



RECOMMENDATION	GOVERNMENT RESPONSE	APRA RESPONSE
<p>Recommendation 1.12 — Valuations of land APRA should amend Prudential Standard APS 220 to:</p> <ul style="list-style-type: none"> • require that internal appraisals of the value of land taken or to be taken as security should be independent of loan origination, loan processing and loan decision processes; and • provide for valuation of agricultural land in a manner that will recognise, to the extent possible: <ul style="list-style-type: none"> – the likelihood of external events affecting its realisable value; and – the time that may be taken to realise the land at a reasonable price affecting its realisable value. 	<p>The Government supports the Australian Prudential Regulation Authority (APRA) acting on this recommendation.</p>	<p>Underway. APRA will release proposed revisions of APS 220 by the end of the first quarter of 2019. The final version of the standard is expected to be completed by the end of 2019.</p>
<p>Recommendation 1.17 — BEAR product responsibility After appropriate consultation, APRA should determine for the purposes of section 37BA(2)(b) of the Banking Act, a responsibility, within each ADI subject to the BEAR, for all steps in the design, delivery and maintenance of all products offered to customers by the ADI and any necessary remediation of customers in respect of any of those products.</p>	<p>The Government supports APRA acting on this recommendation. The Government has also agreed to extend the Banking Executive Accountability Regime (BEAR) to other APRA-regulated entities in its response to Recommendation 6.6.</p>	<p>Commencing. APRA will establish requirements for accountability under the BEAR for product management and customer remediation. Proposed requirements will be released in the second quarter of 2019, with a view to finalising a requirement by end 2019.</p>



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<p>Recommendation 4.14 — Additional scrutiny for related party engagements</p> <p>APRA should amend Prudential Standard SPS 250 to require RSE licensees that engage a related party to provide group life insurance, or who enter into a contract, arrangement or understanding with a life insurer by which the insurer is given a priority or privilege in connection with the provision of life insurance, to obtain and provide to APRA within a fixed time, independent certification that the arrangements and policies entered into are in the best interests of members and otherwise satisfy legal and regulatory requirements.</p>	<p>The Government supports APRA acting on these recommendations.</p>	<p>Underway. APRA is currently completing a post-implementation review of the superannuation prudential framework and will address this recommendation as part of that work. The post-implementation review report, incorporating the full range of feedback received, will be published in the second quarter of 2019. Formal consultation on revised standards will commence shortly thereafter, with a view to having a new standard finalised in 2020.</p>
<p>Recommendation 4.15 — Status attribution to be fair and reasonable</p> <p>APRA should amend Prudential Standard SPS 250 to require RSE licensees to be satisfied that the rules by which a particular status is attributed to a member in connection with insurance are fair and reasonable.</p>		



RECOMMENDATION	GOVERNMENT RESPONSE	APRA RESPONSE
<p>Recommendation 5.1 — Supervision of remuneration — principles, standards and guidance</p> <p>In conducting prudential supervision of remuneration systems, and revising its prudential standards and guidance about remuneration, APRA should give effect to the principles, standards and guidance set out in the Financial Stability Board’s publications concerning sound compensation principles and practices.</p> <p>Recommendations 5.2 and 5.3 explain and amplify aspects of this Recommendation.</p>	<p>The Government supports APRA acting on these recommendations.</p>	<p>Underway. APRA will release proposed revisions to <i>Prudential Standard CPS 510</i> by mid-2019 which will address this recommendation. This will incorporate the Royal Commission’s recommendations, recent lessons from APRA’s supervisory activity, the CBA Prudential Inquiry as associated self-assessments by other entities, and relevant international guidance. APRA’s intention is to have a final standard determined in 2020.</p> <p>This work will include the design of new information collections that will allow APRA to better assess how remuneration frameworks work in practice.</p>
<p>Recommendation 5.2 — Supervision of remuneration — aims</p> <p>In conducting prudential supervision of the design and implementation of remuneration systems, and revising its prudential standards and guidance about remuneration, APRA should have, as one of its aims, the sound management by APRA-regulated institutions of not only financial risk but also misconduct, compliance and other non-financial risks.</p>		



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<p>Recommendation 5.3 — Revised prudential standards and guidance</p> <p>In revising its prudential standards and guidance about the design and implementation of remuneration systems, APRA should:</p> <ul style="list-style-type: none"> • require APRA-regulated institutions to design their remuneration systems to encourage sound management of non-financial risks, and to reduce the risk of misconduct; • require the board of an APRA-regulated institution (whether through its remuneration committee or otherwise) to make regular assessments of the effectiveness of the remuneration system in encouraging sound management of non-financial risks, and reducing the risk of misconduct; • set limits on the use of financial metrics in connection with long-term variable remuneration; • require APRA-regulated institutions to provide for the entity, in appropriate circumstances, to claw back remuneration that has vested; and • encourage APRA-regulated institutions to improve the quality of information being provided to boards and their committees about risk management performance and remuneration decisions. 	<p>The Government supports APRA acting on these recommendations.</p>	<p>Underway. APRA will release proposed revisions to <i>Prudential Standard CPS 510</i> by mid-2019 which will address this recommendation. This will incorporate the Royal Commission’s recommendations, recent lessons from APRA’s supervisory activity, the CBA Prudential Inquiry as associated self-assessments by other entities, and relevant international guidance. APRA’s intention is to have a final standard determined in 2020.</p> <p>This work will include the design of new information collections that will allow APRA to better assess how remuneration frameworks work in practice.</p>



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<p>Recommendation 5.7 — Supervision of culture and governance</p> <p>In conducting its prudential supervision of APRA-regulated institutions and in revising its prudential standards and guidance, APRA should:</p> <ul style="list-style-type: none"> • build a supervisory program focused on building culture that will mitigate the risk of misconduct; • use a risk-based approach to its reviews; • assess the cultural drivers of misconduct in entities; and • encourage entities to give proper attention to sound management of conduct risk and improving entity governance. 	<p>The Government supports APRA acting on these recommendations.</p>	<p>Underway. Over the past year, APRA has been reviewing its approach to the supervision of governance, culture and remuneration in light of lessons from its supervisory activities, CBA Prudential Inquiry and associated self-assessments by other entities, and its 2017-18 review of remuneration practices at large financial institutions.</p> <p>Developing the capacity to supervise these issues, across a wide range of entities, with considerably greater intensity will be a multi-year program. APRA is working with the Government to ensure it has sufficient resources to implement this recommendation.</p>



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<p>Recommendation 6.10 — Co-operation memorandum</p> <p>ASIC and APRA should prepare and maintain a joint memorandum setting out how they intend to comply with their statutory obligation to co-operate.</p> <p>The memorandum should be reviewed biennially and each of ASIC and APRA should report each year on the operation of and steps taken under it in its annual report.</p>	<p>The Government supports ASIC and APRA continuing to work together to update their existing memorandum of understanding to ensure that it clearly sets out how they will comply with their statutory obligation to co-operate.</p>	<p>Underway. APRA and ASIC are reviewing the cooperation and coordination arrangements between the two agencies, including revising the existing Memorandum of Understanding. This will be done with a view to strengthening the effectiveness of outcomes across the financial sector and promoting a whole of system perspective. This review will be completed by 2019.</p>
<p>Recommendation 6.12 — Application of the BEAR to regulators</p> <p>In a manner agreed with the external oversight body (the establishment of which is the subject of Recommendation 6.14 below) each of APRA and ASIC should internally formulate and apply to its own management accountability principles of the kind established by the BEAR.</p>	<p>The Government agrees that APRA and ASIC should be subject to accountability principles consistent with the BEAR.</p> <p>The Government notes that the Financial Conduct Authority in the UK has adopted a similar regime to enhance its own internal accountability.</p>	<p>Commencing. APRA will develop and publish accountability statements before the end of 2019.</p>