



1 JULY 2015 – 30 JUNE 2016

APRA REGULATOR PERFORMANCE FRAMEWORK SELF-ASSESSMENT

Contents

Introduction	3
About the Regulator Performance Framework	3
Evaluating APRA's performance	3
Self-assessment	4
External validation	4
APRA's self-assessment against the Key Performance Indicators	6
Appendix: Evidence to support self-assessment	19

Introduction

This report sets out the APRA's 2015/16 self-assessment against the Australian Government's Regulator Performance Framework (the Framework).

About the Framework

The Government established the Framework to assess regulators' performance when interacting with business, the community and individuals while carrying out their functions. The Framework principally relates to regulatory burden arising from the administration of regulation, rather than the process for, and outcomes of, regulatory policy making.

The Framework seeks to improve the way regulators operate, reduce the costs incurred by business, individuals and the community from the administration of regulation, and increase the public accountability and transparency of regulators. The Framework establishes six outcome-based Key Performance Indicators (KPIs) of performance and administration that apply to all regulators.

KPI 1: Regulators do not unnecessarily impede the efficient operation of regulated entities

KPI 2: Communication with regulated entities is clear, targeted and effective

KPI 3: Actions undertaken by regulators are proportionate to the regulatory risk being managed

KPI 4: Compliance and monitoring approaches are streamlined and coordinated

KPI 5: Regulators are open and transparent in their dealings with regulated entities

KPI 6: Regulators actively contribute to continuous improvement of regulatory frameworks.

Regulators were required to develop and consult on a range of evidence metrics to be used to conduct an annual self-assessment of performance and to identify areas for improvement. In July 2015, APRA published its Regulator Performance Framework Metrics, to support the KPIs. Detailed results of APRA's achievement against the metrics are set out in the Appendix to this report.

More information about the Framework can be found at www.cuttingredtape.gov.au/resources/rpf.

Evaluating APRA's performance

The Framework is intended to evaluate how regulators administer regulation, with the aim of encouraging regulators to undertake their functions with the minimum impact necessary to achieve regulatory objectives.

The Framework is one component of a broader suite of accountability mechanisms established for APRA. To this end, the Framework complements a range of other performance reporting mechanisms in place. For example, the Framework does not seek to measure the performance of APRA in relation

to the outcomes it achieves for the Australian community and the economy, which is the focus of the requirements of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). It is also explicitly not intended to capture the process for, and outcomes of, regulatory policy making.

In accordance with the Framework, all regulators are to undertake an annual self-assessment of their performance against each of the KPIs. The Framework requires that the self-assessment report is externally validated through an approved stakeholder mechanism prior to its release to the regulator's Minister, and publication.

Self-assessment

APRA's self-assessment against the KPIs indicates it has a strong foundation for administering regulation within its area of responsibility, in keeping with the objectives of the Framework. In making this assessment, APRA has drawn on a range of data sources relevant to each metric, including a broad range of quantitative and qualitative evidence.

APRA's self-assessment includes quantified evidence complemented with qualitative information that outlines specific actions taken during the period which relate to APRA's performance. Case studies or examples of specific activities have been included in the self-assessment to illustrate how APRA's activities have demonstrated the KPIs. One key source of evidence is the findings from the biennial APRA Stakeholder Survey, from which APRA gains insight from regulated entities and knowledgeable observers on a broad range of its activities.

APRA's self-assessment is broadly supported by stakeholders. However, there were also a variety of observations from stakeholders on specific aspects of the assessment where improvements may be possible.

External validation

APRA's self-assessment was externally validated in October 2016 through the approved stakeholder consultation mechanism.¹

The validation process provides an avenue for stakeholders to provide feedback on whether the self-assessment accords with their views of APRA's performance against the KPIs over the assessment period. Stakeholders are to consider if:

- APRA's conclusions are reasonable and objective; and
- if the areas identified for further improvement are appropriate or justified.

The validation is not intended to be an audit of APRA's self-assessment or an opportunity for stakeholders to deal with specific individual experiences or interactions with a regulator.

¹ APRA's approved stakeholder mechanism is the following industry associations: Australian Banker's Association (ABA); Insurance Council of Australia (ICA); Financial Services Council (FSC); Association of Superannuation Funds Australia (ASFA); and Community Owned Banking Association (COBA). Consultation was also extended to Private Healthcare Australia (PHA) and Health Insurance Restricted and Regional Association of Australia (hirmaa).

Feedback from stakeholders was broadly positive, with most stakeholders supporting APRA's self-assessment and agreeing that APRA's conclusions are reasonable and objective. Some stakeholders provided specific feedback in relation to certain KPIs, including a range of suggestions in relation to the metrics. Suggested improvements for APRA included:

- some stakeholders sought an increase in direct and informal engagement between APRA and regulated entities;
- one stakeholder proposed more communication from APRA on its views of emerging risks and more targeted communication to individual regulated entities;
- one stakeholder indicated the significant value of APRA's timely guidance during periods of policy reforms, but requested more timely Frequently Asked Questions (FAQs); and
- two stakeholders suggested response times for some APRA enquiries were tight, such as in relation to reporting requirements under Direct to APRA (D2A), or slow in relation to their own requests for specialist advice from APRA.

Notwithstanding the above, stakeholders generally noted appreciation of APRA's efforts in improved stakeholder engagement, communication and ongoing business improvements.

Key Performance Indicator 1



Regulators do not unnecessarily impede the efficient operation of regulated entities

Performance metrics

- 1.1** APRA publications address current and emerging issues or developments in the financial sector
- 1.2** Development of standards includes a consultation process consistent with the Office of Best Practice principles including preparing Regulation Impact Statements, public release of stakeholder submissions and a response to submissions
- 1.3** Publicly reported peer assessments against relevant international practices and standards and demonstrated engagement with relevant international bodies and offshore regulators
- 1.4** Feedback collected and publicly reported from biennial stakeholder survey

APRA's assessment

APRA is an independent statutory authority established for the purposes of prudential supervision of financial entities and for promoting financial stability in Australia. In meeting this purpose, APRA is to balance financial safety with efficiency, competition, contestability and competitive neutrality and, in doing so, promote financial stability. In this regard, the efficient operation of regulated entities is a direct consideration for APRA in undertaking its mission. APRA seeks to maintain an appropriate balance between the objectives of financial safety, financial stability and the efficient operation of regulated entities in undertaking all of its activities.

APRA's assessment of KPI 1 is based on an assessment of whether APRA demonstrates understanding of its stakeholders, whether APRA allows sufficient time and listens to stakeholders when making changes to its regulatory framework, how APRA's practices benchmark internationally, and what APRA's stakeholders think about its activities and modes of operation. APRA demonstrates this KPI through its understanding of current and emerging issues and developments in the financial sector, and the reputation that the Australian prudential frameworks and practices have internationally and against international benchmarks. Stakeholders expressed some varied views on APRA's effectiveness in regard to specific aspects of this KPI, particularly when considering the costs associated with implementing the prudential framework and in managing individual interactions with regulated entities.

Where APRA has a strong understanding of current and emerging issues or developments in the financial sector, it is more likely to make decisions that do not unnecessarily impede the efficient operation of regulated entities. APRA demonstrates it has a strong understanding of regulatory risks in its industry engagement and the material it publishes on topical issues. APRA is active in delivering speeches, engaging with industry and publishing material on current and emerging issues or developments in the financial sector.

The Framework assesses the administration of regulation, rather than the policy development process. Nevertheless, a comprehensive industry consultation process is more likely to result in a prudential framework that is administered in a manner that does not unnecessarily impede the efficient operation of regulated entities. APRA has a comprehensive consultation process: APRA is committed to maintaining wide engagement with stakeholders; to have robust costs and benefits assessment; and to provide clear responses to stakeholder submissions. A great deal of APRA's policy development work is directed towards establishing an appropriate balance between financial safety and other considerations, including regulatory costs, and APRA seeks to demonstrate these considerations in its policy material. APRA formally reviews its policy priorities for development of the prudential framework on a biannual basis. This review includes considering the need to address existing and emerging risks, looking at both individual regulated entities as well as the financial system as a whole, and considering the costs and benefits when determining the policy priorities.

APRA's Stakeholder Survey² provided feedback that industry perceived APRA as consulting, but not always taking on board feedback when developing policy changes and indicated that the purpose and rationale for APRA's actions and decisions could be more clearly provided. The feedback indicated APRA could do more to consider the costs of change to the industry, including providing longer timeframes when consulting with industry on major changes. In response to this feedback, a number of external-facing initiatives have been implemented, such as including more detail in response papers in areas where stakeholder suggestions were not adopted as well as a long-term drive to reduce complexity and use plainer English in all policy material.

There are significant benefits to the Australian financial sector in APRA maintaining practices founded on international standards, and in APRA engaging with international bodies and offshore regulators so as to seek consistent and coordinated supervisory approaches to achieving outcomes internationally, learn from peer experiences, and share better practices. APRA's 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. Internationally, the Australian prudential framework and practices benchmark well, being founded on international standards with adaptations to suit Australian conditions as appropriate.

The self-assessment validation process indicated one stakeholder, while generally agreeing with the assessment, considered there were certain situations in which APRA could enhance its direct communications with individual regulated entities. In particular, this feedback suggested some regulated entities valued increased direct and informal communication with APRA when dealing with complex prudential matters, rather than the use of formal correspondence. Another stakeholder indicated appreciation for APRA's consultation processes for new and changed regulatory requirements – noting these typically included publication of detailed responses to submissions and an average

2 [APRA Stakeholder Survey – 2015 Regulated institutions and knowledgeable observers](#). Report of overall findings, June 2015.

period of more than eight weeks for responses – but indicated that the costs of complying with APRA’s requirements remained an issue and expressed concern that reforms suggested by industry with a view to reducing red tape had not been adopted.³

³ In August 2016, APRA released an update on its regulatory cost saving project. This indicated that, since the previous update on the project in February 2015, APRA had modified the regulatory framework to achieve approximately \$5 million in cost savings for the regulated industry. This project, which commenced in 2014, involved consultation with industry and other stakeholders, and sought to identify specific, quantifiable opportunities for regulatory cost savings. In undertaking this project APRA sought to first identify specific, quantifiable options for potential cost savings, and APRA then proceeded with those options that could be implemented without compromising the soundness of the prudential framework.

Key Performance Indicator 2



Communication with regulated entities is clear, targeted and effective

Performance metrics

- 2.1** APRA publishes up-to-date guidance on its framework, processes and activities on its external website
- 2.2** Timely communication on key developments or consultations are delivered electronically to all relevant APRA contacts and those stakeholders that register for notifications on APRA's website
- 2.3** Development of standards includes a consultation process consistent with the Office of Best Practice principles including preparing Regulation Impact Statements, public release of stakeholder submissions and a response to submissions
- 2.4** Feedback collected and publicly reported from biennial stakeholder survey

APRA's assessment

APRA's assessment of its communication with regulated entities for KPI 2 is broadly based on an assessment of the guidance provided on APRA's standard practices and procedures, the information provided when changes are proposed or developments occur, and whether APRA allows time for, and responds to, stakeholder suggestions when making changes.

APRA's assessment indicates strong foundations are in place: relevant material is available publicly and is valued by stakeholders; mechanisms are in place to notify stakeholders of relevant changes in a timely manner; and feedback is generally supportive of the effectiveness of individual interactions with regulated entities. However, clear, targeted and effective communication requires ongoing attention. The refresh and review of APRA's practices in this area demonstrate APRA's ongoing focus on maintaining high standards in this area.

APRA assessed the information and guidance on key processes and decisions available on its website such as supervisory activities, licensing and enforcement. In APRA's view, there is ready access to clear and up-to-date information on the prudential framework and guidance on the expectations for key activities and decisions. In addition, during the year APRA undertook a review and refresh of a number of regular reports to enhance their focus, clarity and effectiveness.

Timely communication on key developments and open consultations is important in ensuring that stakeholders are well informed and effectively able to engage with developments. Throughout the year, APRA's website remained up-to-date with consultation packages, speeches and information on other engagement with external stakeholders. Registered stakeholders were notified in a timely manner as new material was published.

Stakeholder feedback was strongly positive in this area within the Stakeholder Survey, indicating APRA's communication with regulated entities is generally clear, targeted and effective. Results indicated that regulated entities' interactions with their APRA supervisory team, as well as relevant guidance material including Prudential Practice Guides (PPGs), letters to entities and FAQs, are a key strength.

In the self-assessment validation process, one stakeholder proposed clearer and more targeted communication to a centralised point for each individual regulated entity.⁴ Another stakeholder noted the consistency of APRA's communications could be improved. This stakeholder also proposed that APRA could increase the use of web-conferences.

⁴ Under APRA's supervisory model, APRA assigns a responsible supervisor as the main contact for each regulated entity. APRA seeks to communicate with entities via the entity's nominated points of contact. Where entities wish to adjust their nominated contact points they should notify their responsible supervisor.

Key Performance Indicator 3



Actions undertaken by regulators are proportionate to the regulatory risk being managed

Performance metrics

- 3.1** APRA publications address current and emerging issues or developments in the financial sector
- 3.2** APRA publishes its supervisory and enforcement approaches on its website
- 3.3** Statements of Expectations and Intent are published
- 3.4** Feedback collected and publicly reported from biennial stakeholder survey

APRA's assessment

APRA's assessment of KPI 3 is broadly based on an assessment of the expectations from the Government and APRA's intent in meeting those expectations, whether APRA demonstrates an understanding of the industry, and whether APRA's practices demonstrate a proportionate approach. APRA's mission and established practices are founded on a risk-based approach which focuses activities and actions in proportion to perceived risk. APRA is transparent about this approach and it is in line with Government expectations. In general, stakeholders provided positive feedback on APRA's understanding of, and focus on risks, albeit with some smaller entities reporting the resources required to support supervisory visits as high.

Publishing the Statement of Expectations from the Government and APRA's responding Statement of Intent is important for transparency in relation to the expectation on, and intent of, APRA in undertaking its role. The Government's current Statement of Expectations for APRA was issued in early July 2014. APRA responded with a Statement of Intent, setting out its intention to ensure the Government's broad policy framework, including its deregulation agenda, is accommodated in the course of APRA performing its role and meeting its responsibilities. These documents are available on APRA's website.

Where APRA applies a risk-based, proportionate approach to its supervisory and enforcement activities it promotes more efficient use of resources and reduces regulatory burden on regulated entities. APRA's long-established risk assessment and response systems — the Probability and Impact Rating

System (PAIRS) and the Supervisory Oversight and Response System (SOARS) — are critical tools for APRA in successfully identifying entities that have higher risk of failure and tailoring APRA's approach according to this risk.

Where APRA has a strong understanding of current and emerging issues or developments in the financial sector, it is more likely to be able to take action proportionate to the regulatory risk being managed. Monitoring the safety of entities is an important indicator of the extent to which APRA identifies material risks and achieves rectification of problem issues or, where appropriate, facilitates orderly exit from the industry. During 2015/16, APRA's enforcement resources continued to support frontline supervision in the early identification of emerging risks, so as to minimise the need for more intrusive intervention at a later stage. While it is not possible to compare outcomes with what would have happened had APRA not intervened, the overall direction of movement of entities through supervisory stances, and the relatively low proportion of failures, is consistent with timely and effective intervention on APRA's part.

In APRA's view, its approach provides a direct link between the actions undertaken and the regulatory risk being managed. Publication of APRA's approach to supervision and enforcement allows an external assessment of whether APRA seeks to apply a risk-based, proportionate approach.

Feedback received by stakeholders through the Stakeholder Survey broadly supported the effectiveness of APRA in identifying risks and meeting its stated approach of being primarily risk-based in its supervision. Stakeholders identified room for improvement in the timely identification of emerging industry issues, and smaller entities were more likely to report that supervisory visits required significant resources.

In the self-assessment validation process, stakeholders broadly agreed with the assessment, with one stakeholder proposing more communication from APRA on its views of emerging risks.

Key Performance Indicator 4



Compliance and monitoring approaches are streamlined and coordinated

Performance metrics

- 4.1** APRA collects and shares statistical information with other government agencies including RBA, ABS and ASIC
- 4.2** Development of the reporting framework includes a consultation process consistent with the Office of Best Practice principles including preparing Regulation Impact Statements, public release of stakeholder submissions and a response to submissions
- 4.3** APRA publishes non-confidential industry and entity level statistical information
- 4.4** Feedback collected and publicly reported from biennial stakeholder survey

APRA's assessment

APRA's assessment of its performance against KPI 4 is based on whether it allows sufficient time and listens to stakeholders when making changes to the reporting framework, and on the information APRA shares with other agencies and with the public. APRA maintains strong working relationships with Australia's key financial agencies to ensure coordinated and streamlined approaches. In particular, APRA plays an important role as the central repository of statistical information on the Australian financial system, by means of its ongoing collection and publication of data. APRA collects, distributes and publishes data on behalf of a number of other Government agencies and international organisations, providing a streamlined and coordinated approach to reporting of statistical information for regulated entities.

Collection of data was a source of considerable feedback from regulated entities. APRA is cognisant of the costs to regulated entities in collecting data and undertakes regular reviews of the compliance burden associated with its current reporting requirements. APRA has sought and received funding to upgrade its data collection system which will also allow enhanced public access to the data collected by APRA. In addition, APRA is currently working with the Australian Bureau of Statistics (ABS) and the Reserve Bank of Australia (RBA) to improve and streamline the data collection that APRA administers on their behalf.

APRA has strong working relationships with Australia's key financial regulatory agencies - the RBA and the Australian Securities and Investments Commission (ASIC). APRA also maintains a close and cooperative working relationship with the Australian 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 relationships seek to ensure streamlined and coordinated approaches.

Much of the data APRA collects is shared between agencies or organisations to reduce the burden of duplicative reporting for regulated entities. In particular, data collected by APRA assists the RBA, ABS, ASIC, Australian Taxation Office (ATO) and the Department of Health to fulfil their respective roles. APRA also collects data to fulfil Australia's international reporting obligations to organisations such as the Bank for International Settlements.

Subject to confidentiality obligations, APRA publishes much of the data it collects in industry-level and individual entity-level publications. APRA also seeks to meet requests for customised statistics where this is possible under confidentiality obligations.

STATISTICAL DATA COLLECTED BY APRA

58% volume of data collected was about right

41% indicated volume was too much or far too much

One of the lower scoring items in APRA's Stakeholder Survey related to the amount of statistical data collected by APRA. The majority of respondents indicated that the amount of statistical data collected by APRA was about right (58 per cent), but a substantial minority (41 per cent) indicated that it was too much or far too much. The proportion responding too much or far too much in the 2013 Survey was 29 per cent, and this has steadily increased since 2009.

In response to the need to continually improve its statistical collections, a number of changes were made and a number of additional changes were put in train in 2015/16. In September 2015, for example, APRA released a discussion paper on the ADI Points of Presence statistics publication. In response to feedback, APRA announced it would streamline the statistics and data collection from 2017. APRA also made improvements to the recently-introduced Quarterly Superannuation Performance statistics in response to feedback from users.

The data collection process was the lowest rated topic in the Stakeholder Survey. The ease of use of APRA's statistical collection system, D2A, was one of the lowest rated items in the survey with over 50 per cent of respondents indicating that D2A was cumbersome and not easy to use. There was also feedback to indicate difficulties in understanding reporting requirements.

Government will provide
\$9.7 MILLION
to modernise
APRA's data collection & dissemination systems

The costs associated with replacing D2A has meant that an upgrade to more modern technology has not previously been feasible. However, as part of the 2016/17 Budget, the Government announced it will provide \$9.7 million over three years from 2016/17 to modernise APRA's data collection and dissemination systems. APRA has recently initiated a multi-year data transformation program which includes a replacement of D2A, and enhanced public access to the data collected by APRA. This project should address many of the concerns raised by stakeholders.

In the self-assessment validation process, stakeholders indicated APRA's compliance and monitoring approaches are generally streamlined and coordinated, noting further improvements that could be considered. One stakeholder noted short turnaround times required when responding to APRA queries on regulatory returns. Another stakeholder observed that the replacement of D2A will be greatly welcomed by industry and that this provides an important opportunity to deliver a more efficient system for reporting of data by entities to regulators.

Key Performance Indicator 5



Regulators are open and transparent in their dealings with regulated entities

Performance metrics

- 5.1** APRA publishes its supervisory and enforcement approaches on its external website
- 5.2** Demonstrated regular engagement with stakeholders
- 5.3** APRA publicly reports on its performance and provides detail on key aspects of APRA's activities
- 5.4** APRA's Service Charter is publicly available
- 5.5** Feedback collected and publicly reported from biennial stakeholder survey

APRA's assessment

APRA's assessment of its performance against KPI 5 broadly considers the transparency of its regulatory approach and key activities, and its Service Charter expectations.

Open and transparent dealings with stakeholders contribute to a greater understanding of APRA's role by both regulated entities and the broader community. APRA's supervisory model of specific supervisors for each regulated entity is designed to foster open and transparent dealings in the supervisory process. Stakeholder feedback provided strong positive results in relation to openness and transparency of the supervisory process.

Open and transparent reporting of APRA's performance increases APRA's accountability to Parliament, regulated entities and the wider community and is likely to improve the overall performance of APRA along with the community's confidence in APRA. APRA has demonstrated commitment to open and transparent communication on its general expectations and reporting on APRA's performance.

Where possible, APRA seeks to be open and transparent in the way it regulates and supervises. If regulated entities understand how and why they are being regulated, regulatory outcomes are more likely to be achieved. APRA's supervision model, which includes allocating responsible supervisors for each regulated entity, assists in direct open and transparent engagement with individual regulated entities.

APRA uses a diverse range of channels to communicate various policy, statistical and other announcements with stakeholders groups. Regular engagement on a bilateral and multilateral basis with regular liaison with professional and industry associations is held with each industry sector that APRA regulates. APRA also engages with other government and regulatory agencies, media and the general public and APRA provides open access to considerable material on its activities on its website.

The PGPA Act establishes uniform governance and accountability requirements and a performance framework for all Government entities, including APRA. Under the PGPA Act, APRA publishes accountability requirements each year in its Annual Report, including the Annual Performance Statement. APRA is also required to publish a Corporate Plan setting out information on APRA's key strategies and activities over a rolling four-year period. APRA's Corporate Plan 2015-2019 was published in August 2015 and is available on the APRA website.

APRA continues to develop its performance assessment and accountability framework in coordination with Government initiatives to promote improvements in regulator accountability more generally. There has also been an international effort by prudential regulators to improve the way in which they assess their supervisory performance since the global financial crisis.

The APRA Service Charter explains how APRA carries out its role and what those who deal with the prudential regulator can expect. Publication of the Service Charter forms part of APRA's on-going commitment to enhance transparency and accountability to its stakeholders.

The Stakeholder Survey feedback in relation to the openness and transparency of the supervisory process was generally positive.

The self-assessment validation process feedback indicated APRA's supervisory process is open and transparent and APRA's self-assessment reasonable and objective.

Key Performance Indicator 6



Regulators actively contribute to the continuous improvement of regulatory frameworks

Performance metrics

- 6.1 Development of standards includes a consultation process consistent with the Office of Best Practice principles including preparing Regulation Impact Statements, public release of stakeholder submissions and a response to submissions
- 6.2 Feedback mechanisms are available and made known to all stakeholders
- 6.3 Feedback collected and publicly reported from biennial stakeholder survey

APRA's assessment

APRA's assessment of its performance against KPI 6 broadly considers an assessment of the extent to which APRA is open to taking on feedback, and whether APRA allows sufficient time for, and responds to, stakeholders' views when making changes.

Feedback is a valuable tool in ensuring continuous improvement of regulatory frameworks. APRA encourages feedback and has demonstrated a commitment to being open to feedback and transparent on the nature of feedback and the responses that we have taken.

APRA receives feedback from stakeholders in submissions to policy consultations. Where these are non-confidential submissions, APRA publishes the submissions received and APRA's response to submissions.

APRA's website provides a mechanism to provide feedback and suggestions on its processes and activities so APRA can identify what it does well and how it can improve in other areas. Compliments and complaints are both useful feedback to help reinforce good practice with APRA staff and to adjust APRA processes or approach where needed.

As part of its Service Charter, APRA is committed to surveying regulated entities, industry bodies and other stakeholders to understand the impact of its prudential framework and the effectiveness of its supervision. The survey provides a channel that promotes a feedback cycle with regulated entities and other stakeholders. The information collected as part of the survey is used by APRA to inform

improvements in its regulatory framework and supervisory practises. Each survey report is published on APRA's website.

In the self-assessment validation process, one stakeholder indicated that further transparency around emerging prudential risks and APRA's future areas of focus would assist industry in more effectively responding to issues. Another potential improvement noted related to the manner in which unique complexities of certain regulated entities were considered in developing the prudential framework. A number of proposals around the improvement of metrics within the Framework were also put forward.

Appendix

Results and supporting evidence against metrics

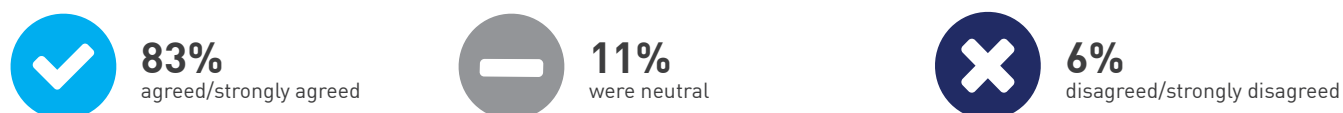
Key Performance Indicator 1

Regulators do not unnecessarily impede the efficient operation of regulated entities

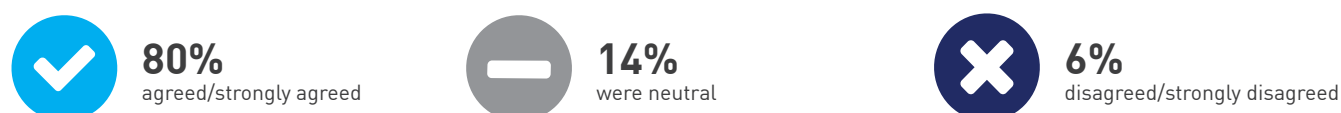
i) Stakeholder Survey⁵

APRA's Stakeholder Survey – 2015 asked stakeholders to rate their level of agreement with the following statements that are relevant to KPI 1.

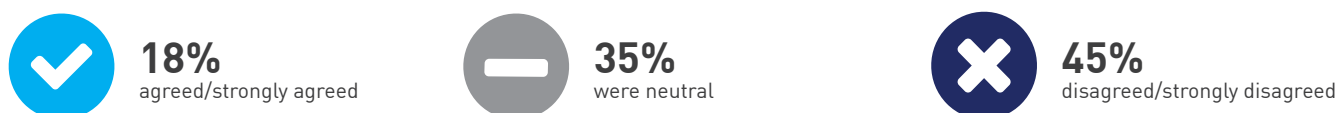
APRA considers issues relevant to industry and other stakeholders when developing its prudential standards and guidance material.



APRA provides sufficient opportunity for consultation with industry about changes to prudential standards and guidance material.



Changes to APRA prudential framework considers the cost of regulation imposed on industry.



Open-ended responses on APRA's consultation process were generally positive. However, suggestions offered included seeking a broader range of stakeholder input and starting consultation periods earlier in the policy development process, especially where consultation relates to significant change.

⁵ Please note references to Stakeholder Survey results detailed in the evidence section may not always equal to 100 per cent. Results have not been included where survey respondents have answered 'Don't know' to a question or where the results were very small. Full details can be accessed in the full Stakeholder Survey report available on APRA's website.

ii) APRA's publications

The first edition of the new-look *APRA Insight* was published in March 2016. The new digital publication is more accessible and allows APRA to better reach key stakeholders with shorter, sharper and more topical articles. APRA published two issues of *APRA Insight* during 2015/16, which included updates on residential mortgage underwriting standards, the prudential policy outlook, assessing MySuper products, an overview of the private health insurance industry and an overview of APRA's international capital comparison work, among others.

In 2015/16 APRA presented at 89 formal speaking engagements and published 17 speeches. These speeches are available on the APRA [website](#).

iii) Consultation activities

During 2015/16 APRA:

- conducted 26 policy consultations, involving 30 policy papers;
- was fully compliant with the OBPR principles in its policy development activities;
- maintained full compliance with the OBPR requirements;
- published all non-confidential submissions received on its consultation papers; and
- responded to stakeholder submissions by releasing a response paper or letter to industry following policy consultations. Response papers acknowledged feedback from the consultation process and explained APRA's final decisions and the reasoning for the final requirements. Depending on the complexity and impact on the industry, each round of public consultation for a policy development initiative typically ranged from six to twelve weeks.

iv) International activities

Further detail on APRA's engagement with international agencies and standard setting bodies is outlined in its Annual Report. Of note in relation to 2015/16 are:

- APRA participated in seven supervisory colleges;
- APRA is a member of ten international organisations and liaised with or assisted twelve international organisations;
- APRA received visits from international delegations for a range of core business and other purposes from 51 international delegations representing 21 countries, most commonly from China and Indonesia;

- APRA signed two new Memorandums of Understanding (MoUs) with international agencies in 2015/16, taking the number of overseas regulatory agencies that APRA has established formal bilateral information sharing arrangements to 29;
- APRA is one of 55 signatories to the International Association of Insurance Supervisors (IAIS) Multilateral MoU arrangements that now cover agencies supervising insurers which write over 65 per cent of global premiums;
- APRA participates in entity-specific multilateral arrangements to support the sharing of confidential information in supervisory colleges involving internationally-active financial entities, including those headquartered in Australia; and
- APRA participated in over 20 international benchmarking or thematic reviews largely from the Financial Stability Board (FSB), Basel Committee on Banking Supervision, IAIS, World Bank and the Organisation for Economic Co-operation and Development (OECD). Many of these reports are published by these bodies. Examples include:
 - » The FSB publishes an annual report on member jurisdictions' implementation of G20/FSB recommendations for reform: <http://www.fsb.org/wp-content/uploads/Report-on-implementation-and-effects-of-reforms-final.pdf>
 - » An FSB survey on resolution regimes <http://www.fsb.org/2016/08/resilience-through-resolvability-moving-from-policy-design-to-implementation/>
 - » Basel Committee Progress report on the implementation of principles for effective supervisory colleges: <http://www.bis.org/bcbs/publ/d329.htm>

v) Supplementary example of specific activity relating to the KPI

Internal ratings-based (IRB) approach to credit risk: accreditation process

In late 2015, APRA announced two changes to its approach to accrediting ADIs to use internal models for capital adequacy purposes. These changes were designed to make it easier for ADIs to meet APRA's requirements in a phased (and therefore less resource intensive) manner.

In particular, APRA advised that it would allow ADIs to use accredited models for some credit portfolios ahead of others. Previously, ADIs had to meet accreditation requirements for all portfolios before models could be used for regulatory capital purposes. APRA also removed the requirement that ADIs also model operational risk capital requirements as part of the accreditation process.

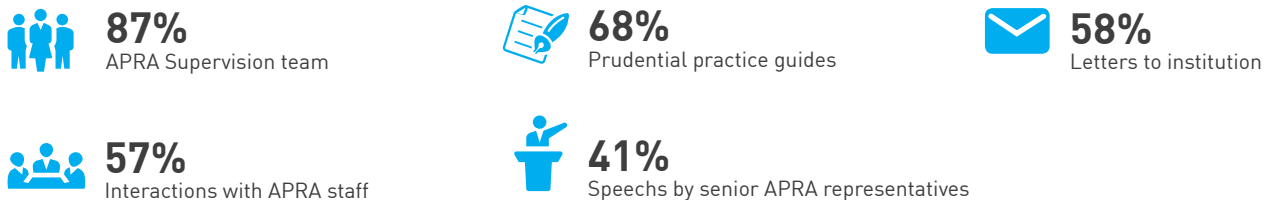
These changes will reduce compliance costs for ADIs applying for IRB accreditation.

Key Performance Indicator 2

Communication with regulated entities is clear, targeted and effective

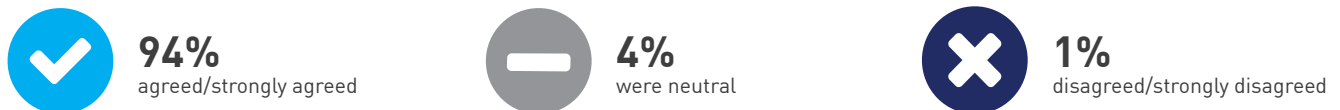
i) Stakeholder Survey

APRA's Stakeholder Survey – 2015 asked stakeholders to rate the top five most useful sources of guidance. The percentage of respondents who rated the item as extremely useful or very useful (top 2 scores) was:

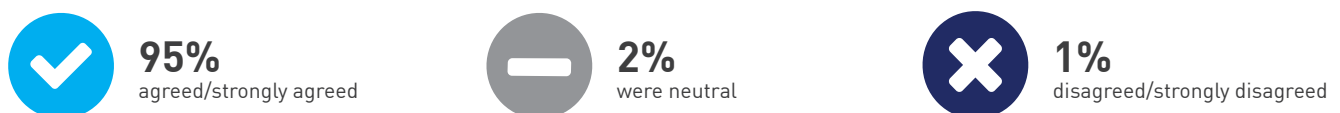


The 2015 Survey asked stakeholders to rate their level of agreement with the following statements:

APRA's guidance material (including PPGs, letters and FAQs) is of value to your institution.



APRA is effective in communicating the findings of supervisory visits to your institution.



- This result was a statistically significant improvement in this score from 2013.

All respondents were asked to rate the usefulness of APRA Insight. 74 per cent of respondents found it moderately to very useful.



Respondents were asked how *APRA Insight* is used:

Other uses included benchmarking /market comparison, business planning and training.

ii) APRA's publications

APRA's website has comprehensive information on its framework, decisions and activities:

- Prudential framework - The prudential framework is available on the website.
- Guidance – Extensive guidance material is available on the website.
- Key decisions - Information on key decisions of broad application are available on APRA's website, including responses to submissions in policy consultation processes and information letters. Broad statistics are published in APRA's Annual Report and certain key decisions are made available. During 2015/16 APRA issued 26 information letters to industry. It also released a report on its investigation into the failure of Trio Capital Limited (Trio), which provided a concise summary of the circumstances surrounding the collapse of Trio, together with an overview of APRA's regulatory actions following the collapse.
- Key activities - Regular publications that report on key activities include *APRA Insight* and the Annual Report. In 2015/16, APRA refreshed these two core publications:
 - » Relaunch of *APRA Insight*. A new online version of *APRA Insight* was released in March 2016. The new digital publication is more accessible and will allow APRA to better reach key stakeholders with shorter, sharper, more topical articles. In addition, *APRA Insight* moved from its previous release schedule of three times a year without firm release dates, to a quarterly e-bulletin to be released on a regular cycle.
 - » Revised Annual Report. The 2014/15 APRA Annual Report (published in the 2015/16 period) was streamlined to provide targeted, more informative information as part of a broader evolution in reporting to, where possible, shift from a focus on activities (outputs) to impacts (outcomes).

iii) Notifications

- Industry and the public can subscribe to receive APRA's website updates including media releases, reports, speeches and other industry related information. In 2015/16, all key developments and open consultations were accompanied by notification to website subscribers on the day of release.
- APRA issued 42 media releases in 2015/16.

vi) Consultation activities

Refer to KPI 1 (iii)

Key Performance Indicator 3

Actions undertaken by regulators are proportionate to the regulatory risk being managed

i) Stakeholder Survey

APRA's Stakeholder Survey – 2015 asked stakeholders to rate their level of agreement with the following statements that are relevant to KPI 3.

APRA is effective in identifying risks across your industry in general.



84%
agreed/strongly agreed



14%
were neutral



1%
disagreed/strongly disagreed

APRA identifies emerging industry issues in a timely manner.



65%
agreed/strongly agreed



30%
were neutral



3%
disagreed/strongly disagreed

The APRA supervisory team responsible for your organisation is experienced in your industry.



86%
agreed/strongly agreed



8%
were neutral



4%
disagreed/strongly disagreed

- This result was a statistically significant improvement in this score from 2013.

APRA meets its stated approach of being primarily risk-based in its supervision.



86%
agreed/strongly agreed



12%
were neutral



1%
disagreed/strongly disagreed

During supervisory visits to your institution, APRA supervisors focus on principles rather than detailed prescription.



66%
agreed/strongly agreed



25%
were neutral



8%
disagreed/strongly disagreed

- This result was a statistically significant improvement in this score from 2013.

During supervisory visits to your institution, APRA supervisors focus on major risks or controls.



81%
agreed/strongly agreed



16%
were neutral



3%
disagreed/strongly disagreed

APRA's prudential reviews of your institution are appropriately spaced apart in their timing.



78%
agreed/strongly agreed



17%
were neutral



5%
disagreed/strongly disagreed

The effort required of your institution during APRA's prudential review is appropriate.



69%
agreed/strongly agreed



16%
were neutral



12%
disagreed/strongly disagreed

- Smaller regulated entities were more likely to rate this question negatively.

The information that APRA collects in the course of supervision is adequate to assess risks in your institution.



86%
agreed/strongly agreed



11%
were neutral



3%
disagreed/strongly disagreed

ii) APRA's publications

APRA's publications include many areas where APRA has issued guidance for industry on managing risks.

In July 2015, APRA released the *Information Paper Outsourcing involving shared computing services (including cloud)*, which outlined prudential considerations and key principles in relation to shared computing services to provide assistance to industry and encourage ongoing dialogue on this evolving area of risk.

This information paper was released both in response to feedback from industry and after APRA observed an increase in the volume, materiality and complexity of outsourcing arrangements involving shared computing services (including cloud) submitted to APRA under the consultation and notification requirements of *Prudential Standard CPS 231 Outsourcing* and *Prudential Standard SPS 231 Outsourcing*.

iii) Supervisory and enforcement approaches

APRA publishes material on its supervisory and enforcement approaches including its Supervision Blueprint, PAIRS and SOARS methodology and licensing guidelines. The Enforcement Manual details APRA's approach to enforcement.

iv) Statement of Expectations and Intent

APRA's Statement of Expectations and Statement of Intent are published on the APRA website.

Key Performance Indicator 4

Compliance and monitoring approaches are streamlined and coordinated

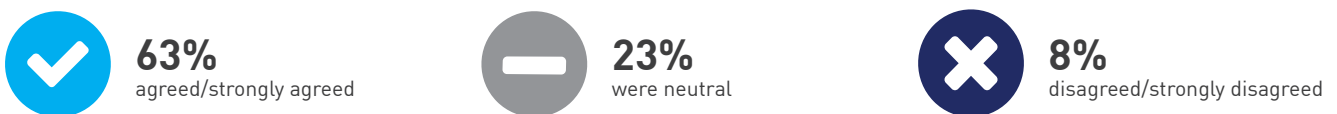
i) Stakeholder Survey

APRA's Stakeholder Survey – 2015 asked stakeholders to rate their level of agreement with the following statements that are relevant to KPI 4.

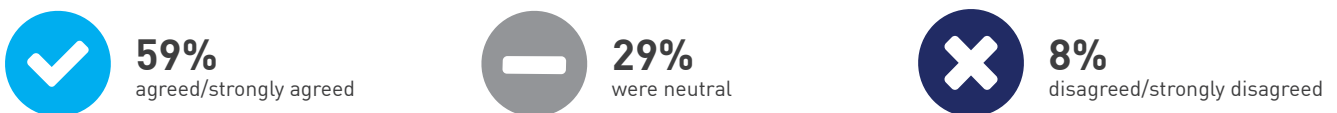
The amount of statistical data collected by APRA in order to supervise your institution is... 'Far too little', 'Too little', 'About right', 'Too much', 'Far too much'.

- The majority of respondents indicated that the amount of statistical data collected by APRA was about right (58 per cent), while a substantial minority (41 per cent) indicated that it was too much or far too much.

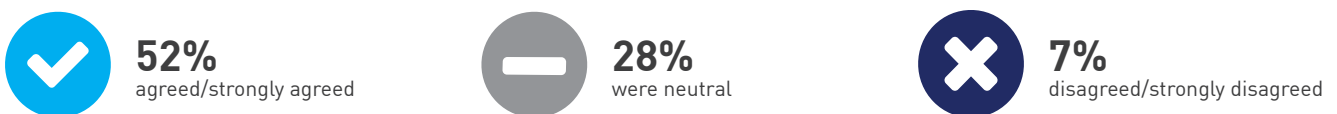
Form instructions and guidance, the Plain English Taxonomy (PET) and FAQs are helpful in completing APRA's reporting forms.



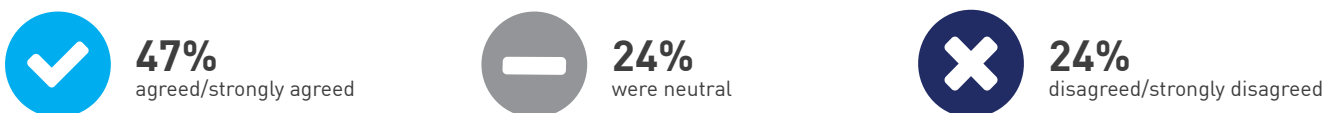
APRA provides clear advice when your institution has difficulties understanding APRA's reporting requirements.



The D2A Help Desk is helpful when your institution has difficulties using D2A.



D2A is easy to use when lodging data with APRA.



ii) Consultation activities

Refer to KPI 1 (iii).

iii) Sharing of statistical information

Domestically APRA collects and shares data on behalf of RBA, ABS, ASIC, ATO and the Department of Health. It also shares data publicly in publications and customised data requests subject to confidentiality obligations.

Approximately one third of ADI reporting forms and all Registered Financial Corporations (RFC) reporting forms are collected by APRA primarily for use by the ABS and RBA. Much of the data are shared between agencies to reduce unnecessary reporting burden on entities. APRA also collects some data to fulfil international reporting expectations to organisations such as the Bank for International Settlements.

During the financial year, APRA introduced three new superannuation reporting forms for the ABS, which uses these data for statistical purposes. These statistical purposes include compiling and publishing the Australian National Accounts and other statistical publications.

iv) Publication of statistical information

In 2015/16:

- APRA released 73 statistical publications, a significant increase on the 43 statistical publications released in 2014/15.
- 100 per cent of statistics publications were released according to the pre-disclosed timetable.
- APRA fulfilled 243 requests for customised statistics, a significant increase on the 189 requests in 2014/15.
- 100 per cent of requests for customised statistics were fulfilled as agreed.

v) Domestic liaison

APRA's domestic engagements are typically guided by an MoU which, while not legally binding, signifies a commitment to cooperate and share relevant information, and establishes the practical arrangements by which this will occur. Sixteen MOUs are in place and these are all available on APRA's website. No new domestic MoUs were signed by APRA in 2015/16.

In 2015, ASIC established its Digital Finance Advisory Committee (DFAC), primarily comprised of FinTech industry representatives. APRA joined DFAC as an observer. While the role of DFAC is to help inform ASIC's work in this area, APRA's participation provides insights on developments in this rapidly evolving area.

vi) Supplementary example of specific activity relating to the KPI

APRA made a number of improvements to its reporting requirements and processes during the year as part of the transition of responsibility for prudential supervision of private health insurers (PHIs), as well as to reduce the reporting burden on entities and enhance the quality and timeliness of data submitted.

APRA's primary data collection system, D2A, is the reporting system that over 600 ADIs, general and life insurers, superannuation entities and other APRA-reporting entities use to submit data to APRA. D2A allows reporting entities to securely and electronically download, complete, validate and submit data to APRA. Entities that create and import Standard Business Reporting (SBR) format reports can also save time and effort in data quality assurance and in data entry. Leading up to June 2016, arrangements were put in place to enable PHIs to report statistical data to APRA via D2A. The switch to D2A reporting will apply for reporting periods ending on or after 30 June 2016, and provides an opportunity for PHIs to reduce the burden of business-to-government reporting.

With the aim of reducing reporting burden while maintaining the collection of high-quality and timely data, APRA also introduced a significant number of new data validation rules within D2A for all reporting industries. These new rules helped entities identify and fix data errors and explain anomalies at the time they submit data to APRA; they also ensure that submitted data are immediately fit for use by APRA supervisors. During the year, APRA also removed or relaxed over 425 validation rules that were no longer effective at identifying errors.

Key Performance Indicator 5

Regulators are open and transparent in their dealings with regulated entities

i) Stakeholder Survey

APRA's Stakeholder Survey – 2015 asked stakeholders to rate their level of agreement with the following statements that are relevant to KPI 5.

APRA meets its stated approach of being consultative in its supervision.



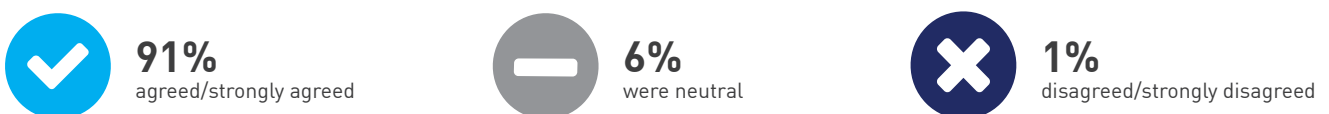
APRA meets its stated approach of being consistent in its supervision.



APRA is effective in communicating the findings of supervisory visits to your institution.



APRA's reports of prudential reviews provided to you have the appropriate level of detail.



ii) Supervisory and enforcement approaches

Refer to KPI 3 (iii)

iii) Regular engagement with stakeholders

During 2015/16 APRA met with the following domestic organisations:

- Actuaries Institute
- Association of Superannuation Funds of Australia
- Australian Bankers' Association
- Australian Financial Markets Association
- Australian Institute of Superannuation Trustees
- Australian Retail Credit Association
- Australian Securitisation Forum
- Banking and Finance Sector Group
- Corporate Superannuation Association/Corporate Super Association
- Customer Owned Banking Association
- Finance Brokers Association of Australia
- Financial Services Council
- Industry Super Australia
- Insurance Council of Australia
- Mortgage and Finance Association of Australia

This was across a broad range of matters and in a variety of forms:

- 26 policy consultations conducted
- 30 policy papers issued for above consultations
- 26 information letters issued to industry
- 89 presentations at formal speaking engagements
- 42 media releases issued
- 73 statistical publications released
- 578 enquiries received by the Statistics Unit
- 11,550 enquiries received through the APRAinfo call centre
- 9 Parliamentary hearings attended
- 2 submissions to formal inquiries

iv) Performance reporting

APRA's compliance with relevant requirements over the reporting period, including the PGPA Act, have been met.

v) APRA's Service Charter

APRA publishes its Service Charter, available at: <http://www.apra.gov.au/AboutAPRA/Publications/Pages/APRA-Service-Charter.aspx>

Key Performance Indicator 6

Regulators actively contribute to the continuous improvement of regulatory frameworks

i) Stakeholder Survey

Overall the results of the 2015 Survey were positive, with respondents generally supporting APRA's framework and regulatory approach of principles-based supervision. Over time there have been no major movements in results overall, indicating that APRA has maintained a stable method of operation and interaction with stakeholders. However, the most recent survey reported a slight increase in positive responses and many of these increases were statistically significant. Notable positive changes were in relation to improvements in the perceptions of a principles versus prescription approach, appropriately identifying material issues during reviews and several aspects of supervision.

In contrast, ratings for D2A declined significantly and a number of institutions questioned the balance of the effort versus benefit of data collection as it currently stands.

ii) Consultation activities

Refer to KPI 1 (iii)

iii) Feedback mechanisms

Feedback mechanisms are available at all times on APRA's website via the 'contact APRA' service at www.apra.gov.au/pages/contact-APRA.aspx.

For APRA-regulated entities, feedback can be provided directly to their responsible supervisor.

For members of the public, feedback can be provided via the APRAinfo team on 1300 558 849, via the APRA website's 'contact APRA' service or via any of the offices listed.

iv) Supplementary example of specific activity relating to the KPI

Measures to reduce reporting burden

In 2014, APRA initiated a series of reviews of existing D2A validation rules to ensure they remain appropriate. Over 2015, APRA removed or made more flexible a further 425 validation rules and queries to reduce reporting burden on entities. As a result of this exercise, when preparing D2A returns, reporting entities are only required to respond to material errors. Reducing the number of non-material explanations required provides significant time-savings for those reporting entities without compromising the quality of the data reported.

APRA will continue to conduct regular reviews of D2A validation rules across all regulated industries to ensure they remain appropriate, and do not require a high rate of explanation where the data are not in error.

The infrastructure that supports APRA's data collection, the electronic system D2A, is more than 15 years old. Despite being upgraded over time, stakeholder feedback has increasingly been that it is not as easy to use as other, more modern technology. D2A has also become costly for APRA to maintain, and is not well integrated with recent Government initiatives.

To address these concerns, the 2016/17 Budget included funding over a three-year period for modernisation of APRA's data capabilities: that is, to upgrade and modernise systems to collect, analyse and report statistical data in APRA's important role as a national statistical agency. Through this project, APRA will transform the way it collects, stores, accesses and publishes data. APRA will replace the D2A platform with a modern commercial off-the-shelf solution, which will provide improved data collection and taxonomy management, reporting capability, security and software compatibility.

