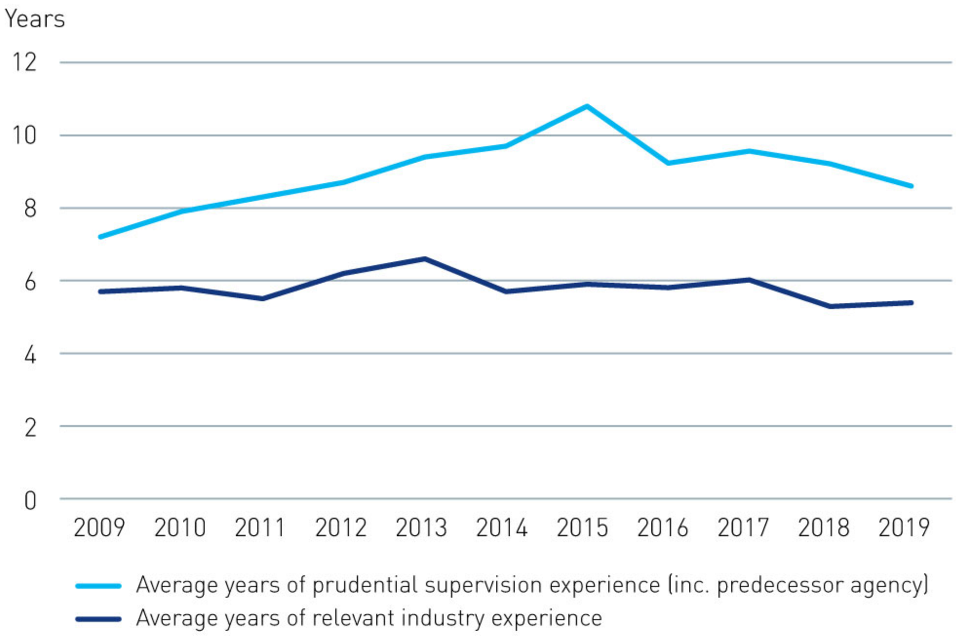
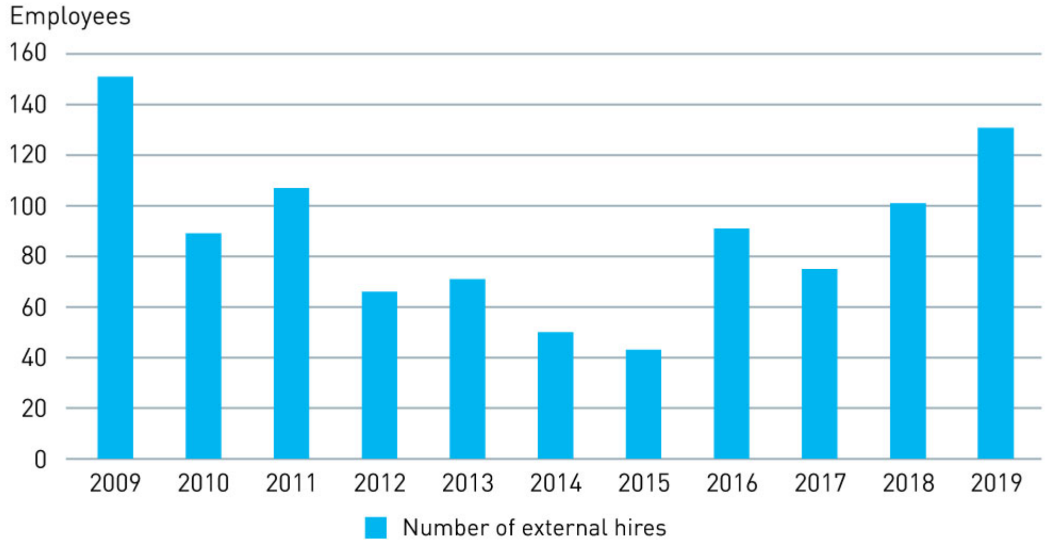


Figure 5- External recruitment



	Female	Male	Grand Total
LVL1	10	13	23
LVL2	8	7	15
LVL3	18	29	47
LVL4	11	22	33
LVL5	6	2	8
GNRL	2	1	3
EXEC	0	1	1
Total	**55**	**75**	**130**

Talent and development

In 2018/19 APRA developed a new performance framework and associated behavioural capability framework to provide an objective basis for career and development performance management discussions. It is designed to provide employees with a clearer view of career advancement options across the organisation.

APRA also maintained its well-regarded graduate program, employing 18 graduates in 2018/19. A reset of the graduate program was undertaken to ensure APRA's pipeline of future leaders is developed in a way that sets them and APRA up for success. The graduate program shifted from a skills-based to capability-based program to ensure APRA develops more rounded graduates with a baseline of knowledge and experience of a particular industry, and are more proactive in their careers by exploring the opportunities within the foundations of APRA's core business.

Building organisational and individual capabilities remained a priority for APRA during 2018/19. APRA has broadened learning offerings by using more diverse and specialised digital platforms, as well as traditional face-to-face learning.

Support for employees undertaking postgraduate study continued in 2018/19, with 42 employees participating in the studies support program.

APRA has maintained an ongoing focus on the talent strategy to source and create candidates with specific industry experience – for example, superannuation and life insurance – to bolster the capabilities within the organisation.

Table 1 – Learning and development activities

Training by type (%)	2017	2018	2019
Internal technical training and seminars	79	53	70
External training	3	37	16
Leadership Development programs	18	10	13
Key training metrics	**2017**	**2018**	**2019**
Training spend per employee	$2982	$3225	$2438
Percentage of employees provided with training[1]	100	100	100
Training sessions per employee	14.0	12.5	10.3
Training days per employee	4.1	3.0	3.0
Number of internal classroom courses offered	393	275	211
Employees undertaking formal post-graduate studies	44	43	42

[1] This figure is for all training, including mandatory annual compliance training such as online Fraud and Security Awareness training for all employees.

APRA and diversity

APRA believes that to successfully fulfil its mandate, every employee should have the opportunity to reach their true potential. In practice, this means creating and cultivating an environment where every employee, regardless of background or personal circumstances, feels valued, included and able to contribute fully to the work and social life of the organisation. The result of this philosophy is a dedication to promoting inclusion and diversity within APRA.

Table 2 – Diversity and Inclusion characteristics across Employees

	FEMALE	MALE	ATSI[1]	CALD[2]	PWD[3]
LVL1	16	15	2	9	0
LVL2	57	32	0	35	1
LVL3	82	99	2	75	0
LVL4	107	166	1	90	3
LVL5	31	55	0	19	1
GNRL	11	12	0	4	0
EXEC	2	8	0	1	0
TOTAL	**306**	**387**	**5**	**233**	**5**

[1] Aboriginal and Torres Strait Islanders (ATSI)

[2] Culturally and Linguistically Diverse (CALD)

[3] People with Disabilities (PWD)

2018/19 progress

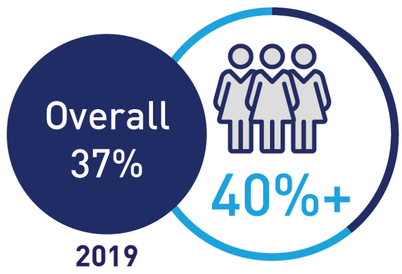
In 2018/19, APRA's Inclusion and Diversity Council worked with APRA employees to continue to deliver on the commitments set out in its initial Inclusion and Diversity Strategy, which included building employee networks for each stream, and embedding diverse thinking across APRA.

Gender diversity in senior roles

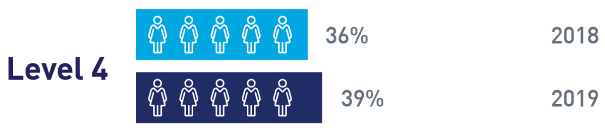
Female appointments to senior roles (Level 5 and above) increased from 31 per cent in 2018 to 37 per cent overall in 2019. Females in Level 4 increased from 36 per cent in 2018 to 39 per cent in 2019. At the General Manager level, women occupied 48 per cent of positions at end June 2019.

Females in senior roles

Target



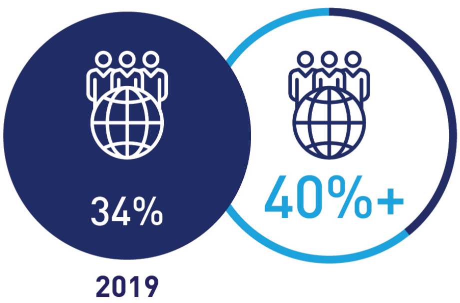
Females in Level 4 roles



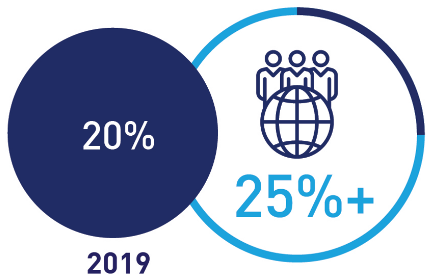
Culturally and linguistically diverse (CALD) employees

APRA has put in place targets for CALD employees at Level 4 and above. Overall, 34 per cent of APRA employees in 2018/19 came from culturally and linguistically-diverse backgrounds, including 20 per cent of senior employees.

All employees / Target



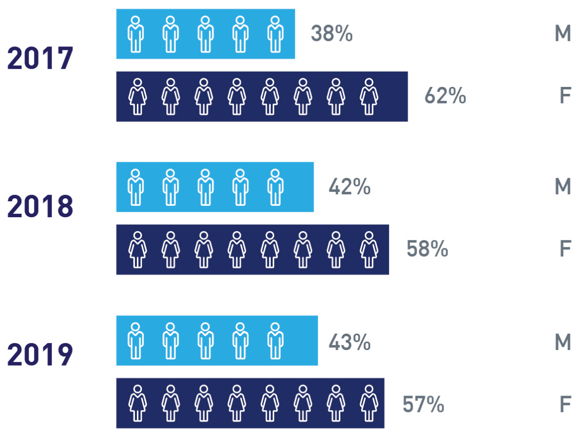
Senior employees / Target



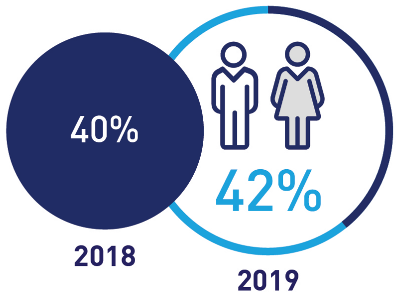
Flexibility – if not why not?

APRA has a policy of 'Flexibility for all – if not, why not?' APRA has seen significant growth in the number of employees taking up flexible working arrangements at all levels, including a significant increase in men taking up flexible working arrangements. Of all employees taking flexible working arrangements in 2019, 43 per cent are men and 57 per cent are women.

Flexible working arrangement



Percentage of total employee population on a flexible working arrangement



CH/5

FINANCIAL STATEMENTS

Statement by Members and the Executive General Manager - Corporate Services

In our opinion, the attached financial statements for the year ended 30 June 2019 comply with subsection 42(2) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), and are based on properly maintained financial records as per subsection 41(2) of the PGPA Act.

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

Mr Wayne Byres
Chair
Date 16 August 2019

Mrs Helen Rowell
Deputy Chair
Date 16/8/19

Mr John Lonsdale
Deputy Chair
Date 16/8/19

Mr Geoff Summerhayes
Member
Date 16/8/19

Mr Steve Matthews
Executive General Manager - Corporate Services
Date 16/8/19

Statement of comprehensive income
for the year ended 30 June 2019

	Notes	2019 $'000	2018 $'000
Expenses			
Employee benefits	1.1A	112,063	100,903
Suppliers	1.1B	37,515	34,283
Depreciation and amortisation	2.2	8,535	8,666
Grants and scholarships		119	129
Finance costs	1.1C	51	22
Losses from asset disposals		137	9
Total expenses		158,420	144,012
Own-source revenue			
Rendering of services		2,814	3,837
Other revenue	1.2A	1,936	7,863
Rental income		43	49
Total own-source revenue		4,793	11,749
Revenue from Government	1.2B	143,690	135,792
Operating surplus / (deficit)		(9,937)	3,529
Other comprehensive income			
Items not subject to subsequent reclassification to net cost of services			
Increase in asset revaluation reserve		333	-
Other comprehensive income		333	-
Total comprehensive income / (loss)		(9,604)	3,529

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

Statement of financial position
as at 30 June 2019

	Notes	2019 $'000	2018 $'000
Assets			
Financial assets			
Cash and cash equivalents	2.1A	71,678	83,343
Trade and other receivables	2.1B	4,579	4,758
Total financial assets		76,257	88,101
Non-financial assets			
Property, plant and equipment	2.2	20,112	20,157
Intangibles	2.2	22,285	15,829
Prepayments		3,779	2,830
Total non-financial assets		46,176	38,816
Total assets		122,433	126,917
Liabilities			
Payables			
Suppliers	2.3A	6,964	3,668
Other payables	2.3B	26,353	28,653
Total payables		33,317	32,321
Provisions			
Employee provisions	4.1	44,162	40,127
Other provisions	2.4	3,271	3,183
Total provisions		47,433	43,310
Total liabilities		80,750	75,631
Net assets		41,683	51,286
Equity			
Contributed equity		16,657	16,657
Contingency Enforcement Fund		8,000	7,000
Asset revaluation reserves		7,549	7,216
Retained surpluses		9,477	20,413
Total equity		41,683	51,286

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

Statement of changes in equity
for the year ended 30 June 2019

	2019 $'000	2018 $'000
Contributed equity		
Opening balance	16,657	16,657
Closing balance as at 30 June	16,657	16,657
Retained surpluses		
Opening balance	20,413	17,884
Transfer to Contingency Enforcement Fund	(1,000)	(1,000)
Surplus / (deficit) for the period	(9,937)	3,529
Closing balance as at 30 June	9,477	20,413
Asset revaluation reserve		
Opening balance	7,216	7,216
Increase in revaluation reserve	333	-
Closing balance as at 30 June	7,549	7,216
Contingency Enforcement Fund		
Opening balance	7,000	6,000
Transfer from retained surpluses	1,000	1,000
Closing balance as at 30 June	8,000	7,000
Total equity		
Opening balance	51,286	47,757
Increase in revaluation reserve	333	-
Surplus / (deficit) for the period	(9,937)	3,529
Closing balance as at 30 June	41,683	51,286

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

Cash flow statement
for the year ended 30 June 2019

	Notes	2019 $'000	2018 $'000
Operating activities			
Cash received			
Appropriations		153,078	149,949
Rendering of services		4,249	4,604
Net GST received		4,111	2,073
Other		787	7,078
Total cash received		162,225	163,704
Cash used			
Employees		(107,948)	(98,253)
Suppliers		(42,083)	(33,183)
Section 74 receipts transferred to Official Public Account (OPA)		(9,111)	(14,002)
Total cash used		(159,142)	(145,438)
Net cash from operating activities		3,083	18,266
Investing activities			
Cash used			
Purchase of property, plant and equipment		(3,095)	(1,106)
Purchase / development of software intangibles		(11,653)	(5,452)
Net cash used by investing activities		(14,748)	(6,558)
Net increase / (decrease) in cash held		(11,665)	11,708
Cash and cash equivalents at the beginning of the reporting period		83,343	71,635
Cash and cash equivalents at the end of the reporting period	2.1A	71,678	83,343

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

Administered schedule of comprehensive income

for the year ended 30 June 2019

	Notes	2019 $'000	2018 $'000
Net cost of services			
Expenses			
Risk equalisation payments		463,146	428,385
Lloyds Security Trust Deposit interest expense	7.4	55	55
Total expenses administered on behalf of Government	7.1	463,201	428,440
Income			
Levy revenue			
Risk equalisation levy collections	7.2	463,146	428,385
Financial Institutions Supervisory Levies	7.2	215,364	256,875
Supervisory levy waivers [1]	7.2	-	(10,825)
Total levy revenue		678,510	674,435
Other revenue			
Lloyds Security Trust Deposit interest income	7.4	55	55
Total other revenue		55	55
Surplus		215,364	246,050

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

[1] The impact of AASB 1056 'Superannuation Entities' resulted in employer-sponsor receivables being included in the asset base upon which levies were calculated in 2017/18. This significantly increased the levy burden on public sector superannuation funds. A Treasury review of this impact resulted in such receivables being excluded from the 2018/19 levy base, pending a wider review and consultation with industry. For consistency, waivers were granted in 2017/18 to exclude the impact of AASB 1056 on affected funds.

Administered schedule of assets and liabilities

as at 30 June 2019

	Notes	2019 $'000	2018 $'000
Assets			
Financial assets			
Receivables	7.3B	2,200	2,203
Cash and cash equivalents	7.3A	835	835
Total assets administered on behalf of Government		3,035	3,038
Liabilities			
Lloyds Security Trust Deposit	7.5	2,000	2,000
Total liabilities administered on behalf of Government		2,000	2,000
Net assets administered on behalf of Government		1,035	1,038

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

Administered reconciliation schedule

	Notes	2019 $'000	2018 $'000
Opening assets less liabilities as at 1 July		1,038	1,183
Income		678,565	674,490
Expenses	7.1	(463,201)	(428,440)
Transfers (to) / from the Australian Government:			
Appropriation transfers from Official Public Account (OPA)		463,146	428,385
Appropriation transfers to OPA		(678,513)	(674,580)
Closing assets less liabilities as at 30 June		1,035	1,038

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

Administered cash flow statement

for the year ended 30 June 2019

	Notes	2019 $'000	2018 $'000
Operating activities			
Cash received			
Financial Institutions Supervisory Levies		215,387	246,195
Risk equalisation levy collections		463,146	428,385
Total cash received		678,533	674,580
Cash used			
Financial Institutions Supervisory Levies - refunds made		(20)	(757)
Risk equalisation levy payments		(463,146)	(428,385)
Total cash used		(463,166)	(429,142)
Net cash from operating activities		215,367	245,438
Cash from Official Public Account for:			
APRA Special Account: Supervisory Levies		20	757
Risk equalisation levy collections		463,146	428,385
Total cash from Official Public Account		463,166	429,142
Cash to Official Public Account for:			
Financial Institutions Supervisory Levies		(215,387)	(246,195)
Risk equalisation levy payments		(463,146)	(428,385)
Total cash to Official Public Account		(678,533)	(674,580)
Net increase / (decrease) in cash held		-	-
Cash at the beginning of the reporting period		835	835
Cash at the end of the reporting period	7.3	835	835

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

Overview

Objectives of the Australian Prudential Regulation Authority (APRA)

APRA's mandate is to establish and enforce prudential standards and practices designed to ensure that, under all reasonable circumstances, financial promises made by institutions APRA supervises are met within a stable, efficient and competitive financial system. APRA also acts as a national statistical agency for the Australian financial sector and plays a role in preserving the integrity of Australia's retirement incomes policy. In performing and exercising its functions and powers, APRA is to balance the objectives of financial safety and efficiency, competition, contestability and competitive neutrality and, in balancing these objectives, is to promote financial system stability in Australia. APRA is a not-for-profit entity.

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

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

Basis of preparation of the financial statements

The financial statements and notes are required by section 42 of the *Public Governance, Performance and Accountability Act 2013* and are general purpose financial statements.

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

- the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* (FRR); and
- Australian Accounting Standards and Interpretations - Reduced Disclosure Requirements issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

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

New Accounting Standards

AASB 15 & 16 will impact the statement of comprehensive income and statement of financial position from 1 July 2019. The expected impact on the 2019/20 opening financial position from each new standard is shown below.

Overview (continued)

New standards: Impact

Statement of financial position	Closing balance 2018/19 $m	AASB 16 Impact 1 July 2019 $m	AASB 15 Impact 1 July 2019 $m	Opening balance 2019/20 $m
Total assets	122.4	57.6	-	180.0
Total liabilities	(80.8)	(32.8)	(0.9)	(114.5)
Net assets	**41.6**	**24.8**	**(0.9)**	**65.5**
Total equity	**41.6**	**24.8**	**(0.9)**	**65.5**

It is estimated that AASB16 will increase expenses in the 2019/20 statement of comprehensive income by approximately $3.9 million. It is not possible to estimate the impact of AASB15 due to the uncertainty of licence fee receipts.

New standards and interpretations that were issued prior to the sign-off date and are applicable to the current reporting period did not have a material effect on the entity's financial statements.

Taxation

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

Reporting of administered activities

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

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

Events after the reporting period

Departmental

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

Administered

There were no significant events occurring after the statement of financial position date that have the potential to significantly affect the administered activities of APRA.

FINANCIAL PERFORMANCE

This section analyses the financial performance of the Australian Prudential Regulation Authority for the year ended 30 June 2019.

1.1 Expenses

	2019 $'000	2018 $'000
1.1A: Employee benefits		
Salaries and wages	87,052	79,436
Superannuation		
Defined benefit plans	1,288	1,359
Defined contribution plans	8,358	7,533
Leave and other entitlements	14,501	11,643
Separation and redundancies	706	587
Other employee benefits	158	345
Total employee benefits	112,063	100,903

Accounting policy

Employee benefits

Accounting policies for employee-related expenses are detailed in section 4: People and relationships.

	2019 $'000	2018 $'000
1.1B: Suppliers		
Services rendered		
Professional services & consultants	13,915	12,551
Information, communication and technology	4,631	5,030
Contractors	3,838	2,065
Administrative	3,183	2,700
Property	2,286	2,175
Travel-related	2,233	2,402
Training and conferences	1,644	1,652
Other	-	5
Total services rendered	31,730	28,580
Other suppliers		
Operating lease rentals	5,563	5,477
Workers compensation expenses	222	226
Total other suppliers	5,785	5,703
Total suppliers	37,515	34,283

1.1 Expenses - continued

Leasing commitments

APRA in its capacity as lessee has leasing commitments for all its offices. Office leases, with expiry dates shown in brackets and subsequent lease extension options are:

- Sydney - 1 Martin Place (2026) - Two 5 year options;
- Sydney - 9 Castlereagh Street (2021);
- Melbourne (2024) - One 5 year option;
- Brisbane (2020) - One 2 year option;
- Adelaide (2024) - One 4 year option; and
- Canberra (2020) - Two 2 year options.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows[1]

	2019 $'000	2018 $'000
Within 1 year	9,240	8,325
Between 1 to 5 years	37,043	35,235
More than 5 years	21,454	31,070
Total operating lease commitments	67,737	74,630

[1] Commitments are stated inclusive of GST where relevant.

Accounting policy

Leases

Payments under an operating lease (minimum lease payments) are expensed on a straight-line basis which is representative of the pattern of benefits received.

	2019 $'000	2018 $'000
1.1C: Finance costs		
Adjustment to discount on restoration provisions	84	9
Bond rate movement	(44)	-
Banking fees	11	13
Total finance costs	51	22

1.2 Own-source revenue and gains

	2019 $'000	2018 $'000
1.2A: Other revenue		
Licence fees from finance sector entities	1,125	779
Resources received free of charge	640	197
Superannuation trustee application fees	35	28
Fees from foreign bank representative offices	33	47
Other[1]	103	6,812
Total other revenue	1,936	7,863

[1] 2018 includes revenue received to recover expenses incurred during a prudential inquiry.

Accounting policies

Rendering of services and other revenue

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

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

The stage of completion of contracts at the reporting date is determined by how the proportion of costs incurred to date relate to the estimated total cost of the transaction.

Revenue and receipts from sources other than an appropriation Act are classified as Section 74 receipts.

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

Resources received free of charge

Resources received free of charge are recognised as revenue or gains when, and only when, a fair value can be reliably determined and the services would have been purchased if they had not been donated. Use of those resources is recognised as an expense. Resources received free of charge are recorded as either revenue or gains depending on their nature. The resources received free of charge by APRA are audit services from the Australian National Audit Office (ANAO) of $240,000 (2018: $197,000) and some research work valued at $400,000 (2018: $nil) received by APRA.

1.2 Own-source revenue and gains (continued)

	Notes	2019 $'000	2018 $'000
1.2B: Revenue from Government			
Appropriations:			
Special appropriation	6.1	**143,564**	135,076
Departmental appropriation		**126**	716
Total revenue from Government		**143,690**	135,792

Accounting policy

Revenue from Government

Amounts appropriated for departmental appropriations for the year (adjusted for any formal additions and reductions) are recognised as revenue from Government when the entity gains control of the appropriation, except for certain amounts that relate to activities that are reciprocal in nature, in which case revenue is recognised only when it has been earned.

Appropriations receivable are recognised at their nominal amounts.

FINANCIAL POSITION

This section analyses the Australian Prudential Regulation Authority's assets used to conduct its operations and the operating liabilities incurred as a result.

Employee-related information is disclosed in the People and relationship section (section 4).

2.1 Financial assets

	2019 $'000	2018 $'000
2.1A: Cash and cash equivalents		
Cash in special account	68,840	80,882
Cash on hand or on deposit	2,838	2,461
Total cash and cash equivalents	71,678	83,343
2.1B: Trade and other receivables		
Services receivable		
Services receivable	2,700	2,570
Total services receivable	2,700	2,570
Appropriations receivable		
Appropriation receivable	1,270	1,544
Special appropriations	3	6
Total appropriations receivable	1,273	1,550
Other receivables		
GST receivable from the Australian Taxation Office	542	405
Other	64	233
Total other receivables	606	638
Total trade and other receivables (gross)	4,579	4,758
Less: impairment loss allowance	-	-
Total trade and other receivables (net)	4,579	4,758

Credit terms for services rendered were within 30 days (2018: 30 days).

Accounting policies

Receivables

Trade receivables, loans and other receivables that are held for the purpose of collecting the contractual cash flows where the cash flows are solely payments of principal and interest, that are not provided at below-market interest rates, are subsequently measured at amortised cost using the effective interest method adjusted for any loss allowance.

Impairment of financial assets

Financial assets are individually assessed for impairment at each balance date.

2.2 Non-financial assets

2.2: Reconciliation of the opening and closing balances of property, plant and equipment and intangibles - 2019

	Leasehold improvements	Computer hardware and office equipment	Total property plant and equipment	Computer software internally developed	Computer software purchased	Total intangibles	Grand Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
As at 1 July 2018							
Gross book value	21,123	4,977	**26,100**	48,883	8,305	**57,188**	**83,288**
Accumulated depreciation, amortisation and impairment	(4,600)	(1,343)	**(5,943)**	(33,847)	(7,512)	**(41,359)**	**(47,302)**
Net book value 1 July 2018	**16,523**	**3,634**	**20,157**	**15,036**	**793**	**15,829**	**35,986**
Additions:							
By purchase	662	2,248	**2,910**	1	694	**695**	**3,605**
Internally developed	-	-	**-**	11,143	-	**11,143**	**11,143**
Reclassification	81	104	**185**	(185)	-	**(185)**	**-**
Adjustment to leasehold improvements reinstatement asset	333	-	**333**	-	-	**-**	**333**
Depreciation and amortisation:							
Depreciation and amortisation expense	(2,263)	(1,168)	**(3,431)**	(4,612)	(492)	**(5,104)**	**(8,535)**
Reclassification	(33)	(10)	**(43)**	43	-	**43**	**-**
Disposals:							
Write-off (at cost)	(273)	(4)	**(277)**	(1,532)	(23)	**(1,555)**	**(1,832)**
Write-off (accumulated depreciation)	273	4	**277**	1,396	23	**1,419**	**1,696**
Net book value 30 June 2019	**15,304**	**4,808**	**20,112**	**21,289**	**995**	**22,285**	**42,395**
Net book value as at 30 June 2019 represented by:							
Gross book value	21,927	7,325	**29,252**	58,309	8,977	**67,286**	**96,538**
Accumulated depreciation, amortisation and impairment	(6,623)	(2,517)	**(9,140)**	(37,020)	(7,981)	**(45,001)**	**(54,141)**
Net book value 30 June 2019	**15,304**	**4,808**	**20,112**	**21,289**	**995**	**22,285**	**42,395**

2.2 Non-financial assets - continued

Revaluations of non-financial assets

Revaluations are conducted in accordance with the revaluation policy stated in Note 2.2. The latest revaluation was undertaken by an independent valuer in May 2017. Management has assessed there is no material change to that valuation as at 30 June 2019, outside of the small revaluation of the leasehold improvements reinstatement asset.

No significant non-financial assets are expected to be sold, disposed of or retired within the next 12 months.

No material contractual commitments for the purchase of property, plant equipment and intangible assets currently exist.

Accounting policies

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

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

Asset recognition threshold
Purchases of leasehold improvements and computer hardware / software are initially recognised at cost in the statement of financial position, except for purchases costing less than $5,000, which are expensed in the year of acquisition (other than where they form part of a group of similar items that are significant in total).

The initial cost of an asset includes an estimate of the cost of dismantling and removing the item and restoring the site on which it is located. This is particularly relevant to restoration provisions in property leases 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 restoration recognised.

2.2 Non-financial assets - continued

Revaluations
Following initial recognition at cost, property, plant and equipment are carried at fair value, less subsequent accumulated depreciation and accumulated impairment losses. Valuations are conducted with sufficient frequency such that the carrying amounts of assets do not differ materially from the assets' fair values at the reporting date. The regularity of independent valuations depend on the volatility of movements in market values for the relevant assets. APRA conducts such valuations every three years as at 30 June (last valuation occurred in 2017). For 2019 a desktop valuation was undertaken.

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 reversed a previous revaluation decrement of the same asset class that was previously recognised in the surplus / deficit. Revaluation decrements for a class of assets are recognised directly in the surplus / deficit except to the extent that they reversed a previous revaluation increment for that asset class.

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

Depreciation
Depreciable computer hardware / software assets are written-off over their estimated useful lives to APRA using, in all cases, the straight line method of depreciation. Leasehold improvements are depreciated on a straight line basis over the lesser of the estimated useful life of the improvements or the unexpired period of the lease.

Depreciation rates (useful lives) and residual values 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:

	2019	**2018**
Leasehold improvements	Lesser of 10 years or lease term	Lesser of 10 years or lease term
Computer hardware & Intangibles	3 to 5 years	3 to 5 years

2.2 Non-financial assets - continued

Impairment
All assets were assessed for indications of impairment as at 30 June 2019. 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 of disposal and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset. Where the future economic benefit of an asset is not primarily dependent on the asset's ability to generate future cash flows, and the asset would be replaced if APRA were deprived of the asset, its value in use is taken to be its depreciated replacement cost.

Derecognition
Leasehold improvements or computer hardware / software are derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

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

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

The fair value of leasehold improvements reinstatement assets is based on independent expert assessments and reconsidered by management each financial year.

2.3 Payables

	2019 $'000	2018 $'000
2.3A: Suppliers		
Trade creditors and accruals	6,964	3,668
Total suppliers	6,964	3,668

Suppliers are expected to be settled in less than 12 months.

	2019 $'000	2018 $'000
2.3B: Other payables		
Minimum lease liabilities	13,774	14,458
Lease incentives	11,088	12,680
Salaries and wages	840	758
Unearned revenue	354	404
GST payable to the Australian Taxation Office	245	299
Other	52	54
Total other payables	26,353	28,653
Total payables	33,317	32,321

Accounting policy

Financial liabilities

APRA classifies its financial liabilities as 'payables'. Supplier and other payables are recognised at amortised cost.

Liabilities are recognised to the extent that the goods or services have been received, irrespective of having been invoiced.

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

Minimum lease liabilities arise due to the impact of straight line accounting for multi-year leases, which have binding rental increases included in the term of the contract. Such liabilities unwind by the end of the contractual term. Option periods are excluded until it is certain the option will be exercised.

Lease incentives, such as lessor contributions to the cost of a fit-out, are recognised in the balance sheet as liabilities in full upon receipt of the incentive, and are amortised on a straight line basis over the life of the lease.

2.4 Other provisions

	2019 $'000	2018 $'000
2.4: Leasehold improvements provision for restoration		
Carrying amount as at 1 July	3,183	3,219
Additional provisions made	48	66
Adjustment for lease extensions	-	(111)
Adjustment to discount on restoration provisions	40	9
Closing balance as at 30 June	3,271	3,183

At 30 June 2019, APRA leased premises in Sydney, Melbourne, Brisbane, Canberra and Adelaide.

In the lease conditions of the Sydney (1 Martin Place) and Melbourne locations there is a requirement for APRA, upon expiration of the lease, to restore the premises to the original condition they were in at the conclusion of the lease. For the other locations the requirement is to leave the premises in a clean and tidy condition at the end of the lease. APRA has made the required provisions to reflect the present value of these obligations.

Accounting judgements and estimates

Estimated cost per square metre ($ sqm) to restore the leased properties to the required condition are:

Sydney (1 Martin Place) - $350 sqm; Sydney (9 Castlereagh Street) - $75 sqm; Melbourne - $250 sqm; Canberra and Adelaide - $80 sqm and Brisbane - $50 sqm.

These estimates have been based on input from local experts.

2.5 Aggregate assets and liabilities

	2019 $'000	2018 $'000
Assets expected to be recovered in:		
More than 12 months	42,423	38,555
No more than 12 months	80,010	88,362
Total assets	122,433	126,917
Liabilities expected to be settled in:		
More than 12 months	53,156	53,284
No more than 12 months	27,594	22,348
Total liabilities	80,750	75,632

FUNDING

This section identifies the Australian Prudential Regulation Authority's funding structure.

3.1 Appropriations

3.1A: Annual appropriations ('recoverable GST exclusive')

Annual appropriations for 2019

	Annual appropriation $'000	Section 74 receipts $'000	Total appropriation $'000	Appropriation applied in 2019 (current and prior years) $'000	Variance[1] $'000
Departmental					
Ordinary annual services	126	9,111	9,237	7,967	1,270
Total departmental	126	9,111	9,237	7,967	1,270
Administered					
Other services					
New administered outcomes	-	-	-	-	-
Total administered	-	-	-	-	-

Annual appropriations for 2018

	Annual appropriation $'000	Section 74 receipts $'000	Total appropriation $'000	Appropriation applied in 2018 (current and prior years) $'000	Variance[1] $'000
Departmental					
Ordinary annual services	716	14,002	14,718	13,174	1,544
Total departmental	716	14,002	14,718	13,174	1,544
Administered					
Other services					
New administered outcomes	-	-	-	-	-
Total administered	-	-	-	-	-

[1] The variance between the total appropriation and the appropriation applied is undrawn appropriations at year end relating to section 74 receipts submitted to the Official Public Account.

3.1 Appropriations - continued

3.1B: Unspent annual appropriations ('recoverable GST exclusive')

	2019 $'000	2018 $'000
Departmental		
Appropriation Act (No. 1) 2018-19	1,270	-
Appropriation Act (No. 1) 2017-18	-	1,544
Total	1,270	1,544

3.1C: Special appropriations applied ('recoverable GST exclusive')

			Appropriation applied	
			2019	2018
Authority	**Type**	**Purpose**	$'000	$'000
Australian Prudential Regulation Authority Act 1998 – section 50, Departmental	Unlimited	To provide an appropriation for levy money received that exceeds the amount determined by the Minister under section 50(1) of the *Australian Prudential Regulation Act 1998.*	143,564	135,076
Total			143,564	135,076

3.2 Special Accounts

	APRA Special Account (Departmental)[1]		Financial Claims Scheme Special Account (Administered)[2]		Risk Equalisation Special Account (Administered)[3]	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Balance brought forward from previous period	83,343	71,635	835	835	-	-
Increases:						
Total departmental increases	162,225	163,704	-	-	-	-
Special appropriation for reporting period	-	-	-	-	463,146	428,385
Total administered increases	-	-	-	-	463,146	428,385
Available for payments	245,568	235,339	835	835	463,146	428,385

Decreases:						
Total departmental decreases	(173,890)	(151,996)	-	-	-	-
Administered						
Repayments made from the Special Account	-	-	-	-	(463,146)	(428,385)
Total administered decreases	-	-	-	-	(463,146)	(428,385)
Balance represented by						
Cash in APRA official bank accounts	2,838	2,461	-	-	-	
Cash with the Official Public Account (OPA)	68,840	80,882	835	835	-	-
Total balance carried to the next period	71,678	83,343	835	835	-	-

3.2 Special Accounts - continued

[1] **Appropriation:** *Public Governance, Performance and Accountability Act 2013, section 80.*
Establishing Act: ***Australian Prudential Regulation Authority Act 1998, section 52.***

Purpose: To pay the costs and other obligations incurred by APRA in the performance of its functions or the exercise of its powers; to pay any remuneration or allowances payable to persons appointed or engaged under the APRA Act; and to make any other payments that APRA is authorised or required to make under the APRA Act or any other law of the Commonwealth (refer subsection 54(1) of the *Australian Prudential Regulation Authority Act 1998).*

[2] **Appropriation:** *Public Governance, Performance and Accountability Act 2013, section 80.*

Establishing Act: ***Australian Prudential Regulation Authority Act 1998, section 54A.***
There were no transactions debited or credited to the Financial Claims Scheme Special Account in the current reporting period.

Purpose: To meet account-holders' entitlements under Subdivision C (Payment of account-holders with declared ADI) of Division 2AA of Part II of the *Banking Act 1959*; meet persons' entitlements under Division 3 (Early payment of claims) of Part VC of the *Insurance Act 1973* ; pay APRA's agents or delegates amounts equal to the entitlements the agents or delegates meet on APRA's behalf or in the performance of APRA's delegated functions; and repayment of principal, interest and other costs connected with the borrowings under Part 5, Division 2 of the APRA Act (refer to section 54C of the *Australian Prudential Regulation Authority Act 1998*).

[3] **Appropriation:** *Public Governance, Performance and Accountability Act 2013, section 80.*

Establishing Act: ***Private Health Insurance Act 2007, section 318-1.***
There were 148 (2018: 147) transactions debited and credited to the Risk Equalisation Special Account in the current reporting period.

Purpose: To make payments to private health insurers in accordance with the *Private Health Insurance (Risk Equalisation Policy) Rules 2015* (refer to section 318-10 of the *Private Health Insurance Act 2007*).

Collapsed Insurer Special Account
Appropriation: *Public Governance, Performance and Accountability Act 2013, section 80* .

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

There were no transactions debited or credited to the Collapsed Insurer Special Account in the current reporting period, which keeps the account with a $nil balance.

Purpose: To make payments to help meet a collapsed insurer's liabilities to the people insured under its complying health insurance policies that the collapsed insurer is unable to meet itself; to make payments by way of refund of amounts paid by way of the collapsed insurer levy or late payment penalty in respect of unpaid amounts of the collapsed insurer levy; and to meet APRA's associated administrative costs under subsection 54H(1) of the *Australian Prudential Regulation Authority Act 1998*.

3.3 Regulatory charging summary

	2019 $'000	2018 $'000
Amounts applied		
Departmental		
Special appropriations (including special accounts)	143,564	135,076
Own source revenue	4,474	11,417
Administered*		
Special appropriations (including special accounts)	-	-
Total amounts applied	148,038	146,493
Expenses		
Departmental	157,974	142,964
Administered	-	-
Total expenses	157,974	142,964
External revenue		
Departmental	148,038	146,493
Administered	-	-
Total revenue	148,038	146,493

Prior year restatement

* The figures for FY2017/18 have been restated to exclude administered appropriations as these do not fund regulatory activities.

Regulatory charging activities:

- Financial Industry Supervisory Levies
- Statistical information provided to RBA
- Statistical information provided to ABS
- Assessment of models-based capital adequacy requirements for ADIs - Basel II
- Committed Liquidity Facility (CLF) reviews, assessment, size determination and approvals for ADIs - Basel III

Cost recovery implementation statements for the above activites, excluding charges to the RBA and ABS as these are intra-governmental, are available at: https://www.apra.gov.au/adis-fees-and-levies

PEOPLE AND RELATIONSHIPS

This section describes a range of employment and post employment benefits provided to our people and our relationships with other key people.

4.1 Employee provisions

	2019 $'000	2018 $'000
4.1: Employee provisions		
Leave	**36,362**	32,853
Other employee provisions	**7,800**	7,088
Separations and redundancies	**-**	186
Total employee provisions	**44,162**	40,127

Accounting policies

Liabilities for 'short-term employee benefits' and termination benefits expected within 12 months of the balance date are measured at their nominal amounts.

All other long-term employee benefits are measured as the net total of the present value of the defined benefit obligation at the end of the reporting period minus the fair value at the end of the reporting period of plan assets (if any) out of which the obligations are to be settled directly.

Leave
The liability for employee benefits includes provision for annual leave and long service leave.

The annual and long service leave liabilities are calculated on the basis of employees' remuneration at the estimated salary and superannuation rates that will be applied at the time the leave is taken during service rather than paid out on termination. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

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

Superannuation
Certain employees of APRA are members of the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS). The CSS and PSS are defined benefit schemes for the Australian Government. The liability for defined benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course. This liability is reported in the Department of Finance's administered schedules and notes.

APRA makes employer contributions to the employees' superannuation scheme at rates determined by an actuary to be sufficient to meet the current cost to the Government. APRA accounts for the contributions as if they were contributions to defined contribution plans.

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

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

Significant accounting judgements and estimates
The employee leave provision has been determined by reference to standard parameters provided by the Department of Finance as well as an estimate of the proportion of leave likely to be taken in-service as compared to taken on termination. The salary growth rate assumption used in the calculation was 3.5 per cent.

4.2 Key management personnel remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. In 2018/19 APRA has determined the key management personnel to be the Cabinet Ministers and the APRA Members[1].

Key management personnel remuneration is reported in the table below:

	2019 $'000	2018 $'000
Short-term employee benefits	2,577	3,949
Post-employment benefits	213	344
Other long-term benefits	284	571
Total key management personnel remuneration expenses	**3,074**	4,864

Following a governance review, the definition of APRA staff key management personnel has been narrowed in 2018/19 to reflect the APRA Executive Board only.

Reflecting the above, the total number of key management personnel included in the above table are: 4 (2018: 13). The comparative figures include the headcount of staff holding these positions in an acting capacity but will exclude temporary absences (leave, overseas travel etc.).

[1] The key management personnel remuneration excludes the remuneration and other benefits of the Cabinet Ministers. Their remuneration and other benefits are set by the Remuneration Tribunal and are not paid by APRA.

2018/19 APRA key management personnel	Position	Period
Wayne Byres	Chair	Full Year
Helen Rowell	Deputy Chair	Full Year
John Lonsdale	Deputy Chair	Commencing 8 October 2018
Geoff Summerhayes	Member	Full Year

4.3 Related party disclosures

Related party relationships

APRA is an Australian Government controlled entity. Related parties to APRA are the key management personnel, including Cabinet Ministers and other Australian Government entities.

Transactions with related parties

Given the breadth of Government activities, related parties may transact with the government sector in the same capacity as ordinary citizens. Such transactions include the payment or refund of taxes, receipt of a Medicare rebate or higher education loans. These transactions have not been separately disclosed in this note.

Refer to Note 4.1 Employee provisions for details on superannuation arrangements in the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS), and the PSS accumulation plan (PSSap).

APRA transacts with other Australian Government controlled entities consistent with normal day-to-day business operations provided under normal terms and conditions, including the payment of workers compensation and insurance premiums. These are not considered individually significant to warrant separate disclosure as related party transactions.

MANAGING UNCERTAINTIES

This section analyses how the Australian Prudential Regulation Authority manages financial risks within its operating environment.

5.1 Contingent assets and liabilities

Significant contingent assets
APRA has no significant contingent assets as at the balance date (2018: Nil).

Quantifiable contingencies (APRA departmental)
APRA has no quantifiable contingencies as at the balance date (2018: Nil).

Unquantifiable contingencies (APRA departmental)
Like other regulators APRA may from time to time undertake enforcement action against entities, their directors and key persons of regulated institutions. As at 30 June 2019 there are matters before the courts that may result in an award of costs against or in favour of APRA, however it is not possible for these amounts to be reliably estimated at this point (2018: None).

Accounting policy

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

5.2 Financial instruments

	Notes	2019 $'000	2018 $'000
5.2: Categories of financial instruments			
Financial assets under AASB 139			
Loans and receivables			
Trade receivables		-	4,758
Total loans and receivables		-	4,758
Financial assets at fair value			
Cash and cash equivalents		-	83,343
Total financial assets at fair value		-	83,343
Financial assets under AASB 9			
Financial assets at amortised cost			
Cash and cash equivalents	2.1A	**71,678**	-
Trade receivables	2.1B	**4,579**	-
Total financial assets at amortised cost		**76,257**	-
Total financial assets		**76,257**	88,101
Financial liabilities			
At amortised cost:			
Trade creditors and accruals	2.3A	**6,964**	3,668
Total financial liabilities		**6,964**	3,668

Classification of financial assets on the date of initial application of AASB 9

Financial assets class	**Note**	**AASB 139 original classification**	**AASB 9 new classification**	**AASB 139 carrying amount at 1 July 2018 $'000**	**AASB 9 carrying amount at 1 July 2018 $'000**
Cash and cash equivalents	2.1A	Held-to-maturity	Amortised Cost	83,343	83,343
Trade receivables	2.1B	Held-to-maturity	Amortised Cost	4,758	4,758
Total financial assets				**88,101**	**88,101**

The change in carrying amount for cash and cash equivalents and trade receivables on transition from AASB 139 to AASB 9 is nil.

5.2 Financial instruments - continued

Accounting policy

Financial instruments
Financial assets
With the implementation of AASB 9 Financial Instruments for the first time in 2019, the entity classifies its financial assets in the following categories:

a) financial assets at fair value through profit or loss;
b) financial assets at fair value through other comprehensive income; and
c) financial assets measured at amortised cost.

The classification depends on both the entity's business model for managing the financial assets and contractual cash flow characteristics at the time of initial recognition. Financial assets are recognised when the entity becomes a party to the contract and, as a consequence, has a legal right to receive or a legal obligation to pay cash and derecognised when the contractual rights to the cash flows from the financial asset expire or are transferred upon trade date.

Comparatives have not been restated on initial application.

Financial assets at amortised cost
Financial assets included in this category need to meet two criteria:

1. the financial asset is held in order to collect the contractual cash flows; and
2. the cash flows are solely payments of principal and interest (SPPI) on the principal outstanding amount.

Amortised cost is determined using the effective interest method.

Effective interest method
Income is recognised on an effective interest rate basis for financial assets that are recognised at amortised cost.

Impairment of financial assets
Financial assets are assessed for impairment at the end of each reporting period based on expected credit losses, using the general approach which measures the loss allowance based on an amount equal to lifetime expected credit losses where risk has significantly increased, or an amount equal to 12-month expected credit losses if risk has not increased.

5.2 Financial instruments - continued

The simplified approach for trade, contract and lease receivables is used. This approach always measures the loss allowance as the amount equal to the lifetime expected credit losses.

A write-off constitutes a derecognition event where the write-off directly reduces the gross carrying amount of the financial asset.

Financial liabilities
Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities. Financial liabilities are recognised and derecognised upon 'trade date'.

Financial liabilities at amortised cost
Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. These liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective interest basis.

Supplier and other payables are recognised at amortised cost. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).

5.3 Fair value measurements

Accounting policy

Fair value measurement
Accounting policies for fair value measurements of tangible non-financial assets are included in note 2.2.

		Fair value measurements at the end of the reporting period	
		2019	2018
	Notes	**$'000**	$'000
Non-financial assets[1]			
Leasehold improvements	2.2	**15,304**	16,523
Computer hardware and office equipment	2.2	**4,808**	3,634
Total non-financial assets		**20,112**	20,157

[1] No non-financial assets were measured at fair value on a non-recurring basis as at 30 June 2019 (2018: nil).

OTHER INFORMATION

6.1 Calculation of APRA Special Appropriation

The APRA Special Appropriation is calculated in accordance with the provisions of section 50 of the *Australian Prudential Regulation Authority Act 1998* .

	2019 $'000	2018 $'000
Table 1: Summary of APRA levy funding		
Current year levies and penalties (see Note 7.2, Table 1)	215,364	256,875
Risk equalisation receipts	463,146	428,385
Less: Waivers and doubtful debts (see Note 7.2)	-	(10,825)
Net current year levies and penalties (see Table 2 below)	678,510	674,435
Less: Amount retained in the Consolidated Revenue Fund (see Table 3 below)	(71,800)	(110,974)
Less: Risk equalisation payments to private health insurers	(463,146)	(428,385)
Total APRA levy funding (see Table 4 below)	143,564	135,076
Table 2: Net current year levies and penalties by levy type		
Superannuation funds	83,066	102,804
Authorised deposit-taking institutions	83,551	84,447
General insurers	27,306	31,952
Life insurers and friendly societies	16,908	20,132
Private health insurers	4,533	6,715
Risk equalisation receipts from private health insurers	463,146	428,385
Total	678,510	674,435
Table 3: Amounts retained in the Consolidated Revenue Fund by levy type[1] or returned to industry		
Superannuation funds	(49,600)	(72,768)
Authorised deposit-taking institutions	(13,800)	(22,050)
General insurers	(4,800)	(9,201)
Life insurers and friendly societies	(3,600)	(6,955)
Total	(71,800)	(110,974)
Table 4: Amounts of levy payable to APRA under the APRA Special Appropriation by levy type[2]		
Superannuation funds	33,466	30,036
Authorised deposit-taking institutions	69,751	62,397
General insurers	22,506	22,751
Life insurers and friendly societies	13,308	13,177
Private health insurers	4,533	6,715
Total	143,564	135,076
This is represented by:		
Special Appropriation	143,564	135,076
Total	143,564	135,076

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

[2] Table 4 above represents the total amount of levies payable to APRA for its operations.

6.1 Calculation of APRA Special Appropriation - continued

Accounting Policy

APRA is funded primarily through levies imposed on the industries it supervises. These levies, known as the Financial Institutions Supervisory Levies, are administered transactions collected on behalf of the Government and paid into the Consolidated Revenue Fund (CRF). An amount equal to the net levy revenue, less an amount specified by the Minister in an annual determination made under subsection 50(1) of the *Australian Prudential Regulation Authority Act 1998 (APRA Act)* , is credited to the APRA Special Account as a Special Appropriation, in accordance with subsections 50(2), (3) and (5) of the APRA Act. The amounts specified in the Minister's Determinations are retained in the CRF to cover: the costs of activities of the Australian Taxation Office (ATO) for unclaimed monies, lost member functions and for the administration of claims for early release of superannuation benefits on compassionate grounds; the Australian Securities and Investments Commission (ASIC) for consumer protection and market integrity functions; the Australian Competition and Consumer Commission (ACCC) to investigate foreign exchange and specific competition issues in Australia's financial system and the Gateway Network Governance Body to facilitate transmission of SuperStream data.

APRA administers the collection of Financial Institutions Supervisory Levies and Financial Assistance Levies on behalf of the Government. While the revenues from Financial Institutions Supervisory Levies are in part used to fund the operations of APRA, they are not directly available to APRA for its own purposes upon receipt. The revenues from the Financial Assistance Levy are also not available to APRA for its own purposes. All administered collections are remitted to the Official Public Account with APRA's portion being transferred to its special account in accordance with annual determinations made by the Minister. Transactions and balances relating to levies are reported in Note 7.2: Administered income.

APRA also administers the Risk Equalisation Special Account whereby revenue collected by APRA for the purposes of risk equalisation across the private health insurance industry is treated by the Government as revenue and expenses. The transactions to and from this account are recorded within the Official Public Account (OPA) by way of notional receipts and payments.

6.2 Budgetary reports and explanations of major variances

The following tables provide a comparison of the original budget as presented in the 2018/19 Portfolio Budget Statements (PBS) to the 2018/19 final outcome as presented in accordance with Australian Accounting Standards. The Budget is not audited.

6.2 Departmental budgetary reports

Summary of key variances to budget

Expenses

- Employee benefits are higher than budget due to a fall in the 10 year bond rate driving a revaluation of employee leave balances and more staff than originally budgeted; and
- Supplier costs are higher than budget due to additional funding received during MYEFO[1]. This funding was used for project expenditure and additional legal and enforcement expenditure during the year.

Own-source income

- Rendering of services is lower than budget due to lower cost recovery activities; and
- Other revenue is higher than budget due to higher licensing and other fees received.

Revenue from Government is higher than budget due to Financial Institutions Supervisory Levies over-collection driven by higher than expected June quarter assets growth in the superannuation industry. This caused a small under-estimation in the size of the industry at the superannuation levy date and therefore a small over-estimation in the required levy rate.

[1] During MYEFO APRA received additional funding over four years, including $58.7 million for new and expanded functions. Of this additional funding which $14.7 million of operating expenditure was applied to the 2018/19 financial year.

Statement of comprehensive income

for the year ended 30 June 2019

	Actual	Budget estimate	
		Original	Variance
	2019	2019	2019
	$'000	$'000	$'000
Expenses			
Employee benefits	112,063	107,152	(4,911)
Suppliers	37,822	30,000	(7,822)
Depreciation and amortisation	8,535	8,400	(135)
Total expenses	158,420	145,552	(12,868)
Less:			
Own-source revenue			
Other revenue	1,936	1,056	880
Rendering of services	2,814	4,643	(1,829)
Rental income	43	-	43
Total own-source revenue	4,793	5,699	(906)

6.2 Budgetary reports and explanations of major variances - continued

	Actual	Budget estimate	
		Original	Variance
	2019	2019	2019
	$'000	$'000	$'000
Net cost of services	**153,627**	139,853	(13,774)
Revenue from Government	**143,690**	142,665	1,025
Operating surplus	**(9,937)**	2,812	(12,750)
Other comprehensive income			
Items not subject to subsequent reclassification to net cost of services			
Changes in asset revaluation reserve	**333**	-	333
Total other comprehensive income	**333**	-	333
Total comprehensive income	**(9,604)**	2,812	(12,416)

6.2 Budgetary reports and explanations of major variances - continued

6.2 Departmental budgetary reports - continued

Summary of key variances to budget

Assets

- Cash and cash equivalents and trade and other receivables variances combined are largely driven by expenditure of additional funding received during MYEFO prior to collection from industry (industry collection planned for 2019/20);
- Property, plant, and equipment (PP&E) and intangible assets are lower than budget due to timing differences in acquiring depreciable assets; and
- Prepayments are higher than budget due to earlier and increased payments for IT and property management renewals.

Liabilities

Suppliers and other payables and provisions variances are due to increased expenditure incurred, largely project related, which has not been invoiced.

Equity

The variance in retained surpluses is driven by the increased expenses incurred from the additional funding received during MYEFO.

Statement of financial position

as at 30 June 2019

	Actual	Budget estimate	
		Original	Variance
	2019	2019	2019
	$'000	$'000	$'000
Assets			
Financial assets			
Cash and cash equivalents	**71,678**	84,506	(12,828)
Trade and other receivables	**4,579**	2,529	2,050
Total financial assets	**76,257**	87,035	(10,778)
Non-financial assets			
Property, plant and equipment	**20,112**	23,910	(3,798)
Intangibles	**22,285**	20,794	1,491
Prepayments	**3,779**	1,863	1,916
Total non-financial assets	**46,176**	46,567	(392)
Total assets	**122,433**	133,602	(11,170)
Liabilities			
Payables			
Suppliers	**6,964**	1,534	(5,430)
Other payables and provisions	**26,353**	27,512	1,159
Total payables and provisions	**33,317**	29,046	(4,271)

6.2 Budgetary reports and explanations of major variances - continued

6.2 Departmental budgetary reports - continued

	Actual	Budget estimate	
		Original	Variance
	2019	2019	2019
	$'000	$'000	$'000
Employee provisions			
Employee provisions	44,162	44,077	(85)
Other provisions	3,271	3,219	52
Total employee provisions	47,433	47,296	(33)
Total liabilities	80,750	76,342	(4,304)
Net assets	41,683	57,260	(15,578)
Equity			
Contributed equity	16,657	16,657	-
Contingency Enforcement Fund	8,000	8,000	-
Reserves	7,549	7,216	333
Retained surpluses	9,477	25,387	(15,911)
Total equity	41,683	57,260	(15,578)

6.2 Budgetary reports and explanations of major variances - continued

6.2 Departmental budgetary reports - continued

Summary of key variances to budget
Equity and reserves variance to budget is due to additional funding provided to APRA in MYEFO for which the corresponding industry funding will be collected in 2019/20.

Statement of changes in equity
for the year ended 30 June 2019

	Actual	Budget estimate	
		Original	Variance
	2019	2019	2019
	$'000	$'000	$'000
Contributed equity			
Opening balance	16,657	16,657	-
Closing balance as at 30 June	16,657	16,657	-
Retained surpluses			
Opening balance	20,413	23,575	(3,162)
Transfer to Contingency Enforcement Fund[1]	(1,000)	(1,000)	-
(Loss) / Surplus for the period	(9,937)	2,812	(12,749)
Closing balance as at 30 June	9,477	25,387	(15,911)
Asset revaluation reserve			
Opening balance	7,216	7,216	-
Increase in revaluation reserve	333	-	333
Closing balance as at 30 June	7,549	7,216	333
Contingency Enforcement Fund			
Opening balance	7,000	7,000	-
Transfer from retained surpluses[1]	1,000	1,000	-
Closing balance as at 30 June	8,000	8,000	-
Total equity			
Opening balance	51,286	54,448	(3,162)
Comprehensive income / (loss)			
Increase in revaluation reserve	333	-	333
(Loss) / Surplus for the period	(9,937)	2,812	(12,749)
Closing balance as at 30 June	41,683	57,260	(15,578)

[1] During the 2017/18 Federal budget APRA was provided additional funds to assist with the introduction and administration of legislation to make authorised deposit-taking institutions (ADIs) and their executives more accountable. This included requiring banking executives to be registered with APRA, strengthening APRA's powers to remove and disqualify senior executives, new penalty provisions and deferral of remuneration for senior executives.

6.2 Budgetary reports and explanations of major variances - continued

6.2 Departmental budgetary reports - continued

Summary of key variances to budget

Operating cash received - Slightly higher than budget due to a small over-recovery of levies in 2018/19 (see comprehensive income statement commentary) plus increased GST received from higher suppliers expenditure made during the year (arising from additional funding provided during MYEFO).

Operating cash used - Additional MYEFO funding received during the year resulted in higher employee expenditure, more supplier expenses from greater project activity and more legal and enforcement activity.

Investing cash used - Higher project expenditure during the year arising from additional MYEFO funding received during the year, resulting in additional depreciable assets built.

Cash flow statement

for the year ended 30 June 2019

	Actual	Budget estimate	
		Original	Variance
	2019	2019	2019
	$'000	$'000	$'000
Operating Activities			
Cash received			
Appropriations	**153,078**	151,217	1,861
Rendering of services	**4,249**	4,643	(394)
Net GST received	**4,111**	3,049	1,062
Other	**787**	860	(73)
Total cash received	**162,225**	159,769	2,456
Cash used			
Employees	**(107,948)**	(104,623)	(3,325)
Suppliers	**(42,083)**	(33,535)	(8,548)
Section 74 receipts transferred to Official Public Account (OPA)	**(9,111)**	(8,552)	(559)
Total cash used	**(159,142)**	(146,710)	(12,432)
Net cash from operating activities	**3,083**	13,059	(9,976)
Investing activities			
Cash used			
Purchase of property, plant and equipment and intangibles	**(14,748)**	(14,003)	(745)
Net cash used by investing activities	**(14,748)**	(14,003)	(745)
Net decrease in cash held	**(11,665)**	(944)	(10,721)
Cash and cash equivalents at the beginning of the reporting period	**83,343**	85,450	(2,107)
Cash and cash equivalents at the end of the reporting period	**71,678**	84,506	(12,828)

INCOME AND EXPENSES ADMINISTERED ON BEHALF OF GOVERNMENT

This section analyses the activities that the Australian Prudential Regulation Authority does not control but administers on behalf of the Government. Unless otherwise noted, the accounting policies adopted are consistent with those applied for departmental reporting.

7.1 Administered expenses

	Notes	2019 $'000	2018 $'000
Expenses			
7.1B: Other expenses			
Risk equalisation levy payments	6.1	463,146	428,385
Lloyds security deposit interest expense	7.4	55	55
Total other expenses		463,201	428,440
Total administered expenses		463,201	428,440

Accounting policy

Expenses

Private health insurance risk equalisation expenses reflecting amounts returned to relevent industry participants are recognised at the time of payment as administered expenses.

7.2 Administered income

	2019	2018
Income	**$'000**	$'000
7.2A: Levy revenue		
Risk equalisation levy receipts	**463,146**	428,385
Financial Institutions Supervisory Levies and penalties (see Table 1)[1]	**215,364**	256,875
Supervisory levy waivers (see Table 2)	**-**	(10,825)
Total levy revenue	**678,510**	674,435

Accounting policy

Revenue

All administered revenues relate to the ordinary activities performed by APRA on behalf of the Government. These revenues are not directly available to be used by APRA for its own purposes and are remitted to the OPA, or in the case of the private health insurance risk equalisation levies, returned to the relevant industry participants in accordance with the *Private Health Insurance (Risk Equalisation Policy) Rules 2015* (the Rules).

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

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

Table 1: Financial Institutions Supervisory Levies revenue by type

	2019	2018
Levy:		
Superannuation funds	**83,022**	113,038
Authorised deposit-taking institutions	**83,551**	84,447
General insurers	**27,306**	31,953
Life insurers and friendly societies	**16,908**	20,137
Private health insurers	**4,533**	6,715
Total Financial Industry Supervisory Levies	**215,320**	256,290
Late payment penalties:		
Superannuation funds	**44**	585
Total late payment penalties	**44**	585
Total current year financial industry levies and penalties	**215,364**	256,875

[1] Financial Institutions Supervisory Levies are detailed in the annual consultation paper released by Treasury. In addition, APRA publishes a Cost Recovery Implementation Statement in relation to its component of the Financial Institutions Supervisory Levies.

7.2 Administered income - continues

	2019 $'000	2018 $'000
Table 2: Levies and late payment penalties waived by type Waiver:		
Superannuation funds	-	(10,819)
General insurers	-	(1)
Life insurers	-	(5)
Total waivers	-	(10,825)

The Financial Institutions Supervisory Levies are set to recover the operational costs of APRA, and other specific costs incurred by certain Commonwealth agencies and departments. The proportion of total current year levies and penalties attributable to APRA is set out in Note 6.1.

The risk equalisation levy receipts are set to equalise risk across the private health insurance industry, and are returned to relevant industry participants in accordance with the Rules shortly after they are collected.

Waivers of levy debts are recognised as an offset to invoiced revenue at the time of approval by delegated APRA officials. 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.

	2019 $'000	2018 $'000
7.2B: Other revenue		
Lloyds security deposit interest income	55	55
Total other revenue	55	55

ASSETS AND LIABILITIES ADMINISTERED ON BEHALF OF THE GOVERNMENT

7.3 Administered financial assets

This section analyses assets used to conduct operations and the operating liabilities incurred as a result of activities that the Australian Prudential Regulation Authority does not control but administers on behalf of the Government. Unless otherwise noted, the accounting policies adopted are consistent with those applied for departmental reporting.

	2019 $'000	2018 $'000
7.3A: Cash and cash equivalents		
Financial Claims Scheme	**835**	835
Total cash and cash equivalents	**835**	835

The closing balance of Cash in special accounts does not include amounts held in trust: $2,000,000 (2018 $2,000,000). See note 7.4 assets held in trust for more information.

	2019 $'000	2018 $'000
7.3B: Receivables		
Lloyds security held in trust	**2,000**	2,000
Financial Assistance Levy	**197**	197
Financial Institutions Supervisory Levies	**3**	6
Total receivables	**2,200**	2,203
Receivables were aged as follows:		
Not overdue	**2,003**	2,197
Overdue by:		
more than 90 days	**197**	6
Total receivables	**2,200**	2,203

There is no impairment allowance in 2019 (2018: Nil). The receivables greater than 90 days relate to the previous Financial Assistance Levy (FAL) that were charged to superannuation funds that were no longer APRA-regulated institutions at the levy date. This outstanding amount will be added to the next FAL and collected at that point.

7.4 Administered assets held in trust

Monetary assets

The Lloyds Security Deposit is held by APRA in trust. Responsibility for the administration of the Lloyds Security Deposit Trust was transferred from the Department of Treasury to APRA on the 26 May 2008. The purpose is to disburse amounts in accordance with section 92Q of the *Insurance Act 1973* .

	2019 $'000	2018 $'000
Lloyds Deposit Trust Security		
Total amount held at the beginning of the reporting period	**2,000**	2,000
Receipts	**(55)**	(55)
Payments	**55**	55
Total amount held at the end of the reporting period	**2,000**	2,000
Total	**2,000**	2,000

The market valuation as at 30 June 2019 for the Lloyd's Security Deposit Trust was $2,021,043 (2018: $2,030,231).

Non-monetary assets

APRA has no non-monetary assets held in trust.

7.5 Administered liabilities

	2019 $'000	2018 $'000
Other payables		
Lloyds Security Trust Deposit	2,000	2,000
Total other payables	2,000	2,000

7.6 Administered contingent assets and liabilities

Unquantifiable administered contingencies

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

Under the *Banking Act 1959,* the Scheme provides a mechanism for making payments to depositors under the Government's guarantee of deposits in ADIs. Payments are capped at $250,000 per account-holder per ADI. As at 31 December 2018, deposits eligible for coverage under the Scheme were estimated to be $920 billion, compared to $890 billion as at 31 December 2017, reflecting overall deposit growth in the financial system.

Under the *Insurance Act 1973*, the Scheme provides a mechanism for making payments to eligible beneficiaries with a valid claim against a failed GI. It is not possible to estimate these claims.

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

Under the FCS, any payments to account-holders with protected accounts or eligible claimants would be made from APRA's FCS Special Account. Under the legislation, initial amounts available to meet payments, in the event of activation, are up to $20 billion per institution and up to $100 million for administration.

It is not possible to estimate the amounts of any eventual payments that may be required in relation to either the ADI FCS or GI FCS and as such no amount is included in this note.

7.7 Administered financial instruments

	2019 $'000	2018 $'000
7.7A: Categories of financial instruments		
Financial assets under AASB 139		
Loans and receivables		
Other receivables	-	2,000
Total loans and receivables	-	2,000
Financial assets under AASB 9		
Financial assets at amortised cost		
Other receivables	2,000	-
Total financial assets at amortised cost	2,000	-
Total financial assets	2,000	2,000
Financial liabilities		
At amortised cost:		
Trade creditors and accruals	2,000	2,000
Total financial liabilities	2,000	2,000

Classification of financial assets on the date of initial application of AASB 9

	AASB 139 original classification	AASB 9 new classification	AASB 139 carrying amount at 1 July 2018	AASB 9 carrying amount at 1 July 2018
Financial assets class			$'000	$'000
Trade receivables	Held-to-maturity	Amortised Cost	2,000	2,000
Total financial assets			2,000	2,000

The change in carrying amount for other receivables under AASB 139 on transition to AASB 9 is nil.

7.7 Administered financial instruments - continued

	2019 $'000	2018 $'000
7.7B: Net gains or losses on financial assets		
Financial assets at amortised cost		
Interest revenue	**55**	55
Net gains/(losses) on financial assets at amortised cost	**55**	55
Net gains on financial assets	**55**	55
7.7C: Net gains or losses on financial liabilities		
Financial liabilities at amortised cost:		
Interest expense	**(55)**	(55)
Net gains/(losses) on financial liabilities at amortised cost	**(55)**	(55)
Net losses on financial liabilities	**(55)**	(55)

7.8 Administered budgetary reports and explanations of major variances

Administered budgetary reports

Summary of key variances to budget

The budgeted private health insurance industry risk equalisation levy is a broad estimate based on a historic growth profile. 2019 results, which are dependent on the spread of risk accross the industry, came in higher than budget. The difference drives the overall magnitude of the risk equalisation levy collections and payments across the industry.

The Financial Institutions Supervisory Levies over-collection against budget is due to a higher than expected June quarter assets growth in the superannuation industry. This caused a small under-estimation in the size of the industry at the superannuation levy date and therefore a small over-estimation in the required levy rate.

Administered schedule of comprehensive income

for the year ended 30 June 2019

	Actual	Budget estimate	
		Original	Variance
	2019	2019	2019
	$'000	$'000	$'000
Expenses			
Risk equalisation levy payments	**463,146**	450,000	(13,146)
Lloyds security interest expense	**55**	55	-
Total expenses administered on behalf of Government	**463,201**	450,055	(13,146)
Less:			
Income			
Risk equalisation levy collections	**463,146**	450,000	13,146
Financial Institutions Supervisory Levies	**215,364**	214,320	1,044
Lloyds security interest income	**55**	55	-
Total income	**678,565**	664,375	14,190
Surplus	**215,364**	214,320	1,044

7.8 Administered budgetary reports and explanations of major variances - continues

Summary of key variances to budget

Administered receivables are lower than the original budget following a collection during the year of Financial Assistance Levy receivables.

Administered schedule of assets and liabilities
as at 30 June 2019

	Actual	Budget estimate	
		Original	Variance
	2019	2019	2019
	$'000	$'000	$'000
Assets			
Financial assets			
Receivables	2,200	2,348	(148)
Cash and cash equivalents	835	835	-
Total assets administered on behalf of Government	3,035	3,183	(148)
Liabilities			
Liabilities administered on behalf of Government	2,000	2,000	-
Total liabilities administered on behalf of Government	2,000	2,000	-
Net assets administered on behalf of Government	1,035	1,183	(148)

7.9 Administered aggregate assets and liabilities

	2019 $'000	2018 $'000
Assets expected to be recovered in:		
More than 12 months	3,032	3,032
Not more than 12 months	3	6
Total assets	3,035	3,038
Liabilities expected to be recovered in:		
More than 12 months	2,000	2,000
Total liabilities	2,000	2,000

INDEPENDENT AUDITOR'S REPORT

To the Treasurer

Opinion

In my opinion, the financial statements of the Australian Prudential Regulation Authority ('the Entity') for the year ended 30 June 2019:

(a) comply with Australian Accounting Standards – Reduced Disclosure Requirements and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and

(b) present fairly the financial position of the Entity as at 30 June 2019 and its financial performance and cash flows for the year then ended.

The financial statements of the Entity, which I have audited, comprise the following statements as at 30 June 2019 and for the year then ended:

- Statement by Members and the Executive General Manager – Corporate Services;
- Statement of Comprehensive Income;
- Statement of Financial Position;
- Statement of Changes in Equity;
- Cash Flow Statement;
- Administered Schedule of Comprehensive Income;
- Administered Schedule of Assets and Liabilities;
- Administered Reconciliation Schedule;
- Administered Cash Flow Statement; and
- Notes to and forming part of the statements, comprising a Summary of Significant Accounting Policies and other explanatory information.

Basis for Opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Entity in accordance with the relevant ethical requirements for financial statement audits conducted by the Auditor-General and his delegates. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) to the extent that they are not in conflict with the *Auditor-General Act 1997*. I have also fulfilled my other responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Accountable Authority's responsibility for the financial statements

As the Accountable Authority of the Entity, the Chairman is responsible under the *Public Governance, Performance and Accountability Act 2013* (the Act) for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards – Reduced Disclosure Requirements and the rules made under the Act. The Chairman is also responsible for such internal control as the Chairman determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chairman is responsible for assessing the ability of the Entity to continue as a going concern, taking into account whether the Entity's operations will cease as a result of an

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administrative restructure or for any other reason. The Chairman is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the assessment indicates that it is not appropriate.

Auditor's responsibilities for the audit of the financial statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian National Audit Office Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Accountable Authority;
- conclude on the appropriateness of the Accountable Authority's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Accountable Authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Australian National Audit Office

J George

Jodi George
Executive Director
Delegate of the Auditor-General

Canberra
16 August 2019

CH/6

STATUTORY REPORTING REQUIREMENTS

Chapter 6 - 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*;
- *Public Governance, Performance and Accountability Act 2013*;
- *Work Health and Safety Act 2011*;
- Commonwealth Fraud Control Framework; and
- Requirements for Annual Reports for Departments, Executive Agencies and other Non-corporate Commonwealth Entities.

Australian Prudential Regulation Authority Act 1998 (APRA Act)

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

- the activities of persons conducting investigations under Division 2 of Part II and section 61 of the *Banking Act 1959*;
- the activities of Banking Act statutory managers (within the meaning of the *Banking Act 1959*);
- the activities of Insurance Act statutory managers (within the meaning of the *Insurance Act 1973*);
- the activities of Life Insurance Act statutory managers (within the meaning of the *Life Insurance Act 1995)*;
- the operation of Division 2AA (Financial Claims Scheme for account-holders with insolvent ADIs) of Part II of the *Banking Act 1959*;
- the operation of Part VC (Financial Claims Scheme for policyholders with insolvent general insurers) of the *Insurance Act 1973*;
- the number of times during the year that APRA determined, under subsection 13(1) of the *Financial Sector (Collection of Data) Act 2001*, a reporting standard that is not a legislative instrument; and
- the exercise during the year of APRA's powers under Part 15 of the *Retirement Savings Accounts Act 1997* (RSA Act) and Part 29 of the *Superannuation Industry (Supervision) Act 1993* (SIS Act).

APRA did not appoint any persons to conduct an investigation under Division 2 of Part II of the *Banking Act 1959* during 2018/19 and there were no appointments continuing from the previous year. APRA appointed a person under section 61 to investigate and report on prudential matters in relation to a small credit union in May 2018. The investigator provided a report to APRA in July 2018 which, while recommending certain actions be taken, concluded that the credit union's implementation of a new core banking system did not pose a prudential risk. APRA continues to work with the credit union in implementing the recommended actions.

APRA did not appoint statutory managers under the *Banking Act 1959*, *Insurance Act 1973* or *Life Insurance Act 1995*. There were no appointments continuing from the previous year. There were no schemes in operation under Division 2AA of Part II of the *Banking Act 1959*. On 15 October 2009, the Minister made a declaration under section 62ZZC of the *Insurance Act 1973* that Division 3 of Part VC of that Act applied in relation to one general insurer[21]. No payments were made from the Financial Claims Scheme Special Account in 2018/19 to satisfy claims against this general insurer.

APRA did not determine any reporting standards under subsection 13(1) of the *Financial Sector (Collection of Data) Act 2001* during 2018/19 that were not legislative instruments. APRA did not exercise its powers under Part 15 of the RSA Act in 2018/19.

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

Exemption number	Date	Provision of SIS Act / regulations exempted
A5 of 2018	06/07/18	r.9.04D and 9.04I
A8 of 2018	29/11/18	r.1.06(8)(d)
A9 of 2018	15/11/18	r.6.17(2)
A10 of 2018	14/11/18	r.9.04D(1) and 9.04I(1)
A11 of 2018	13/12/18	r.9.04D(1)
A1 of 2019	03/04/19	r.9.04D(1)
A2 of 2019	03/04/19	r.9.08, 9.09, 9.17 and 9.23
A3 of 2019	07/05/19	s.94(4)
A4 of 2019	07/05/19	s.93(3)
A5 of 2019	05/06/19	r.6.17(2)
A6 of 2019	28/06/19	r.7.04

[21] Australian Family Assurance limited (in liquidation).

Modification number	Date	Provision of SIS Act / regulations modified
A9 of 2018	20/08/18	r.1.03
A10 of 2018	31/10/18	r.1.03
A11 of 2018	30/10/18	s.93(3)
A12 of 2018	20/11/18	r.1.03
A2 of 2019	13/03/19	r.1.03
A3 of 2019	03/04/19	r.1.03
A4 of 2019	03/04/19	Division 6.7 regulations
A5 of 2019	03/04/19	r.1.06, 1.07A, 1.07B, 1.07C and 1.07D
A6 of 2019	13/03/19	r.1.03
A7 of 2019	29/04/19	s.29E(6A)(a)

Environment Protection and Biodiversity Conservation Act 1999 (EPBC Act)

APRA's Environmental Policy Statement reinforces its commitment to operating in an ecologically sustainable manner. APRA actively takes steps to reduce its environmental impact and adopts environmentally friendly options where practical. Measures include: sensor controlled lighting; energy-efficient power management settings on office equipment; recycling of paper, cardboard, office furniture and printer cartridges; reducing waste; the use of mobile devices and 'follow-me' printing; and fostering employee awareness of environmental issues including considering the need to print documents.

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

APRA is dedicated to ensuring it continues to create an environment that fosters inclusivity and respect for all its employees. Diverse and inclusive teams are critical for APRA's success as they broaden the range of thinking that supports strong judgments, which are the foundation of supervisory authorities. APRA's Inclusion and Diversity initiatives can be found on page 56.

Fraud prevention and controls

Commonwealth Fraud Control Guidelines

The Chairman of APRA certifies that he is satisfied that:

- a fraud risk assessment and fraud control plan has been prepared and complies with the Commonwealth Fraud Control Guidelines;
- appropriate fraud prevention, detection, investigation, recording and reporting procedures are in place to meet the specific needs of APRA; and
- all reasonable measures to appropriately deal with fraud relating to APRA have been taken.

Freedom of Information Act 1982 (FOI Act)

Agencies subject to the *FOI Act* are required to publish information to the public as part of the Information Publication Scheme (IPS). This requirement is in Part II of the FOI Act and has replaced the former requirement to publish a section 8 statement in an annual report. APRA displays on its website a plan showing what information it publishes in accordance with the IPS requirements.

Work Health and Safety Act 2011 (WHS Act)

APRA has implemented an updated Work Health and Safety (WHS) policy with an increased focus on employee wellbeing, risk management and continual improvement. The review of the existing system ensures continued compliance with WHS legislation in a contemporary workplace environment. This creates transparency of accountabilities for all stakeholders as delegated by the Executive commitment in providing a safe working environment for all employees, contractors and visitors. It also reflects the strategic direction of enhancing leadership, employee experience and wellbeing by empowering those responsible to undertake continual risk management actions.

WHS Management System

The WHS Policy forms part of the WHS management system, which provides the support and mechanisms for all to carry out WHS risk mitigation through ongoing planning, implementation and monitoring. A key focus is on increased organisational awareness, and embedding accountability for WHS risk management through periodic reporting to the Executive.

The WHS management system aligns with organisational risk management and highlights the following WHS risks:

- physical WHS risks such as injuries from workplace strains, manual handling, slips and falls;
- psychological WHS risks such as stress induced by bullying, working relationships, or other outside work issues; and
- regulatory risks resulting from failure to comply with workplace health and safety related legislative requirements.

WHS Committee

The WHS Committee is an integral part of APRA's internal governance system, and is the principal forum for oversight on all WHS matters. It is responsible for monitoring the effectiveness of WHS control measures.

Wellbeing Strategy

APRA's Wellbeing Strategy is focused on proactively addressing health risk factors and organisational resilience to maintain a positive wellbeing culture. APRA continues to build on existing offerings, education and monitoring of target areas. The newly established Wellbeing Ambassador network has been pivotal in providing timely and effective peer-to-peer support to employees on personal and work-related issues affecting their ability to be at their best in the workplace.

All people leaders are equipped for creating an environment that promotes wellbeing. During 2018/19 APRA implemented mental health and wellbeing awareness training for all people managers. This training enables people managers to proactively address wellbeing issues, and have the confidence to intervene and progress support mechanisms as needed.

WHS Outcomes

APRA's risk management strategies have successfully mitigated any risks or hazards that may have resulted in notifiable incidents, investigations relating to undertakings, or provisional improvement notices.

No new workers compensation claims have been accepted by Comcare in the 2018/19 year.

Other reporting requirements

Accountable Authority during the current reporting period (2018/19)

		Period as the accountable authority or member	
Name	**Position title/position held**	**Date of commencement**	**Date of cessation**
Wayne Byres	Chair	1 July 2014	30 June 2024

Advertising and market research

Under the *Commonwealth Electoral Act 1918*, APRA is required to report annually on the amounts paid to advertising agencies, market research and media advertising organisations relating to electoral expenditure.

In 2018/19 APRA has not incurred any advertising or market research expenditure in relation to an election.

Separately, during 2018/19 APRA incurred expenditure relating to the following organisations:

Supplier	Amount (Excl. GST)
Mediabrands Australia Pty Ltd T/As Universal McCann	$105,272
Orima Research Pty Ltd	$33,905
Dentsu Mitchell Media Australia Pty Ltd	$31,768

Outside of the above, APRA did not conduct any specific advertising campaigns during 2018/19.

Auditor-general activities

The Australian National Audit Office (ANAO) undertook the required statutory financial audit of APRA for 2018/19.

Capability reviews

During 2018/19, APRA underwent a Capability Review which commenced in March 2019. The report was provided to the Treasurer at the end of June and publicly released on 15 July 2019.

The Review was led by a panel comprising Graeme Samuel AC (Chair), Diane Smith-Gander AO and Grant Spencer, and supported by a Secretariat team from the Treasury.

Capability reviews are regularly undertaken for government agencies and play an important role in maintaining transparency and accountability. The Capability Review aimed to provide a forward-looking assessment of APRA's ability to deliver upon its statutory mandate and respond to an environment of growing complexity and emerging risks for the regulated sectors, and to identify recommendations to enhance its future capability.

Throughout the course of the Review, APRA provided approximately 1,900 documents, conducted more than 30 hours of presentations for the Panel and Treasury Secretariat, and organised numerous meetings where the Panel engaged with APRA's senior management. These were also complemented by a questionnaire to an expert group of international prudential supervisors, a staff survey and 10 focus group discussions.

The Review recognised APRA as a well-regarded prudential regulator and acknowledged its success in delivering on its core financial safety and stability mandates. While acknowledging the initiatives taken to strengthen APRA's capabilities in dealing with new and emerging risks, the report stressed the need to accelerate change in a number of areas in order for APRA to remain a successful prudential regulator into the future.

APRA supported the 19 recommendations that were directed at it by the Review. Of those, the majority aligned closely with the priorities identified in APRA's 2018-2022 Corporate Plan with work already underway. APRA included initiatives to address the remainder in its revised 2019-2023 Corporate Plan which was published in August 2019. The other five recommendations reside with the Government.

Collective agreements and common law contracts

As at 30 June 2019, there were 578 employees covered by the terms of the APRA Employment Agreement, 2018. 111 senior employees were covered by common-law agreements. All employees are appointed under the APRA Act. APRA applies a total remuneration package (TRP) approach whereby all salary, superannuation and 'salary-sacrifice' benefits are included in an employee's TRP.

The APRA Employment Agreement 2018 commenced on 9 December 2018 for a three-year term, with a nominal expiry date of 8 December 2021.

Table 1 – TRP ranges for non-executive employees as at 30 June 2019

	Level 1	Level 2	Level 3	Level 4
Maximum	$70,408	$106,048	$153,716	$218,548
Minimum	$48,422	$63,628	$92,274	$131,084

Commonwealth Ombudsman

The Commonwealth Ombudsman did not conduct any investigation into APRA's conduct in 2018/19.

Commonwealth procurement rules

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

APRA conducts its procurement processes within the CPRs, including but not limited to:

- engaging indigenous suppliers for procurements between $80,000 and $200,000 as required under the Indigenous Procurement Policy;
- conducting open tenders for procurement activities of more than $200,000 (unless otherwise exempted under the CPRs);
- reporting all procurements over $10,000 on AusTender; and
- providing a link on APRA's website to the AusTender report on all purchases over $100,000.

In 2018/19, APRA had zero AusTender-exempt contracts. As required under the CPRs, all APRA competitively tendered contracts over $100,000 provided for the Auditor-General to have access to the contractor's premises.

Procurement initiatives to support small business

APRA supports small business participation in the Commonwealth Government procurement market. Small and medium enterprises (SME) and small enterprise participation statistics are available on the Department of Finance's website:

www.finance.gov.au/procurement/statisticson-commonwealth-purchasing-contracts/

APRA's procurement activities that support small business are consistent with paragraph 5.5, 5.6 and 5.7 of the CPRs and include:

- using the Commonwealth Contracting Suite for low-risk procurements valued under $200,000;
- prequalified panels with SME providers;
- payments via electronic systems; and

- meeting the objective of paragraph 5.6 of the CPRs on sourcing over 10 per cent of procurements through SME providers.

Consultancies

APRA's CFIs and associated operational procedures include specific provisions on consultants.

APRA engages consultants where it lacks specialist expertise or when independent research, review or assessment is required. Consultants are typically engaged to investigate or diagnose a defined issue or problem; carry out defined reviews or evaluations; or provide independent advice, information or solutions to assist in APRA's decision-making. Prior to engaging consultants, APRA takes into account the skills and resources required for the task, the skills available in-house, and the cost-effectiveness of engaging external expertise. The decision to engage a consultant is made in accordance with legislation, CPRs and internal policies.

During 2018/19, APRA entered into a total of two new consultancy contracts involving a total expenditure of $484,000. Information on the value of contracts and consultancies is available on the AusTender website: www.tenders.gov.au

Table 2 – Number of consultants and expenditure - 2018/19

	Total
No. of New contracts entered into during the period	2
Total actual expenditure during the period on new contracts (inc. GST)	$484,000
No. of Ongoing contracts engaging consultants that were entered into during a previous period	1
Total actual expenditure during the period on ongoing contracts (inc. GST)	$46,107

Consultative arrangements

APRA consults extensively with regulated entities, industry bodies and other interested parties prior to finalising prudential policies, including new or amended prudential standards and reporting standards, as well as formal prudential guidance.

APRA complies with the Government's policy on best practice regulation. During 2018/19, APRA finalised one Regulation Impact Statement, and undertook two Independent Reviews in which APRA certified that its policy development involved a process and analysis equivalent to a Regulation Impact Statement. In addition, APRA completed 13 preliminary assessments; of these, the Office of Best Practice Regulation (OBPR) advised that further regulatory impact analysis was required for four.

Courts and tribunals

Over 2018/19, there were no judicial decisions that had, or may have, a significant effect on APRA's operations, nor any court and tribunal decisions relating to enforcement action taken by APRA during the year.

Disability reporting

Since 1994, non-corporate Commonwealth entities have reported on their performance as policy adviser, purchaser, employer, regulator and provider under the Commonwealth Disability Strategy. In 2007/08, reporting on the employer role was transferred to the Australian Public Service Commission's State of the Service reports and the APS Statistical Bulletin. These reports are available at *www.apsc.gov.au*. From 2010/11, entities have no longer been required to report on these functions.

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

Executive remuneration

APRA's Board Members' remuneration is determined by Remuneration Tribunal determinations. The Senior Executives are remunerated through a common law contract and APRA's remuneration policies. All employees have a fixed salary component as their primary income with a discretionary bonus ('at risk' component) which is based on performance and in line with APRA's performance policy. All decisions relating to Executive remuneration are governed by the APRA Board. The Executive Committee approves remuneration review adjustments for all other employees.

Remuneration for key management personnel earned in 2018/19

Name	Position / title	Short-term benefits			Post-employment benefits	Other long-term benefits		Termination Benefits	Total remuneration
		Base Salary	Bonuses	Other benefits and allowances	Contributed Superannuation	Long service leave*	Other long-term benefits		
		$	$	$	$	$	$	$	$
Wayne Byres	Chair	692,389	-	88,246	111,350	117,226	-	-	**1,009,211**
Helen Rowell	Deputy Chair	645,878	-	1,618	25,000	58,076	-	-	**730,571**
John Lonsdale	Deputy Chair	479,227	-	-	51,546	44,380	-	-	**575,153**
Geoff Summerhayes	Member	630,534	-	18,409	25,000	21,588	-	-	**695,531**
Total		2,448,028	-	108,272	212,895	241,271	-	-	3,010,467

* Long service leave balances will include the annual accrual and any revaluation impacts.

Note: Differences in the figures in the key management personnel table and those provided by the Remuneration Tribunal are related to leave taken and accrued during the year and part-year service.

Remuneration for executives earned in 2018/19

				Short-term benefits			Post-employment benefits	Other long-term benefits		Termination Benefits	Total remuneration
Total remuneration band			Executives	Average base salary	Average bonuses	Average other benefits and allowances	Average contributed superannuation	Average long service leave*	Average other long-term benefits	Average termination benefits	Average Total remuneration
			No.	$	$	$	$	$	$	$	$
220,000	and less		13	85,315	4,535	-	9,019	146	-	3,704	**102,719**
220,001	to	245,000	1	148,639	26,500	-	20,623	25,076	-	-	**220,839**
320,001	to	345,000	6	266,422	21,667	-	29,447	16,397	-	-	**333,933**
345,001	to	370,000	7	278,246	32,857	-	24,599	23,746	-	-	**359,447**
370,001	to	395,000	4	236,559	27,500	-	29,529	15,281	-	70,000	**378,869**
470,001	to	495,000	2	422,022	25,000	-	25,000	10,500	-	-	**482,522**
495,001	to	520,000	1	428,002	20,000	-	25,000	29,321	-	-	**502,322**
520,001	to	545,000	2	448,749	30,250	-	25,000	22,293	-	-	**526,291**
545,001	to	570,000	1	447,987	25,000	-	25,000	54,448	-	-	**552,435**
Total number of executives			37								

* Long service leave balances will include the annual accrual and any revaluation impacts.

Remuneration for highly paid staff earned in 2018/19

				Short-term benefits			Post-employment benefits	Other long-term benefits		Termination Benefits	Total remuneration
Total remuneration band			Highly paid staff	Average base salary	Average bonuses	Average other benefits and allowances	Average contributed superannuation	Average long service leave*	Average other long-term benefits	Average termination benefits	Average Total remuneration
			No.	$	$	$	$	$	$	$	$
220,001	to	245,000	49	176,758	19,130	510	20,330	13,750	-	-	230,478
245,001	to	270,000	34	196,136	20,007	-	23,012	14,002	-	6,368	259,525
270,001	to	295,000	11	200,776	17,098	-	23,514	17,915	-	21,167	280,471
295,001	to	320,000	4	217,110	31,038	-	26,932	26,236	-	-	301,316
Total number of highly paid staff			98								

* Long service leave balances will include the annual accrual and any revaluation impacts.

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 has an obligation not to disclose the nature and limits of liability and the amount of the premium.

Grant programs

The Commonwealth Grants Rules and Guidelines require agencies to publish details of grants on their websites within 14 working days after the funding agreement for the grant takes place. Details must remain on the websites for at least two financial years. Grant programs, including discretionary grant programs, that APRA either jointly administered or participated in during 2018/19, including previous recipients of the Brian Gray Scholarship and the University of New South Wales Cooperative Actuarial Scholarship, are available on APRA's website: https://www.apra.gov.au/brian-gray-scholarship-program.

Information on grants awarded by APRA during 2018/19 is available at: https://www.apra.gov.au/grants-and-scholarships

Legal services

The Legal Services Directions 2017 require Commonwealth agencies to make publicly available information on records of their legal services expenditure for the previous financial year. During 2018/19, APRA's total expenditure on external legal advice and litigation services was $4,296,182 (excluding 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 2018/19, APRA Members and executives appeared at public hearings before the:

- Senate Economics Legislation Committee, sitting as Senate Estimates, on 25 October 2018 and 21 February 2019[22]
- Senate Economics Legislation Committee, on the Australian Business Securitisation Fund Bill 2019 on 14 February 2019

During 2018/19, APRA provided submissions to the following Committees:

- Legal & Constitutional Affairs Committee on Bills Relating to the National Integrity Commission (October 2018)

[22] In addition, APRA executives made themselves available for a public hearing on 11 April 2019, which was cancelled at short notice after they had travelled to Canberra.

- Senate Regulations & Ordinances Committee on Reporting Standards (May 2019)

Copies of opening statements delivered as part of APRA's appearances may be downloaded from APRA's website www.apra.gov.au. Transcripts of APRA's Parliamentary appearances and copies of its submissions to parliamentary committees are available from the Parliamentary website www.aph.gov.au.

Performance pay

APRA has a fully discretionary performance bonus system with aligned policy and guidelines around performance expectations. This was designed in consultation with employees and management and covers all eligible employees. For 2018/19 the aggregate bonus pool was $7.7 million, with bonuses only paid to eligible employees still in APRA's employ at the payment date.

Privacy Commission

There were no investigations by the Privacy Commissioner under section 40 of the *Privacy Act 1988* during 2018/19. No reports were served under section 30 of the Act. The Privacy Commissioner made no determinations under section 52, nor did APRA seek any under section 73.

There were no adverse or favourable comments made by the Privacy Commissioner in respect of APRA's operations. Privacy inquiries relating to APRA sent by post should be addressed to:

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

Responsible Ministers

During the 2018/19 financial year, the Hon. Scott Morrison MP had portfolio responsibility for APRA as Treasurer of the Commonwealth of Australia. He was succeeded on 24 August 2018, by the Hon. Josh Frydenberg MP, who remains Treasurer of the Commonwealth of Australia.

The Hon. Kelly O'Dwyer MP was Minister for Revenue and Financial Services until 28 August 2018. The Hon. Stuart Robert MP assumed portfolio responsibility as Assistant Treasurer between 28 August 2018 and 28 May 2019. Senator The Hon. Jane Hume has been the Minister for Superannuation, Financial Services and Financial Technology since 29 May 2019.

Significant non-compliance with relevant financial laws

During 2018/19 there were no incidents of material non-compliance with relevant financial laws.

Employee statistics

Table 1 – Ongoing employees 2018/19 by location

LOCATION	FEMALE		FEMALE Total	MALE		MALE Total	Grand Total
	Full Time	Part Time		Full Time	Part Time		
ADEL	3.0	0.9	3.9	5.0	0.0	5.0	8.9
BRIS	6.0	0.9	6.9	6.0	0.0	6.0	12.9
CANB	1.0	0.0	1.0	3.0	0.0	3.0	4.0
MELB	15.0	4.3	19.3	26.0	1.0	27.0	46.3
SYDNEY	189.0	20.0	209.0	249.0	8.2	257.2	466.2
Grand Total	**214.0**	**26.1**	**240.1**	**289.0**	**9.2**	**298.2**	**538.3**

Table 2 – Non-ongoing employees 2018/19 by location – Fixed-term employees and Senior Managers and above

LOCATION	FEMALE		FEMALE Total	MALE		MALE Total	Grand Total
	Full Time	Part Time		Full Time	Part Time		
ADEL	0.0	0.0	0.0	1.0	0.0	1.0	1.0
BRIS	1.0	0.0	1.0	1.0	0.0	1.0	2.0
MELB	4.0	0.0	4.0	3.0	0.0	3.0	7.0
SYDNEY	38.0	5.5	43.5	74.0	0.9	74.9	118.4
Grand Total	43.0	5.5	48.5	79.0	0.9	79.9	128.4

Table 3 – Ongoing employees 2017/18 by location

LOCATION	FEMALE		FEMALE Total	MALE		MALE Total	Grand Total
	Full Time	Part Time		Full Time	Part Time		
ADEL	1.0	1.5	2.5	5.0	0.0	5.0	7.5
BRIS	7.0	0.6	7.6	6.0	0.0	6.0	13.6
CANB	1.0	0.0	1.0	2.0	0.0	2.0	3.0
MELB	16.0	3.7	19.7	29.0	1.0	30.0	49.6
SYDNEY	174.0	26.7	200.7	233.0	7.7	240.7	441.4
Total	199.0	32.5	231.5	275.0	8.6	283.6	515.1

Table 4 – Non-ongoing employees 2017/18 by location – Fixed-term employees and Senior Managers and above

LOCATION	FEMALE		FEMALE Total	MALE	MALE Total	Grand Total
	Full Time	Part Time		Full Time		
ADEL	0.0	0.0	0.0	1.0	1.0	1.0
BRIS	0.0	0.0	0.0	1.0	1.0	1.0
MELB	3.0	0.0	3.0	5.0	5.0	8.0
SYDNEY	30.0	3.5	33.5	72.0	72.0	105.5
Total	33.0	3.5	36.5	79.0	79.0	115.5

Table 5 – Ongoing employees 2018/19 – by division

LOCATION	FEMALE		FEMALE Total	MALE		MALE Total	Grand Total
	Full Time	Part Time		Full Time	Part Time		
COR	39.0	4.2	43.2	46.5	1.4	47.9	91.1
DID	33.5	4.5	38.0	40.0	0.8	40.8	78.8
EPD	16.0	0.6	16.6	20.0	0.0	20.0	36.6
GOV	4.0	0.0	4.0	2.0	0.0	2.0	6.0
PAD	40.5	6.7	47.2	53.0	2.8	55.8	103.0
RDA	44.5	3.2	47.7	76.5	2.6	79.1	126.8
SID	36.5	6.9	43.4	51.0	1.6	52.6	96.0
Total	214.0	26.1	240.1	289.0	9.2	298.2	538.3

Table 6 - Non-ongoing employees 2018/19 by division – Fixed-term employees and Senior Managers and above

DIVISION	FEMALE		FEMALE Total	MALE		MALE Total	Grand Total
	Full Time	Part Time		Full Time	Part Time		
COR	8.0	0.9	8.9	15.0	0.0	15.0	23.9
DID	7.0	0.0	7.0	17.0	0.0	17.0	24.0
EPD	7.0	1.2	8.2	2.0	0.0	2.0	10.2
GOV	2.0	0.0	2.0	5.0	0.0	5.0	7.0
PAD	8.0	0.8	8.8	18.0	0.0	18.0	26.8
RDA	6.0	0.8	6.8	14.0	0.9	14.9	21.7
SID	5.0	1.8	6.8	8.0	0.0	8.0	14.8
Total	43.0	5.5	48.5	79.0	0.9	79.9	128.4

Table 7 – Ongoing employees 2017/18 - by division

DIVISION	FEMALE		FEMALE Total	MALE		MALE Total	Grand Total
	Full Time	Part Time		Full Time	Part Time		
COR	41.0	5.6	46.6	50.0	1.5	51.5	98.1
DID	28.0	6.1	34.1	37.0	1.6	38.6	72.7
ESR	12.0	1.4	13.4	15.0	0.0	15.0	28.4
GOV	4.0	0.0	4.0	3.0	0.0	3.0	7.0
PAD	34.0	8.7	42.7	48.0	1.4	49.4	92.1
RDA	44.0	3.6	47.6	65.0	2.6	67.6	115.2
SID	36.0	7.1	43.1	57.0	1.6	58.6	101.7
Grand Total	199.0	32.5	231.5	275.0	8.6	283.6	515.1

Table 8 – Non-ongoing employees 2017/18 by division – Fixed-term employees and Senior Managers and above

DIVISION	FEMALE		FEMALE Total	MALE	MALE Total	Grand Total
	Full Time	Part Time		Full Time		
COR	6.0	0.0	6.0	12.0	12.0	18.0
DID	7.0	0.0	7.0	16.0	16.0	23.0
ESR	5.0	0.9	5.9	2.0	2.0	7.9
GOV	2.0	0.0	2.0	3.0	3.0	5.0
PAD	7.0	0.9	7.9	20.0	20.0	27.9
RDA	4.0	0.0	4.0	17.0	17.0	21.0
SID	2.0	1.7	3.7	9.0	9.0	12.7
Grand Total	33.0	3.5	36.5	79.0	79.0	115.5

Agency resources and expenses by outcome

Under the *Requirements for annual reports for departments, executive agencies and other non-corporate commonwealth entities*, issued by the Department of Prime Minister and Cabinet, APRA must provide information outlining its various funding sources during the financial year and total expenses for each Agency outcome. To this end, APRA's Agency Resource Statement and Expenses by Outcome Statement for 2018/19 are set out below.

Agency resources statement

		Actual available appropriation $'000	Payments made $'000	Balance remaining $'000
		(a)	(b)	(a)-(b)
Ordinary annual services				
Departmental appropriation		9,237	7,967	1,270
Total available annual appropriations and payments	**A**	**9,237**	**7,967**	**1,270**
Special accounts				
Opening balance		83,343		
Appropriation receipts		274		
Special appropriation receipts		143,564		
Payments made			155,503	
Total special account	**B**	**227,181**	**155,503**	**71,678**
Total resources and payments				
A+B		236,418	163,470	72,948
Less appropriation drawn from annual or special appropriations above and credited to special accounts		(9,237)	(7,967)	(1,270)
Total net resourcing and payments for APRA		**227,181**	**155,503**	**71,678**

Expenses by outcome statement

Outcome 1: Enhanced public confidence in Australia's financial institutions through a framework of prudential regulation which balances financial safety and efficiency, competition, contestability and competitive neutrality and, in balancing these objectives, promotes financial system stability in Australia.	Budget	Actual expenses	Variation
	$'000	$'000	$'000
	(a)	(b)	(a)-(b)
Program 1.1: Australian Prudential Regulation Authority			
Departmental expenses			
Departmental appropriation[1]	5,825	9,237	(3,412)
Special accounts	139,727	149,183	(9,456)
Total expenses for outcome[1]	**145,552**	**158,420**	**(12,868)**
	Actual	**Actual**	**Variation**
	2018/19	**2017/18**	
Average staffing level (number)	644	607	37

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

List of requirements

The following list of mandatory annual reporting requirements, as outlined in the *Resource Management Guide No. 135 - Annual Reports for Non-corporate Commonwealth Entities*, has been annotated with the location of the information in this Report.

Part of Report	Description	Location or applicability
	Letter of transmittal	Page 1
	Table of contents	Page 2
	Index	Page 142
	Glossary	Page 3
	Contact officer(s)	Page 145
	Internet home page address and internet address for report	Page 145
Review by Chairman		Chapter 1
	Overview	Chapters 1-3
Overview of authority		Chapter 2 and 3
	Role and functions	Page 19
	Organisation structure	Page 20
	Outcome and program structure	Chapter 1 and 3
Report on performance		
	Review of performance in relation to programs and contribution to outcomes	Chapter 3
	Actual performance in relation to deliverables and KPIs	Chapter 3
	Narrative discussion and analysis of performance	Chapter 3 and 4
	Purpose of the entity as outlined in the corporate plan	Chapter 1 and 3
	Discussion and analysis of the Authority's financial performance	Chapter 5 and 6
	Authority's resource statement and summary resource tables by outcomes	Pages 138-139
Corporate governance		
	Compliance with the Commonwealth Fraud Control Guidelines	Page 122
	Statement of the main corporate governance practices in place	Chapter 4 and 5
External scrutiny		
	Significant developments in external scrutiny	Page 125
	Judicial decisions and decisions of administrative tribunals	Page 128
	Reports by the Auditor-General, a Parliamentary Committee or the Commonwealth Ombudsman	Chapter 6

Part of Report	Description	Location or applicability
Management of human resources		
	Assessment of effectiveness in managing and developing human resources to achieve the Authority's objectives	Chapter 4
	Statistics on staffing	Chapter 4 and 6
	Statistics on employees who identify as Indigenous	Chapter 4
	Enterprise or collective agreements, determinations and common law contracts	Chapter 6
	Performance pay	Pages 129-131 and Page 133
Purchasing		
	Assessment of purchasing against core policies and principles	Chapter 6
Consultants		
	Summary statement detailing consultancy arrangements and confirming that information on contracts and consultancies is available through the AusTender website.	Chapter 6
Australian National Audit Office access clauses		
	Absence of provisions in contracts allowing access by the Auditor-General	Chapter 6
Exempt contracts		
	Contracts exempt from the AusTender process	Chapter 6
Financial Statements		Chapter 5
Other information		
	Schedule 2 Part 4 of the *Work Health and Safety Act 2011*	Chapter 6
	Advertising and market research (Section 311A of the *Commonwealth Electoral Act 1918*) and statement on advertising campaigns	Chapter 6
	Ecologically sustainable development and environmental performance (Section 516A of the *Environment Protection and Biodiversity Conservation Act 1999*)	Chapter 6
	Grant programs	Chapter 6
	Disability reporting	Chapter 6
	Information Publication Scheme statement	Chapter 6

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