



MEMORANDUM OF UNDERSTANDING

THE RESERVE BANK OF AUSTRALIA AND THE AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY

Objective

1. This Memorandum of Understanding sets out a framework for co-operation between the Reserve Bank of Australia (RBA) and the Australian Prudential Regulation Authority (APRA) which is aimed at promoting the stability of the Australian financial system.

Responsibilities

2. The responsibilities of the RBA and APRA for promoting financial stability are largely complementary.
3. The RBA's role is focused on the objectives of monetary policy, overall financial system stability and regulation of the payments system. It has no obligation to protect the interests of bank depositors and will not supervise any individual financial institutions. The RBA does, however, have discretion to provide emergency liquidity support to the financial system.
4. APRA is responsible for the prudential supervision of banks, life and general insurance companies and superannuation funds. Supervision of building societies, credit unions and friendly societies will transfer to APRA from State jurisdictions at a later date. APRA has powers to act decisively in the interests of depositors or policy holders and fund members if a supervised institution is in difficulty.

Sharing of Information

5. Full and timely exchange of information is a crucial element in co-ordination between the RBA and APRA.
6. The RBA gathers data and other information through its participation in financial markets and its pivotal role in the payments settlement system. APRA gathers a wide range of prudential data on the institutions which it supervises.

7. The RBA and APRA agree that, subject to legislative provisions, information available to one which is relevant to the responsibilities of the other will be shared as requested. Each organisation will provide relevant information to the other on a best endeavours basis, with due regard to the urgency of doing so.
8. When exchanging confidential information, the RBA and APRA acknowledge the confidentiality and secrecy requirements of the Acts under which they operate. Each organisation has the right to specify the level of confidentiality attached to information provided to the other.
9. The RBA and APRA will work together to avoid duplication in the collection of information so as to minimise the reporting burden on financial institutions. Subject to appropriate cost sharing, the RBA may arrange for information relevant to its responsibilities to be collected from financial institutions by APRA.
10. APRA will be responsible for the custody of all records relating to the supervision of banks, including those records transferred to APRA on its establishment. It will ensure that, subject to legislative provisions, the RBA has free and open access to these records.

Threats to Financial System Stability

11. If either the RBA or APRA identifies a situation which it considers is likely to threaten the stability of the financial system, it will inform the other as a matter of urgency. Responses to a disturbance of this type will depend on the particular circumstances prevailing, but in all cases the RBA and APRA will keep each other informed of their on-going assessment and will consult closely on proposed actions.
12. The RBA will be responsible for determining whether, and how, it might provide emergency liquidity support to the financial system. It does not see its balance sheet as available to support the solvency of an individual financial institution in difficulty.

RBA Participation in Prudential Consultations

13. To assist it in keeping abreast of financial developments and supervisory issues, the RBA will participate from time to time in APRA's regular on-site reviews of, and prudential consultations with, supervised institutions. The RBA will give APRA appropriate notice of its intention to participate in such reviews/consultations.

Consultation on Regulatory Policy Changes

14. Each organisation will notify the other of any proposed changes in regulatory policy, and provide the opportunity to consult on changes which are likely to impinge on the responsibilities of the other.

International Representation

15. The RBA and APRA will co-operate closely to ensure that Australia has appropriate representation in regional and international supervisory fora and training initiatives. In some circumstances there will be joint representation; for example, APRA will join the RBA in the relevant study groups of the Executive Meeting of East Asia and Pacific (EMEAP) central banks. In other circumstances only one institution will be represented; for example, APRA has assumed the RBA's membership of the Core Principles Liaison Group in the Basle Committee on Banking Supervision. In the latter cases, the two organisations will consult with each other as needed before and after the particular gathering.

Co-ordination Committee

16. A joint Co-ordination Committee will be established to facilitate close co-operation between the RBA and APRA. The Committee will be responsible for ensuring that appropriate arrangements are in place to respond to threats to system stability, and for co-ordinating information sharing. It will also handle operational matters such as statistical collections, joint research work and participation in international fora.

17. The Committee will be chaired by the Assistant Governor (Financial System) of the RBA and meet monthly or more frequently as required.

I.J. Macfarlane
Governor
Reserve Bank of Australia

G.J. Thompson
Chief Executive Officer
Australian Prudential Regulation Authority

SYDNEY
12 October 1998