



A N N U A L   R E P O R T   2 0 0 1



## About APRA

The Australian Prudential Regulation Authority (APRA) was established on 1 July 1998. We are responsible for the prudential regulation of banks, life insurers, general insurers, superannuation, building societies, credit unions and friendly societies. APRA is fully funded by the industries that it supervises.

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**Our vision** is to be a world-class integrated prudential supervisor recognised for its leadership, professionalism and innovation.

**Our mission** is to establish and enforce prudential standards and practices designed to ensure that, under all reasonable circumstances, financial promises made by institutions we supervise are met within a stable, efficient and competitive financial system.

**Our values** are underpinned by the highest standards of individual and corporate integrity, as well as by flexibility, openness and accountability.

**Our supervisory approach** is forward-looking, primarily risk-based, consultative, consistent and in line with international best practice. This approach also recognises that management and boards of supervised institutions are primarily responsible for financial soundness.

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The vast majority of entities in Australia's financial system remained healthy throughout 2000/01 despite slower economic growth. Even so, the past year has been the most difficult in APRA's short history as a prudential supervisor. The collapse of HIH, Australia's second largest general insurer, was a major blow to policyholders, shareholders and APRA alike. The Royal Commission announced by the Government in June should provide a comprehensive and objective account of events, including APRA's handling of the matter and we welcome the opportunity this provides.

While a full analysis of HIH's failure must await the outcome of the Commission, a number of lessons are already evident. First and foremost, it underscored fundamental weaknesses in the existing regulatory framework for general insurance. It also highlighted a gap between community expectations about prudential regulation and APRA's capacity to meet those expectations. These lessons have relevance beyond the immediate problems associated with HIH.

## **The regulatory framework for general insurance**

When APRA was established three years ago, we inherited a series of regulatory frameworks, including both policies and practices, from our predecessor agencies. These varied greatly in terms of quality and approach. Among other early priorities, we identified the need for a sweeping overhaul of the *Insurance Act 1973*, which was overly legalistic, too inflexible and insufficiently risk based. Reforming the regulatory framework for general insurance began immediately after completion of APRA's establishment phase. Since the reforms involved a complete overhaul, they required the development of new concepts, testing of those concepts with industry, and consultation rounds with both industry and Government.

The resulting reforms, both of legislation and prudential standards, which are scheduled to come into force on 1 July 2002, were completed in just

over two years; by historical and international standards, this was exceptionally expeditious. For many policyholders with HIH, however, it was not soon enough.

Given the liquidator's preliminary assessment that HIH's problems may date back several years, it is moot whether APRA could have accomplished these reforms quickly enough to have prevented HIH's failure. Nevertheless, the legislative and policy changes now in train will go a long way towards creating the secure environment that policyholders deserve. Not only is this new policy framework more closely aligned with the risks faced by the industry, it brings the culture of the whole supervisory process into line with the advances made in other areas of regulation over the past decade.

Relative to the inherited framework, the new legislation and standards:

- provide more flexible powers for establishing and enforcing standards of prudential behaviour;
- improve the consistency and transparency of provisioning for insurance liabilities;
- relate the capital required by insurers to the residual risks after provisioning;
- require higher levels of capital to be held where risks are greater;
- require additional capital to cover asset risks, including those arising from possible default and movements in market prices;
- take a more consistent and realistic approach to the measurement of capital;
- require insurance companies to have risk management systems and procedures in place; and
- give more responsibility and authority to valuation actuaries and external auditors, including for reporting to APRA.

## Superannuation

Much has been said and written about the superannuation industry over the past year. While the financial losses from superannuation funds in difficulty have been much smaller in scale than HIH, the outcomes have been equally painful for those most affected.

The Australian superannuation industry is, by and large, well managed and does an excellent job of helping Australians to prepare for retirement. The industry is nonetheless extremely large and, with many small and inexperienced participants, some problems are inevitable. With responsibility for around 11,500 funds, APRA cannot, with its existing resources and regulatory powers, supervise all of them to the same level that it does other financial institutions.

While APRA has upgraded supervision of superannuation funds in several respects over the past year, more extensive changes are needed in the framework, including both legislation and prudential policy, if small and medium-sized funds are to be supervised as effectively as the community rightly expects. We are working closely with the Government to establish priorities for reform in this area.

### Public expectations about prudential regulation

Prudential regulation, in Australia and elsewhere, involves developing standards of prudential behaviour for regulated institutions, monitoring compliance with those policies, and enforcing remedial action to protect the interests of customers where there are concerns about either compliance or financial sustainability. There are two characteristics of this process that are not well understood by the community.

First, supervisory intervention is usually graduated. Unlike other forms of regulation, where a breach of legislation is a legal offence, thereby warranting a legal response, breaches of prudential standards are primarily warning signals. The usual response to a prudential breach includes a period of cooperation between the regulator and the financial institution, during which a remedy is sought that is capable of returning the institution to full prudential compliance. Only when the problem becomes intractable, or the institution recalcitrant, does the regulator need to resort to more extreme measures.

This approach has worked successfully in a range of cases in the past and, in doing so, has protected rather than damaged the interests of the institution's customers.

Second, prudential regulators are not infallible. Indeed, the process of working with an institution to overcome regulatory breaches or concerns can, in some cases, increase the extent of the losses associated with failure by prolonging the period of operation of an institution that turns out, with the benefit of hindsight, to have been beyond rescue. The probability of such an adverse outcome is greatly increased where the regulatory framework of warning signals is itself flawed or where the information provided to the regulator is deficient (or misleading).

No regulator can promise a complete absence of failures; in particular, no prudential regulator has the capacity to eliminate fraud. Nevertheless, in any given situation, the likelihood of failure can be decreased by a range of factors.

Central among these is the development of stronger policies and practices. In this respect, APRA remains committed to its ongoing program of reforms. This program – which encompasses important changes affecting deposit-takers, as well as insurers and superannuation – is described later in this report.

Beyond this, the likelihood of failures may be decreased by requiring regulators to be more intrusive or by giving them stronger enforcement powers. Moving in this direction has implications for the resourcing level of the regulator, the extent of the regulator's legal powers over regulated institutions and the efficiency of the industry. These are fundamental social and political decisions and are correctly the province of the Government, not of the regulator, although the regulator's views are a relevant force in informing Government's decisions.

APRA was established in 1998 following the recommendations of the Wallis Inquiry. The Wallis Report envisaged a financial system in which regulation would seek a balance between regulatory effectiveness and market efficiency. The possibility of institutional failure was not only contemplated in this balance, it was viewed as an inevitable price for maintaining a competitive and innovative financial sector. APRA was constituted and resourced accordingly. With responsibility for more than 12,000 entities, APRA is required to allocate

resources between policy development, monitoring and enforcement on the basis of assessed risks.

The experiences of the past year indicate a marked divergence between public expectations about the outcomes of prudential regulation and those proposed by the Wallis Report. The community's tolerance for risk appears to be lower than previously thought, which suggests that it may be timely to reconsider the balance between regulatory efficiency and effectiveness.

Finally, the community's tolerance for risk can be increased by reducing the elements of uncertainty surrounding financial failures. Australia is one of the few developed countries that does not have a formal structure of deposit insurance or support for insurance policyholders in the event of failure. While poorly designed support schemes have been validly criticised for contributing to imprudent behaviour, well-designed schemes can provide a framework for dealing with failure and provide both certainty and continuity to those affected. The importance of careful design cannot be overstated. Support schemes should take full account of the nature of the risks involved in the different kinds of financial entities and should not override the proper allocation of risks among the various parties potentially affected. Design is particularly important in the case of defined-contribution superannuation, where the risk of losses resulting from unwise investments or regular market fluctuations is borne by the investor.

APRA has set a high priority in the coming year on reviewing the existing support arrangements in the Australian financial system and exploring options with the Government and industry.

## Looking to the future

APRA has come under intense criticism over the past year. Much work needs to be done to rebuild public confidence in prudential regulation. We are committed to absorbing whatever lessons may emanate from the HIH Royal Commission and to emerging as a stronger and more effective regulator. We believe that the policy reforms of the past few years have helped lay a stronger foundation for regulation of some of the industries under our charge, but there is much still to be done.

We wish to express our appreciation to APRA's staff who have laboured long and hard this year, often against an unaccustomed intensity of public scrutiny and criticism.

We also acknowledge the work of Alan Cameron and David Knott who served as Board members during parts of the year.

Finally, we wish to acknowledge the enormous contribution made to APRA over the past three years by Brian Gray, Executive General Manager of Policy, Research and Consulting Division, and to put on record our great sadness at his unexpected death on 24 August 2001. Brian was a true friend and colleague. His sharp intellect, dry sense of humour and genuine concern for others will be greatly missed, although his legacy lives on.



Jeffrey Carmichael, Chair



Graeme Thompson, CEO





## General approach

The community relies heavily on superannuation funds, insurance companies and deposit-taking institutions meeting their financial commitments as they fall due. The objective of prudential supervision is to increase the probability that these commitments will be honoured.

Prudential supervision is not intended to usurp the roles and responsibilities of either the boards or management of financial institutions, but to supplement their activity by moderating risk where the interests of fund members, policyholders and depositors would otherwise be jeopardised.

Forward-looking supervision relies not only on comprehensive and accurate information about the present, but on predictions about whether the present or proposed activities of a financial institution are likely to lead to problems in meeting commitments in the future.

In Australia, like all other countries, the presence of a system of prudential supervision has not been sufficient to prevent the failure of some financial institutions. In most countries there are constant endeavours to strengthen and improve financial supervision in the wake of financial crises that have affected many parts of the world over the last decade.

APRA is similarly committed to improving and strengthening its supervision practices. We believe that a key element in achieving that improvement is an ability to devise a prudential supervision strategy for each regulated institution based on its risk profile.

APRA inherited differing supervision methods from its several predecessor organisations and, consistent with the Government's intentions in establishing APRA following recommendations of the Wallis Committee in 1997, our objective has been to develop these into consistent and best-practice supervision applied to all of the more than 12,000 entities we supervise. Our approach is risk-based, with resources being concentrated where they are judged to be most needed. That is, more resources are allocated to higher-risk or more problematic

institutions and fewer resources allocated to lower-risk or well-managed institutions.

The risk-based approach involves an overall evaluation of the risks encountered by an institution in its business and consideration of how the institution manages those risks. Such assessments need to be based on a detailed knowledge of the institution's circumstances and its risk profile. This knowledge is gained from off-site analysis of key prudential and statistical data resulting from frequent and comprehensive reporting, as well as on-site visits concentrating on particular risk areas such as credit risk, balance sheet and market risk, and operational risk. Once an assessment of an institution has been undertaken, a supervision strategy is determined, tailored to the risk profile of the institution. The strategy includes the plan for future supervision, such as frequency and extent of on-site visits and the level of off-site scrutiny. The strategy will ensure supervisory actions are directly linked to specific areas of concern that require further scrutiny.

This objective is being achieved in stages, initially with authorised deposit-taking institutions (ADIs) and friendly societies because they submit frequent and comprehensive information to APRA and have in the past been subject to on-site inspections at intervals of about 18 months. This has provided an extensive information base from which individual supervisory requirements can be determined.

The insurance sector has also reported quite comprehensively, but before APRA's formation it lacked the same history of structured on-site visits. Nevertheless, APRA now believes it has sufficient information to devise a tailor-made supervision strategy for each institution in the life insurance and general insurance industries.

Applying a tailor-made approach to superannuation entities poses a much greater challenge. This is not only because of the number of funds we supervise but also, in the case of many smaller employer-sponsored funds, because such a risk assessment can be based on inadequate information. This is partly a consequence of the present statistical returns required of superannuation funds, which provide little information about risk profiles and, in most

cases, are only annual. It is therefore necessary to gather further information or undertake on-site visits to all funds before individual risk-based supervisory strategies can be fully developed.

The result of this major endeavour will certainly be worthwhile. Perhaps most important, it will provide a basis for making informed judgements about which institutions (we believe the great majority) are well managed and do not require an intrusive supervisory approach, and those which warrant a more aggressive and prescriptive regulatory approach because they disregard the spirit of prudential requirements, are imprudent with investors' funds or have ineffective risk-management systems.

While it is not practicable to define and measure every aspect of the supervisory process, the table below provides an overview of on-site supervisory activities in 2000/01.

Diversified Institutions Division supervises financial conglomerates and those entities with an international aspect to their business. These include the largest financial groups with activities spanning banking, insurance and superannuation. While the number of licensed entities accounts for fewer than 10 per cent of the entities supervised by APRA, their assets account for more than 80 per cent of those under APRA's supervision. Specialised Institutions Division supervises the other 90 per cent of entities, accounting for about 20 per cent of total assets.

Specialised Institutions Division conducts formal consultations with some entities but, as internal risk management systems of the entities it supervises tend not to be as well developed as in the larger

financial institutions, its primary supervision tool is a more detailed on-site review (supplemented by off-site analysis). The Division conducted 908 such on-site reviews in 2000/01, with over 600 of these to superannuation entities. In addition, there were more than 400 off-site reviews, of which around 200 were of superannuation funds. This is an efficient method of determining whether the risk profile of the entity is such that priority should be given to doing an on-site review.

## Supervisory issues

Supervision of the **banking** industry includes quarterly desk reviews, a detailed annual review including consultations with senior management, and less formal contacts and information-gathering to maintain current knowledge of banks' changing risk profiles and risk-management practices. APRA specialists also make on-site visits to check institutions' management of asset quality, credit risk, balance sheet and market risk, and operational risk.

Particular attention in 2000/01 was paid to risks involved with outsourcing, and formal meetings were held jointly with bank managements and their auditors to review the outcome of audit reviews of their outsourcing arrangements. We have been monitoring the ecommerce operations of banks. No significant prudential issues have emerged. The main risks arising from ecommerce are those associated with IT systems, security and outsourcing. This being an evolving area, APRA will continue to monitor developments.

Our supervision of banks did not reveal any major concerns during the year, although it was notable that banks' impaired assets began to rise (from a very

### Number of visits to institutions

	Specialised Institutions Division	Diversified Institutions Division		
		Consultations	On-site visits	Tripartites
Authorised deposit-taking institutions	243	12	31	25
Friendly societies	19	0	0	0
General insurers	32	28	7	0
Life Insurers	2	5	2	0
Approved Trustees	47	5	2	0
Superannuation funds	565	1	2	0
Conglomerates	0	28	10	0
<b>Total</b>	<b>908</b>	<b>79</b>	<b>54</b>	<b>25</b>

low base) from late in 2000. This trend is being monitored closely and discussions held with individual banks about the appropriateness of their provisioning levels.

The profits reported by Australian banks, combined with their interest in more active capital management, led to several proposals for capital buybacks. Such proposals must, of course, permit continued compliance with capital requirements. At June 2001, the average risk-weighted capital ratio of Australian banks was 10.4 per cent.

After detailed evaluation to ensure that their policies and systems conformed with Australian requirements, APRA issued licences to three new banks: subsidiaries of Bank of Cyprus and Laiki Bank and a branch of Taiwan Business Bank. In July 2001, APRA licensed Members Equity Pty Ltd as a new domestic bank.

The same trend of an increase in impaired assets was true for **building societies**, but was not evident for **credit unions**. There was very little change in either the capital or liquidity ratios of building societies or credit unions over the financial year. We have been paying close attention to the moves by some of these ADIs to increase the commercial proportion of their lending portfolios, where the risks involved are different to those in housing and other personal lending. We have emphasised to all the entities concerned the importance of having adequate expertise both to assess such lending propositions adequately and to monitor the business borrower over the life of the loan. In some cases we requested the entity to curtail business lending until it had established appropriate management systems.

In supervising ADIs in 2000/01, there was a good deal of focus on implementation of the Prudential Standards issued by APRA in October 2000. These harmonised the standards previously required of banks (by the Reserve Bank of Australia) and of the other deposit-taking institutions (by the state agencies which supervised them until June 1999). These new standards required, inter alia, ADIs to formulate capital management and liquidity management plans, and to have more formal systems of internal audit.

Supervision of **superannuation funds** involves reviewing such matters as the conduct of trustee meetings, quality of records, processes for election of

trustees, arrangements with service providers, disaster recovery plans, internal controls and quality of the audit, all of which are important indicators of good governance.

For members of a fund, however, satisfactory governance is futile if the performance of its investment portfolio is poor; experience over the past two years has demonstrated that asset quality should be as much a focus of prudential interest in superannuation as it is for deposit-takers and insurers. In its reviews of funds, APRA is therefore placing greater emphasis on asset quality, including examining the process by which trustees select assets and monitor any assets of poor quality before they result in significant losses.

Among smaller employer-sponsored funds, we continue to find investment strategies that do not appear to have been designed in the best interests of fund members. The legislation requires trustees to have regard to diversification and liquidity in fund portfolios. While the legislation does not permit APRA to direct the individual portfolio choices of trustees, we have begun pursuing trustees more vigorously where we find portfolios that do not appear to have adequate consideration to these key elements of good investment practice. Problems found were not only confined to small superannuation funds. The revocation of the Approved Trustee status of Commercial Nominees of Australia is noted in the Enforcement chapter of this report.

Measured in terms of volume of assets covered, reviews of smaller funds are resource intensive for APRA. Nevertheless, the trustees of the smaller funds are more likely to lack knowledge of the relevant legislative requirements. Consequently, we are devoting the resources necessary to obtain, over time, an individual risk profile for each of these small employer-sponsored superannuation funds.

The program of on-site visits to superannuation funds enables supervisory staff to better assess asset quality. Although APRA must principally rely on the assurances regarding asset impairment given by trustees, management, auditors and actuaries, we have found that on-site visits are the most effective way of finding asset issues that require closer investigation.

APRA has responsibilities for superannuation funds in the area of retirement income policy; in addition to monitoring them for safety and soundness, it also ensures that they are complying with various standards covering such issues as preservation of benefits, contributions and benefit payments.

APRA continued to be involved through 2000/01 with the transfer of 187,000 self-managed funds (ie those funds with fewer than five members and no Approved Trustee) to the Australian Taxation Office. The transfer followed a notice issued to all 202,500 such funds in the previous financial year requiring them to identify whether or not they had an Approved Trustee.

In July 2000, APRA issued letters to 22,000 funds that had not identified themselves as self-managed funds or did not have an Approved Trustee, asking them to show cause why the trustee should not be suspended. After an extensive telephone campaign, there remained only 1,627 funds not identified.

APRA sought and received the Minister's approval to appoint Special Approved Trustees (SATs) drawn from insolvency practices to bring these funds into a trustee structure consistent with the *Superannuation Industry (Supervision) Act 1993* (SIS Act). Ultimately the status of every fund was identified or the trustees replaced. APRA retained supervisory responsibility for some 7,700 small funds which have engaged an Approved Trustee.

The collapse of HIH, Australia's second largest insurance company, overshadowed the **general insurance** sector in the past year. This is covered in the Enforcement chapter.

There has been an increased concentration in the market over the last few months through the combined effects of the redistribution of HIH business and a couple of significant restructures. This process may continue as larger companies tend to be better placed to secure an adequate return on capital.

Although concentration has risen, the number of licensed entities has continued to grow. There are 33 reinsurers, up from 31 a year ago – and some 107 direct companies (excluding the 7 HIH companies), up from 101 a year ago.

For the industry as a whole, return on equity continued to be low compared to other parts of the finance sector. This is despite a firming of premium rates over the past 12 months. Our statistics show

# APRA-regulated institutions (as at 30 June 2000)

	Number	Assets (\$ billion)
ADIs	279	843.8
Banks	51	806.8
Building societies	18	13.1
Credit unions	205	23.9
Other ADIs	5	NA
Representative offices of foreign banks	27	NA
General insurers <sup>a</sup>	162	59.8
Life insurers <sup>a</sup>	42	182.7
Friendly societies	42	6.1
Approved Trustees	159	NA
Superannuation entities <sup>b,c</sup>	11,537	300
Public offer funds	391	156.8
Non public offer funds	2,862	136.2
Small APRA funds	7,699	2.3
Approved deposit funds	398	2.5
Eligible rollover funds	10	2.5
Pooled superannuation trusts	177	NA
<b>Total</b>	<b>12,248</b>	<b>1,392.4<sup>d</sup></b>

<sup>a</sup> As at 31 March 2001

<sup>b</sup> Assets for superannuation entities reflect assets on the most recent annual return (2000 or 1999)

<sup>c</sup> Excludes unregulated public sector funds and self-managed superannuation funds, which are regulated by the Australian Taxation Office. Total superannuation assets, including the balance of life office statutory funds, is estimated to be around \$500 billion.

<sup>d</sup> Total assets adjusted to take into account \$109 billion invested in life office statutory funds via superannuation entities

that the ratio of net claims incurred to net premiums earned for the year to December 2000 was of the order of 79 per cent, a level that is the lowest since 1994 and that should translate to solid profitability in the industry. However, many companies showed return on equity in single figures.

As previously noted, general insurance companies were not subject to intensive on-site reviews prior to the establishment of APRA. Many of these entities are quite small, with net assets not far above the \$2 million minimum required under the present Act. The issues that have arisen in the course of the on-site reviews are typical of the issues with entities of similar size in industries where on-site review has a longer history. Entities with smaller numbers of staff and senior executives rely more on individuals than on documented risk management systems. However, if APRA is to have confidence that the

entity will be well managed over the long term, it needs to be assured that sound risk measurement and control practices are embedded in the operations of the company.

A major overhaul of the flawed and outdated supervision arrangements we inherited for general insurance companies was almost completed during the financial year. The new regime required changes to legislation, which were passed by Parliament in August 2001, for implementation on 1 July 2002. Planning for this stage has begun, including transitional arrangements for those insurers that would not meet new solvency requirements on the implementation date. We are working closely with industry to prepare for the new regime. This is discussed more fully in the chapter on Policy development.

There are currently 42 **life insurance** companies supervised by APRA. This number is expected to decline as a result of consolidation of licences within conglomerate groups and as strategies are reassessed in the light of recent changes to the taxation of life insurance. As more of the business is associated with funds management, there is a continued focus on containing and reducing expenses, with larger companies looking to compete with global funds managers.

Disability income insurance products remain of concern to APRA. Many life insurers are taking significant losses on this line of business: claim costs and claim durations continue to rise; and product pricing has not matched risk experience. APRA is working with life insurers to promote improvements in product design and claims management procedures.

The **friendly society** sector is contracting, with numbers declining from 54 to 47 over the financial year and a dozen of those are in various stages of merging or winding up their benefit funds. Only scholarship societies are still expanding.

The requirement for APRA to approve changes in benefit fund rules means that we had extensive detailed contact with friendly societies in 2000/01.

## Self-assessment

The international standard against which the quality of banking supervision systems is assessed is the Core Principles for Effective Banking Supervision, issued by the Basel Committee on Banking Supervision (BCBS). Compliance with the Core Principles is not mandatory, but they provide a useful performance benchmark and APRA is working to improve Australia's compliance with them.

During the financial year, APRA undertook a self-assessment of Australia's system of banking supervision against the Core Principles, which have two essential elements. The first establishes what are termed "preconditions for effective banking supervision", such as sound and sustainable economic policies, a well-developed public infrastructure, effective market discipline and mechanisms for protecting systemic stability. Without these preconditions, no system of banking supervision is likely to be able to achieve its objective of institutional safety. The second element is 25 high-level core principles against which prudential supervision can be measured and assessed, supplemented by 227 detailed criteria.

APRA's assessment was that Australia met all of the preconditions, and that the compliance of Australia's supervisory system with the Core Principles was high but, as with any rapidly evolving system, not total. Australia was viewed as fully compliant with 11 of the principles, and largely compliant with a further 12. The two areas where Australia materially failed to comply were:

- the absence of a formal "fit and proper" test for bank directors and management. However, APRA had already recognised the need for such a test, and had flagged plans to introduce a more formal approach to fit and proper in all sectors. This is expected to be achieved in amendments to the Banking Act.
- the lack of supervisory oversight of the small number of foreign banks operating as merchant banks in Australia. This is a relic of the era when bank entry in Australia was less open, and foreign banks were permitted to conduct largely wholesale business without a banking authority or on-going prudential supervision. APRA is discussing with the Federal Treasury whether changes are required in this area.

While the assessment did identify some areas where improvements could be made, the overall picture was of a supervision system that stands up very well against world standards, and one that is well placed to protect the safety of Australia's strong and dynamic banking system without unduly interfering with competition, innovation and efficiency.

The International Association of Insurance Supervisors (IAIS) has developed a similar set of Core Principles for insurance supervision. These are less developed than the banking version, although they will still serve as a useful guide to the on-going development of Australia's supervisory regime. Once the revised set of prudential arrangements for general insurance is in place, APRA will undertake a similar self-assessment for the insurance sector. We expect this to show that the new regime displays a high level of compliance with the international standards.

## Performance audit

The Australian National Audit Office also undertook a performance audit during the year of APRA's prudential supervision of banks. The audit confirmed that APRA conforms with most aspects of international best practice as set out in the 25 Basel Core Principles, but identified a few areas where APRA's practices could usefully be brought more closely into line with them.

These included the stringency of limits on banks' large credit exposures, formal arrangements for sharing information with regulators in other countries, and a more structured scheduling of on-site visits to banks both domestically and abroad. APRA accepted the recommendations on these issues, some of which were already being addressed.



## ENFORCEMENT

One of the main aims of APRA's supervision of financial entities is to identify risks and ensure that action is taken by the entity to control or mitigate them. Sometimes APRA's enforcement powers must be used to achieve this. Nevertheless, institutional failures, and exits from business for other reasons, are natural features of competitive markets, and APRA also needs clearly defined and adequate powers to manage such events to minimise their adverse effects.

APRA's Specialised Institutions Division, which supervises a large number of mostly small institutions, has a specialist team to handle cases where enforcement action or very intensive monitoring of an entity is required. The team also manages the steady flow of mergers among authorised deposit-taking institutions (ADIs) and friendly societies and has responsibility for ensuring that the large number of superannuation funds which inform APRA each year they intend to wind up, observe the correct procedures.

Larger and more complex institutions, including those with overseas parents, are supervised by the Diversified Institutions Division. Experience has shown that there is not generally a need for a similar specialised enforcement team – problems

usually can be solved in other ways because of the significant emphasis larger institutions have to place on reputational risk. They also tend to have more ready access to capital which is ultimately the last line of protection for policyholders/depositors/fund members against fraud, misrepresentation, operational failures or other areas of non-compliance.

The table below indicates the types of actions undertaken across the various industries. The actions include the replacement of trustees of superannuation entities and appointment of an inspector or investigator to undertake detailed examinations of institutions. Also included are various types of referrals to other regulatory bodies and industry or professional bodies. Some actions relate to parties associated with APRA-regulated institutions, such as disqualification or referrals of external auditors to professional bodies.

The table on page 14 shows the number of institutions monitored by the rehabilitation and enforcement team during the year and those transferred back to the regional supervision teams when issues were effectively resolved.

**Enforcement actions undertaken during the year**

	ADIs	Superannuation	General insurers	Friendly societies	S66 Banking Act*	Total
Refer to police/ASIC/ DPP	0	8	0	0	1	9
Refer to ATO	0	5	0	0	0	5
Show cause letter issued	0	3	11	0	0	14
Replace trustees	0	4	0	0	0	4
Follow-up delayed contributions	0	11	0	0	0	11
Investigator/liquidator/ inspector appointed	0	2	8	0	0	10
Disqualify auditor/ refer to industry body	0	2	0	0	0	2
Other**	4	10	9	0	18	41

\* Companies or individuals suspected of conducting banking business without proper authorisation

\*\* Includes actions such as notices issued, directions made to institutions, and undertakings obtained from institutions



While the great majority of enforcement actions relate to the smaller institutions and are handled in Specialised Institutions Division, there have also been some actions involving large institutions and handled within the Diversified Institutions Division. By far the most significant such case in 2000/01 was HIH Insurance. This is discussed in the following section, followed by accounts of other notable enforcement cases.

## HIH Insurance Group

When APRA was formed in mid-1998, it inherited the supervision and enforcement practices of its predecessor agencies, initially the Reserve Bank of Australia and the Insurance and Superannuation Commission. Until it had determined its own preferred regulatory approach in insurance, which was implemented in the second half of 1999, the previous practices had to be continued, namely, focusing on scrutinising regular statistical returns rather than on-site reviews of insurers' operations.

Weaknesses in the *Insurance Act 1973* (recently overhauled at APRA's initiative) meant the regulator had inadequate supervisory and enforcement powers when concerned about the soundness of a general insurer. For example, unlike other finance industries, general insurers could not be made subject to more stringent requirements (such as greater capital) when they engage in higher-risk business, and there were problems with the consistency of reported provisions for liabilities. APRA's first annual prudential consultation with

the HIH Insurance Group – a complex group of more than 200 subsidiaries, including seven Australian-licensed insurers/reinsurers and others overseas – took place in March 2000, followed by a credit-risk visit in July. These identified a number of matters of concern, which we pursued with the company while pressing it to improve its risk-management arrangements.

The Group's externally audited accounts for the year to June 2000 showed net assets of nearly \$1 billion and solvency for statutory purposes about double the required level. The unaudited accounts for the September quarter continued to show clearly adequate solvency when we received them in January. In the light of these figures, APRA concluded that it lacked adequate grounds under the existing Insurance Act for appointment of an inspector.

A further consideration was that such an appointment is usually a precursor to closure of a company, which causes substantial negative changes to its balance sheet and therefore worsens the position of policyholders, who are APRA's concern. Their best interests are served if their policies can be transferred in an orderly fashion to other insurers.

The situation changed early in 2001, when HIH admitted experiencing difficulties in finalising its financial results for the six months to 31 December. APRA impressed on the company's management that it was essential to provide these data on time. When it failed to do so, we considered we had

### Institutions supervised by rehabilitation and enforcement

Industry	Number as at 30 June 2000	Institutions added during the year	Institutions returned to regional supervision teams	Institutions transferred/wound up	Number as at 30 June 2001
Authorised deposit-taking institutions	27	14	9	7	25
SIS institutions	32	27	8	16	35
Friendly societies	12	9	1	5	15
General insurers	5	3	0	2	6
SIS institutions winding up	0	78	0	13	65
Other*	16	13	0	20	9
<b>TOTAL</b>	<b>92</b>	<b>144</b>	<b>18</b>	<b>63</b>	<b>155</b>

\* Includes non-APRA regulated groups suspected of conducting unauthorised financial activity



grounds to act and at the beginning of March issued a notice to HIH to show cause why an inspector should not be appointed to investigate its financial affairs. On the eve of the expiry of the notice, HIH entered voluntary provisional liquidation; APRA appointed an inspector on the following day, the first legal opportunity to do so.

Whereas the provisional liquidator is responsible for the interests of all creditors, APRA is responsible for the interests of policyholders. To protect their rights as far as possible, we issued directions to the authorised insurers in the HIH Group not to undertake new insurance business, reconstruct the insurance operations, sell major assets or alter reinsurance arrangements without our approval.

APRA actively facilitated arrangements with other insurers to take over many of HIH's policies, resulting in more than one million policyholders retaining their insurance coverage and some \$1.3 billion in outstanding claims being covered in full. Subsequently, builders' warranty insurance policies written by HIH were also taken over by other insurers.

Six of the seven authorised general insurance companies in the HIH group were placed into liquidation on 27 August 2001 and are consequently no longer subject to the requirements of the *Insurance Act 1973* or supervision by APRA.

All the issues surrounding the HIH collapse are to be examined by a Royal Commission, to which we will make a comprehensive submission.

## **Commercial Nominees**

In April 2000, an investigator was appointed to three superannuation funds of which Commercial Nominees of Australia Ltd (CNA) was the Approved Trustee. Following receipt of the investigator's report in November 2000, CNA was replaced as trustee of these three superannuation funds in December 2000. At the same time APRA asked CNA to show cause as to why its status as an Approved Trustee should not be revoked. The revocation took place in February 2001, at which time Acting Trustees were appointed to 475 small funds of which CNA had been the trustee and another four public offer funds. APRA then appointed an inspector to these small funds that had an exposure to the Enhanced Cash Management Trust, an investment vehicle associated with CNA.

In addition to acting as trustee of the superannuation funds, CNA had been the trustee of the Enhanced Cash Management Trust, which had incurred an estimated loss of 80 per cent. Also in February 2001, the Australian Securities and Investments Commission (ASIC) announced that CNA was being replaced as trustee of the Enhanced Cash Management Trust and the Enhanced Equity Fund.

APRA has been working closely with the inspector and the replacement trustees to determine the causes for the substantial losses suffered by the superannuation funds of which CNA was the trustee and to determine the scope for legal remedies.

## **Other actions**

In May 2000, APRA appointed an inspector to Reinsurance Australia Corporation (ReAC) after it suffered substantial losses and its capital fell below the minimum statutory solvency requirements of the Insurance Act. The inspector remained in place throughout 2000/01 as ReAC continued to run down its insurance liabilities.

In June 2000, a trustee of a Western Australian superannuation fund confessed to defrauding the fund over a five-year period. APRA appointed an Acting Trustee to take control of the fund, including reconstructing the accounts of members and identifying all recovery options. The reconciliation of members' records has been a lengthy process. The Acting Trustee has lodged with the Minister for Financial Services and Regulation an application for compensation under Section 229 of the *Superannuation Industry (Supervision) Act 1993* (SIS Act) which provides a mechanism whereby superannuation fund members may apply for compensation when they have lost money due to fraud or theft. This legislative provision has not previously been activated.

In June 2001, APRA replaced the trustee of a small Victorian superannuation fund where the assets of the fund had been used to purchase illiquid assets related to the employer's business. APRA and the Acting Trustee are exploring ways of recovering value for the fund members.

In May 2000, APRA became concerned that a small general insurer, while remaining commercially solvent, may have breached its minimum statutory

solvency requirements. In July, APRA appointed an inspector to investigate the financial position of the company, and later issued directions requiring it to write down a major asset, increase its provisioning for claims and reduce its exposure to related parties. The company has met its obligations under the directions, and is at present soundly placed to meet its foreseeable liabilities.

In April 2001, Jakob Hans Jost was sentenced to 54 months imprisonment and fined \$7,000 after being convicted for operating an unauthorised bank in Australia, and related matters. He had operated a deposit-taking business known as Eagle Bank in the 1990s and used the proceeds for a property development.

In June 2001, the Federal Court, on APRA's application, ordered Global Monetary Corporation Pty Ltd and two individuals not to use the name Global Monetary Bank or carry out banking activities, pending further hearing of the matters. The company was also required to publish notices on Internet sites stating that it was not authorised to carry on banking business, including acceptance of money on deposit.

During the year, APRA referred the conduct of Ross Zagari, a Melbourne accountant, to ASIC for extensive breaches of the superannuation legislation. Zagari was later convicted in the Victorian Supreme Court and sentenced to 3 1/2 years' imprisonment for fraudulently obtaining the payment of \$2.5 million in superannuation benefits on behalf of 114 clients between August 1996 and October 1999 and other offences. A further 64 offences involving almost \$1 million were taken into account. He had lodged false documents with APRA, and our small funds unit identified these offences.

### **Superannuation powers**

The SIS Act was amended with effect from January 2001 to give APRA an array of more effective enforcement options. Various "fault liability" offence provisions, where the prosecution needed to prove that an act or omission was reckless or deliberate, were changed to "strict liability", where it has to be proven only that the act or omission has occurred.

Prior to these changes, persons were disqualified from being the trustee or investment manager of a superannuation entity only if they had been

convicted of an offence of dishonesty, or if they were a bankrupt under administration. APRA now has the power to declare persons to be disqualified if they have been associated with breaches of the superannuation legislation of such seriousness or frequency that APRA considers they should be disqualified, or if APRA determines that they are otherwise not a fit and proper person to fulfill such roles.

In addition, APRA now has the power to accept an enforceable undertaking under the SIS Act. Other changes introduced at the same time improved the capacity of a replacement trustee appointed by APRA to take control of the affairs of a superannuation fund, and created an offence for persons without the requisite qualifications to hold themselves out as an approved auditor or actuary.

As the offence provisions are not retrospective, APRA has not yet used these powers directly. However, we believe the changes to legislation have made industry participants much more willing to address matters of serious concern to us in a prompt and effective manner. APRA will not hesitate to use the new powers when necessary.

## POLICY DEVELOPMENT



In a constantly and rapidly changing financial sector, policy development necessarily has a very high priority. In APRA's case it is also quite complex, since we are responsible for seven industry sectors that, until three years ago, were supervised under quite separate regimes.

Many current regulatory challenges, such as the trend to financial conglomerates, the emergence of new types of financial services firms (including via electronic commerce) and the development of new techniques for dealing with risk, are transnational. APRA's vision to be a world-class integrated prudential supervisor is an appropriate response to these challenges. There are many other important issues with largely domestic relevance.

Our policy reform program deals with the most important current matters in both categories: reform of prudential supervision of general insurance; development of harmonised standards for authorised deposit-taking institutions (ADIs); strengthened supervision of small and medium-sized superannuation funds; conclusion of work on a new regulatory framework for financial conglomerates; and work with the Basel Committee on Banking Supervision (BCBS) on a revised international accord on capital adequacy for banks.

APRA's long-range goal is a common three-tiered framework for the prudential supervision of all financial institutions and entities: generic legislation setting out broad objectives, flexible prudential standards written in plain English, and explanatory guidelines amplifying the standards. Such a framework would recognise genuine differences between industries, but would treat similar risks in all industries in a similar way.

### General insurance

Finalising the development of a new prudential framework for the general insurance sector – the current one is 28 years old, despite the profound industry changes that have taken place over that

period – has been one of APRA's key objectives since our establishment. During the past year, considerable progress was made towards finalising the new regime that will become effective during 2002.

The objective of the new framework is to provide more effective protection for policyholders through regulation that is more rigorous and more closely tailored to the business profile of different insurers. This will be achieved by, among other things, risk-based capital requirements, increased emphasis on sound corporate governance and greater transparency.

While the intensity of supervision under the regime will undoubtedly increase – for example, all insurers will be subject to on-site reviews in the future – it is intended that this be undertaken in an open and cooperative manner wherever possible. In this way, greater supervisory scrutiny should be able to occur without unnecessary interference in the day-to-day commercial decision-making that is the domain of an insurer's board and management.

APRA issued an initial discussion paper giving an outline of the proposed prudential framework in September 1999. This was followed by extensive industry consultations and a second discussion paper with draft prudential standards for the industry. An impact study was conducted on a representative sample of general insurers late in 2000.

In November, the Federal Government announced that it would proceed with amendments to the *Insurance Act 1973* necessary to implement APRA's proposed standards.

The test results and responses to the second discussion paper were taken into account in a final discussion paper issued in March 2001. Following an industry seminar on the proposals in May, insurers were given until 30 June to comment. At the same time, Treasury consulted industry regarding amendments to the Act. Near-final versions of the new prudential standards and supporting guidance notes are expected to be issued in the next couple of months.

The prudential standards will deal with four principal matters:

- capital adequacy requirements that are appropriate to the risk profile of each insurer, including sufficient capital to cover risks that cannot be mitigated effectively and efficiently. The new requirements will increase minimum capital by about 50 per cent, on average, across the industry, and raise the minimum requirement from \$2 million to \$5 million.
- liability valuations that are rigorous, consistent and supported by actuarial advice. Currently, accounting standards give considerable discretion in the valuation of insurance liabilities; these might be valued at a “central estimate” (ie most likely outcome), or might include an additional risk margin. Under the new standards, insurers will be required to value their liabilities to a 75 per cent probability of sufficiency, unless a board decides on a different figure and discloses this, and the reasons for it, to APRA and the market.
- reinsurance arrangements that are suitable to the scale, complexity and business mix of the company and give a high likelihood that it will be able to meet its obligations to policyholders. Insurers will be required to develop a reinsurance management statement, have it approved by APRA, and regularly self-assess and certify their compliance with it.
- risk-management procedures and internal control systems to manage risks that could potentially undermine the insurer’s financial soundness. Insurers will have to develop a risk management standard and regularly certify their compliance with it.

Two other standards will also be required as a result of the new legislation; these are technical in nature. One deals with the definition of assets inside Australia for the purposes of meeting the revised requirements of the Insurance Act; the second deals with the procedures for transfers of business between one insurer and another.

Some of these standards are derived from banking and life insurance regulations and are thus a step towards a common prudential regime.

A central pillar of the new regime is that the board and senior executives of an insurer have ultimate responsibility for, and are accountable for, its sound and prudent management. The board will be

required to appoint an approved actuary to provide it with independent, expert advice on the value of insurance liabilities. The actuary will also have statutory reporting obligations to APRA.

Overall, this new framework will promote a stronger insurance industry in Australia – one that provides its policyholders with much better protection than in the past. However, it is by no means the end of the reform process. Once these standards are in place, APRA will examine how its framework for supervising conglomerates can be applied to the insurance sector.

## Superannuation

Exploring ways to strengthen the prudential supervision of the superannuation industry and protect the retirement savings of Australians was another of APRA’s objectives during the year. There has been some progress in this area in recent years but further change is needed.

The superannuation industry is distinguished by a number of characteristics, not least the number of funds involved: some 200,000 overall, including about 11,500 that are prudentially regulated and which have some \$300 billion in funds under management. There are \$109 billion of superannuation assets in life insurers, which are also prudentially regulated by APRA. Their diversity, both in size and sophistication, adds to the complexity of the supervision task. Our experience shows problems are more frequent among smaller employer-sponsored funds.

These problems include poor investment decisions (sometimes not at arm’s length); concentration of assets; delays in remitting contributions; and inadequate management systems. The consequences of such problems can be very damaging for fund members.

The challenge for APRA is to devise effective prudential arrangements to deal with weaknesses in a small proportion of funds without adding undue regulatory costs on members of the well-run majority.

Some issues can be dealt with by modifying APRA’s procedures, while others will require more far-reaching reforms involving legislative change. We outlined our preliminary thinking on these issues in June 2001 in a submission to the Productivity Commission’s National Competition Policy review of superannuation legislation.

One such issue is that of prudential reporting, which is less stringent in the superannuation industry than in the other industries that APRA supervises. The information received by APRA is often neither timely nor comprehensive; indeed, persistent late reporting by some funds has become a significant supervisory problem. We have therefore introduced more rigorous processes to reduce the incidence of late reporting, and we are developing new data returns and collection techniques that will improve the quality and detail of information provided.

Another issue is the very limited requirement at present for licensing in the industry – the only part of the prudentially regulated sector of the Australian financial system where unlicensed entities or persons may accept funds from consumers. A system of licensing is essential for effective prudential supervision; APRA is examining the most efficient means for establishing licensing requirements and will make recommendations as necessary to the Government.

Consistent with the framework now in place for deposit-takers and general insurance companies, we favour the introduction of a specific standards-making power for superannuation.

If such a power were available we would move quickly to introduce a standard covering the investment activities of superannuation funds. The addition of a prudent investment strategy by trustees is an important matter in safeguarding the financial interests of fund members. Trustees are required by legislation to consider specific prudential issues in constructing an investment portfolio but the spirit of these requirements is not always observed.

It is clearly not APRA's role to dictate portfolio choices, but it is our responsibility to ensure that reasonable prudential safeguards minimise the risk of large losses for members, rather than respond after the event. Additional prudential guidelines would cover portfolio strategy, asset selection and risk concentration in superannuation funds. Such a standard would amend existing advice to trustees on asset and portfolio selection to emphasise the need for diversified strategies, and we will act more forcefully in those cases where trustees have not observed the spirit of the relevant legislative requirements.

We will also explore in greater detail the issue of capital adequacy for superannuation funds.

At present, a minimum capital requirement of \$5 million applies only to Approved Trustees – and even then the requirement can be avoided – and there is no requirement for employer-sponsored funds. We will be considering both whether the present requirement is adequate and how it might be applied more broadly throughout the superannuation sector. These issues will, of course, need to be fully discussed with both Government and the industry.

Finally, we have also started work on the broad question of governance standards in superannuation. Poor governance standards are the most fundamental single failing in superannuation funds, and the largest cause of losses to members. We will be strengthening our advice to trustees on current best practice in relation to governance, but we also believe there is a strong case for strengthening the current legislative requirements

## Life insurance

In April 2001, APRA began a review of the *Life Insurance Act 1995* (LIA), expected to take 12 to 18 months, which will incorporate a fuller harmonisation and integration of regulation of friendly societies.

Friendly societies became subject to this legislation in 1999, at which time the Life Insurance Actuarial Standards Board (LIASB) announced transitional actuarial standards for them. These were intended to be replaced by harmonised standards for all life companies and friendly societies by about the middle of 2001. In April 2000, the LIASB issued a discussion paper proposing a policy approach to harmonisation.

APRA worked closely with the LIASB and the life insurance and friendly society industries to identify issues raised by harmonisation, and this process demonstrated that a more comprehensive approach was needed, which would involve changes to the LIA. To cover the review period, the LIASB has issued discussion drafts of harmonised standards that maintain the current distinction between the structures of life companies and friendly societies.

The intention is not to change the LIA fundamentally – it was substantially modified in 1995 and is still regarded internationally as among the best legislation of its kind – but rather to integrate friendly societies as easily as possible and to harmonise the structure of the LIA with APRA's

other legislative regimes. It is intended that the revised Act will also comply with the International Association of Insurance Supervisors' principles for effective supervision and will use flexible standards rather than prescription.

APRA will consult fully with the industry on proposed changes.

## Standards for ADIs

Consistent supervisory standards for all ADIs was a key recommendation of the Financial System (Wallis) Inquiry, and APRA began a program to implement it as soon as it assumed responsibility for all such institutions in July 1999. The program came to fruition on 1 October 2000, when a set of 10 prudential standards for all ADIs, and associated guidance notes, took effect.

These harmonised standards replaced two different regulatory regimes that had applied to banks, on the one hand, and building societies and credit unions, on the other. Whereas the banks were subject to broad prudential guidelines, the smaller ADIs were required to comply with a lengthy and complex set of standards, guidance notes and interpretative notes.

Development of the new standards included extensive consultation with industry, comprising many meetings with industry groups and individual institutions and exposure of the proposals for comment. Although some aspects of the changes were controversial, the final set of standards was well received. The majority of the new standards do not impose new requirements on institutions, but in those cases where changes are necessary, APRA has agreed on transition periods with individual institutions.

The standards cover the following matters:

- capital adequacy: outlining the framework within which APRA will assess the capital adequacy of locally incorporated ADIs.
- measurement of capital: stipulating the qualifying criteria for including various types of capital in an ADI's capital base.
- credit risk: prescribing how credit exposures, both on and off-balance sheet, are risk-weighted for capital adequacy purposes.
- market risk: dealing with managing and measuring the risks associated with potential movements in market prices. Institutions have the option of using an internal model (approved by

APRA) or a specified standard method to calculate capital required to cover market risks.

- funds management and securitisation: the prudential requirements for ADIs involved in funds management and securitisation activities to manage the risks involved.
- liquidity: providing two alternative approaches to monitoring and controlling liquidity risk – either having strategies to manage liquidity under different scenarios or maintaining minimum holdings of high-quality liquid assets.
- credit quality: the requirements for measuring and reporting credit risk and making provisions for impaired assets.
- large exposures: maintains the former requirements for managing large single exposures.
- equity associations: prudential requirements for equity associations and dealings with subsidiaries or associates.
- audit and prudential reporting: establishing the tripartite arrangements among APRA, an ADI and its external auditor.

Two additional standards, covering board composition and outsourcing, were in the drafting stage at the end of the financial year. A draft standard on board composition has since been released for industry comment, and a standard addressing the risks in outsourcing for ADIs and other APRA-regulated entities will be issued soon.

## **Conglomerates**

Developing regulatory policy for financial conglomerates that include ADIs is one of the most complex issues with which APRA has had to deal, particularly in striking an appropriate balance between ensuring depositor protection and acknowledging the commercial realities of how conglomerate groups operate.

We issued a discussion paper on conglomerate policy in November 1999. A followup paper in April 2000 provided more detail on the introduction of a fit and proper requirement for directors and senior management of financial institutions, rules governing the inclusion of commercial activities within regulated financial conglomerates and rules governing supervision of non-operating holding companies.

This left two substantial matters to be dealt with: capital adequacy, and intra-group and external large

exposures. The original proposals in the discussion paper on these two issues have now been modified after further consideration and consultations and study of overseas developments. New proposals in these areas were reworked during the second half of the financial year, and will be issued for industry comments in the next few months.

## **Basel Capital Accord**

The global criteria for capital adequacy of banks, applied by APRA to all ADIs, are set out in the 1988 Basel Capital Accord. In June 1999, the Basel Committee on Banking Supervision (BCBS) announced detailed proposals for the reform of these guidelines, in response to significant changes in financial markets and in risk-management methods, to which APRA and many other national regulators responded with comments.

BCBS issued a revised and more extensive consultative paper in January 2001. The detailed proposals are more complex than existing requirements, but APRA immediately welcomed them overall as giving depositors better protection against the risks in banking and being flexible enough to apply to a wide range of financial institutions. After a full assessment of the impact of the changes on Australian ADIs, APRA responded in May with a detailed submission (available on the APRA website).

The proposed new Accord is based on three “pillars”.

The first pillar deals with capital adequacy, retaining the existing benchmark ratio of capital (eight per cent of risk-weighted assets) but permitting a range of calculation methods for principal risk classes, from simple and standardised to more complex models based on a bank’s internal systems. APRA supports the more risk-sensitive approach to capital-adequacy regulation, including the use of internal credit ratings in allocating credit-risk capital and a separate charge for operational risk.



We have suggested, however, that modifications to these proposals are still required. In particular, we are concerned about the calibration of the alternative calculation approaches; in the case of Australian institutions, for example, minimum capital requirements would rise substantially under one approach and fall substantially under another. APRA would therefore find it difficult to implement the proposals as currently structured.

The second pillar deals with the supervisory review process needed to complement the minimum capital adequacy requirements. Although this proposal may require greater intensity of supervision in some areas, with consequent implications for APRA's resources and funding requirements, we believe the proposals should be supported.

The third pillar covers disclosure requirements, acknowledging that market discipline, as well as regulation, helps to constrain excessive risk-taking. The requirements would increase as institutions make use of their own risk-measurement techniques in calculating capital adequacy, because they are less transparent than a standardised approach. While supporting the broad thrust of the proposals, APRA believes they need further consideration to establish whether the additional cost of the extensive disclosure requirements is reasonably justified by the materiality and relevance of the additional information obtained.

## Research

APRA has a small research unit that contributes to research on and debate about issues relevant to its supervisory role. During the year, research papers covered a wide range of topics including the use of extreme-value theory to measure market risk, the impact of legal systems on the development of insurance markets, the development of the Australian securitisation market, and the use of internal credit ratings by Australian banks.

At the end of the financial year, prompted by high valuation levels on many world share markets, the research unit was also examining the impact of asset-price bubbles on the conduct of prudential regulation.

The Australian Research Council (ARC) has agreed to fund a long-term research project undertaken by the University of Queensland on the prudential

regulation of mutual financial institutions. APRA is also contributing to the project with funding, data and research advice. Over the next three years, the project will survey credit unions to determine the impact of regulatory change on their mutual form of organisation. APRA has also submitted a joint proposal to the ARC with academics from The University of New South Wales and the University of Technology, Sydney, to examine the development of statistical early-warning systems to detect problem financial institutions.

The development of such external research links will be a major focus of APRA's research unit during 2001/02.





## APRA STATISTICS



One of the critical tasks that APRA faced on its formation in 1998 was to improve and integrate inherited collections of statistical information about the financial institutions it supervises. This is not only fundamental for APRA's own analysis and monitoring of their condition, and ultimately the safety and efficiency of the sector, but also affects determination of monetary policy by the Reserve Bank of Australia (RBA) and production of economic data by the Australian Bureau of Statistics (ABS). Indeed, these data are among the most important that economists and policymakers rely upon.

The task was far from simple, since APRA inherited six very different systems (of widely varying quality and user-friendliness) that were previously used by the prudential supervisors of banks, non-bank deposit-takers, friendly societies, life companies, general insurers and superannuation entities.

Essential improvements to these legacy systems were undertaken immediately, but it was clear that optimum efficiency required the creation of a single high-quality reporting system covering all the institutions that APRA supervises. This would also provide the data required from these institutions by the RBA and the ABS, eliminating the burden for institutions of separate reporting requirements. Because of its multi-agency impact, the Statistics Project was established to tackle these challenges with input from a tripartite committee representing the three organisations.

The Project has two main elements: the development of a new computer system to collect, analyse and store data from supervised institutions, and a longer-term process of improving and simplifying the data forms used by each supervised industry for financial and statistical reporting to APRA.

### Direct to APRA

The new computer system is known as Direct to APRA (D2A), and provides a flexible, secure and

user-friendly means of data collection. With development virtually complete, the system was provided to an initial group of authorised deposit-taking institutions (ADIs) in June 2001 for open testing, in order to obtain feedback from users so as to maximise ease of use and to enable final implementation to occur as smoothly as possible.

D2A has been designed to operate on any computer system and to transmit data to APRA using a direct Internet connection or email (or even, as a fallback, on floppy disk or as hard copy). It presents the user with a set of regulatory returns and forms specific to that financial institution, which can be completed by typing in the relevant data, by cutting and pasting from an Excel spreadsheet or by importing data from another application. Whenever calculations or formulas need to be applied to the data, D2A does so automatically.

The system has built-in quality checks that review the validity of the data entered. When these are satisfactory, the completed documents are saved and (assuming a direct Internet connection) are electronically signed, encrypted using public-key encryption to ensure data security, and transmitted to APRA.

The information will be stored in a purpose-built data warehouse, linked to electronic tools enabling APRA analysts to study data within and between institutions much more effectively than before. Data required by the RBA and the ABS will be sent to those institutions, again using secure electronic connections.

A further benefit of D2A is that users of financial-sector statistics will have access to, and be able to manipulate, aggregate non-protected data through APRA's website. This will also provide a range of user-friendly analytical tools.

### Reporting requirements

Beginning in parallel with D2A, but extending over a longer period, the second part of the Statistics Project deals with the forms used by regulated

entities. The objectives here are to ensure that the information collected is relevant and useful for prudential analysis and, as far as possible, to integrate the requirements of APRA, the RBA and the ABS in the same form.

In designing the new forms, APRA has taken the view that the information it collects for prudential purposes should, wherever possible and where prudential interests are not impaired, reflect the way the institutions themselves examine their businesses and be consistent with accounting standards, rather than being a set of unique requirements.

In some cases, however, where industry practice diverges but use of the data for macroeconomic purposes requires consistency, standard definitions still will be prescribed across all sectors. This will enable APRA to become the central data recipient, forwarding information required by the RBA and the ABS to those agencies.

The new returns for ADIs were the subject of an intensive consultation process with the institutions during 2000/01, and at the end of the year were ready for implementation. For building societies and credit unions, the new returns and D2A will be used for the first quarter of the new financial year; banks will have a staged implementation between September 2001 and March 2002.

The general insurance sector will be next to change, with consultation on the proposed new returns taking place through the second half of 2001. The new reporting arrangements will then be introduced for the September 2002 quarter. Reviews of returns for other industries will follow, generally in conjunction with policy reviews for these industries. APRA will also take over from the RBA responsibility for collecting data from a range of financial institutions that are not regulated by APRA, such as finance companies and money market corporations.

The new reporting requirements are designed to be flexible, not static. In particular, they will be changed to incorporate industry and international standards to make it easier for institutions to extract required data automatically from their own systems. Future requests for changes to reporting requirements will be dealt with in a predictable annual cycle, under the direction of the APRA/RBA/ABS committee.

## ***Insight statistics***

APRA made a significant advance in publishing information on the financial performance and standing of regulated financial institutions early in 2001 with the first edition of *Insight*, a quarterly publication with extensive statistical tables and articles.

The information in these tables is a function of the data reported by institutions, and will therefore become more and more useful as the various phases of the Statistics Project are implemented. In particular, since the project's focus is on acquiring data bearing on the prudential soundness of institutions, the tables presented will increasingly provide an insight into their financial performance and standing.

Even in their initial form, based on traditional data collections, the available statistics are organised and presented in a way that emphasises prudential considerations. Tables focus on point-in-time, rather than time-series, data to give a snapshot of financial condition and circumstances, while accompanying graphs give historical perspective. Peer-group comparisons are provided, as well as average institutional behaviour and its range.

The current data presented in *Insight* are supplemented on APRA's website by historical data, enabling changes and trends to be identified.



Cooperation with other regulatory agencies at both a national and an international level, along with regular liaison with relevant industry bodies, is a very important part of APRA's role.

Although APRA took over the responsibilities of 11 previous regulators, it continues to share the role of financial regulation in Australia with two other major regulatory agencies, the Reserve Bank of Australia (RBA) and the Australian Securities and Investments Commission (ASIC), while several other state and federal bodies have responsibilities that intersect with APRA's. There are also several peak organisations representing institutions that APRA regulates, whose views APRA needs to take into consideration.

Internationally, reflecting the globalisation of the financial sector, many organisations have been established to facilitate cooperation, information exchanges and joint research. Furthermore, since many of the largest financial institutions have substantial overseas relationships or international operations, our area of interest inevitably overlaps with those of counterparts in other countries and we need to have close relationships with them. This is facilitated through our membership of international regulatory bodies and regional groups.

## Australia

Domestically, the overarching body for cooperation in financial regulation is the Council of Financial Regulators, which brings together the RBA, ASIC and APRA. The Council has no regulatory functions of its own, but operates as a forum for sharing information and views and discussing regulatory issues; should the need arise, it would also coordinate responses to any potential threat to financial stability. This high-level forum is complemented by an overlap in Board membership among the three bodies and by regular bilateral meetings.

Coordination at an operational level takes place under memorandums of understanding (MOUs), which APRA has entered into, not only with the RBA and ASIC, but also with the Australian Competition and Consumer Commission, the

Australian Taxation Office, the Private Health Insurance Administration Council and the Motor Accidents Authority of NSW. In each case the MOUs are aimed at achieving cost-effectiveness and efficiency and at addressing any gaps or overlaps in regulatory coverage.

In August 2000, APRA and ASIC held a joint workshop to discuss the enforcement approaches of the two agencies, identify issues of common interest and encourage closer working relationships. The importance of close cooperation between APRA and ASIC is likely to increase when the Financial Services Reform Bill passes through Parliament. Although the final form of the Bill was not settled at the end of the financial year, it will impose a uniform licensing regime administered by ASIC in addition to prudential regulations administered by APRA; however, a number of its general obligations will not apply to those providers of financial services that are already supervised by APRA.

Because it has law-enforcement obligations, APRA is one of 11 agencies comprising a group called Heads of Commonwealth Operational Law Enforcement Agencies. We hosted a half-yearly meeting of the group in November 2000.

APRA also has regular high-level liaison meetings with industry bodies such as the Australian Bankers' Association, the International Banks and Securities Association, the Investment and Financial Services Association, the Association of Superannuation Funds of Australia, the Insurance Council of Australia, the Institute of Actuaries of Australia and the professional accounting bodies to discuss issues of current interest or concern.

## International – supervision policy

APRA is a member of several significant international bodies concerned with its areas of operation, and participates actively in their functions. We are also increasing our liaison with overseas regulators to improve our knowledge of the offshore operations of Australian institutions and of the home-country operations of overseas institutions represented in Australia.

APRA and the Financial Services Authority in the United Kingdom jointly hosted a conference on conglomerate and group supervision in London in December 2000, which was attended by prudential supervisors from seven other countries.

In the insurance sector, the peak international body is the International Association of Insurance Supervisors (IAIS). Our Executive General Manager, Diversified Institutions Division, was elected vice-chairman of the organisation in January 2001. We also chair the Solvency, Solvency Assessment and Actuarial Issues Subcommittee, which has developed a set of principles on capital adequacy and solvency regulation internationally. These will be put to the membership for adoption late in 2001. In addition, we took part in development of core principles and an assessment methodology for insurance supervision, which were adopted by the membership in September 2000.

The OECD also has an insurance committee, of which APRA is again a member. The committee's work during the financial year covered a wide range of issues, including a proposed new international accounting standard for insurance, ecommerce in insurance, financial convergence and investment regulation.

A new international group to facilitate cooperation between regulators of private pensions was formed under OECD auspices during the year – the International Network of Pensions Regulators and Supervisors. APRA became a member and was elected to the technical committee, and one of APRA's staff co-chaired the group's first conference.

Although not a member of the Basel Committee on Banking Supervision (which is largely confined to G10 countries), APRA continues to be an active contributor to the work of the BCBS, particularly on issues associated with the new Basel Capital Accord. APRA made a detailed submission to the BCBS in May 2001, and has been a member of the Capital Sub-Group of the Core Principles Liaison Group, the main vehicle for discussions between the BCBS and non-G10 bank supervisors.

APRA participated in the work of the Multidisciplinary Working Group on Enhanced Disclosure, which brought together representatives of IAIS, BCBS, the International Organization of Securities Commissions (IOSCO) and the Committee on Global Finance of the G-10 Central

Banks. The group reported in April 2001, recommending how public-disclosure practices of financial institutions might be improved, based on a pilot study of data collected from 44 financial institutions in nine countries (including two Australian insurers).

IAIS, BCBS and IOSCO have also established a Joint Forum dealing with financial supervision of conglomerates and other supervisory issues that cross sectoral boundaries. APRA is a member and we also participated during the year in its working group on risk assessment and capital, which investigated and reported on risk-management practices and regulatory-capital frameworks for banks, insurance companies and securities firms.

BCBS has formed a group to examine issues raised by electronic banking, of which APRA is an observer. BCBS and the Bank for International Settlements arranged a conference of regulators, industry participants and academics to discuss ecommerce issues in June 2001, at which APRA made a presentation.

Integrated supervisory agencies (that is, covering both deposit-takers and insurers) from 10 nations, including APRA, meet annually to discuss issues of mutual interest. At the third such conference, in June 2001, APRA particularly addressed the issue of supervision of conglomerates, which is of growing importance.

In November 2000, APRA gave presentations to the annual meeting of South Pacific Central Bank Governors, which was held in Sydney. We also participated in the Working Group on Banking Supervision of the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), a broader grouping of regional central banks and monetary authorities.

APRA participated in a joint International Monetary Fund and World Bank team that conducted a review and assessment of Israel's financial system in September 2000, focusing particularly on how its banking supervision rated against the Core Principles of the BCBS.

### **International – information sharing**

APRA regularly hosts visits from overseas finance-sector regulators wishing to learn more about Australia's approach and to share their own experiences. In July 2000, a delegation from the

Bank of Indonesia came to Sydney for discussions on our approach to bank supervision, and provided a valuable assessment of the problems of the Indonesian banking sector. Indonesia is considering setting up an integrated financial services supervisor similar to APRA, and our Chair held a workshop for the officials involved in Jakarta to examine the steps required.

APRA actively supports the APEC Financial Regulators Training Initiative through its membership of the Bank Supervisor Advisory Group. The APRA representative was a member of the Bank Curriculum Development Committee which put together the Foundation and Intermediate Training Programs. APRA also participated in the Policy Dialogue on Bank Failure Management and the Policy Dialogue on Banking Supervision in June 2001. Eighteen of the 21 APEC countries were represented in the policy dialogues.

Regionally, we continued our involvement in the Asia-Pacific Economic Cooperation (APEC) training program on managing regulatory change in life insurance and pension funds. The aim of the four-week long program is to enhance the supervisory capabilities in APEC member countries in the areas of life insurance and pension fund supervision. APRA's involvement includes providing access to key personnel to discuss our supervisory approach and resource material.

A number of these courses have been held in Melbourne – in March 2000, March 2001 and July 2001. Attendees included life insurance and pension fund regulators from most of the Southeast Asian countries, including Taiwan, Singapore, Malaysia, Hong Kong, Indonesia, India, Fiji and Thailand.

APRA staff also presented at the Symposium of Asian Life/Pension Regulators in Manila in November 2000.

APRA provided a commentator and moderator at the MII second International Conference for Emerging Markets in a Globalising Economy and the second OECD/IAIS Conference on Insurance Regulation and Supervision in Asia. The conferences were held back-to-back with IAIS Committee meetings and a meeting of actuarial leaders and actuarial educators in Asia and the Pacific in January 2001 in Kuala Lumpur.

An APRA representative presented at the IMF



Conference on Financial Stability and Development: The Case of the Pacific Island Countries in Samoa in February 2001. Under a technical assistance program arranged by the Monetary and Exchange Affairs Department of the IMF, APRA provided a senior staff member as Bank Supervision Advisor to the Reserve Bank of Vanuatu.

A senior APRA staff member conducted a two-day session on Enhancing Bank Supervision in Fiji in 2000.

APRA is heavily involved in the AUSAID-funded project to strengthen the supervisory framework in Thailand. Since 1999, APRA has:

- conducted two one-week training courses in Thailand (one on capital markets and one on market risk);
- hosted a one-week visit by senior Bank of Thailand officers to APRA;
- run a two-week program on risk-based supervision for a group of Bank of Thailand managers; and
- taken on a range of Bank of Thailand staff for six-month secondments to APRA.

In April 2000, two APRA staff participated in an IMF team to review the extent of problem loans in the Thai banking system.

In February 2001, a senior APRA manager visited Bank of Thailand for five days to provide training and assistance to the Bank's Data Management Group. The session concentrated on the design and deployment of a data warehouse for use by the bank to collect data for prudential, macroeconomic and exchange control purposes.

APRA is in close liaison with all the central banks and regulatory agencies in the Asia-Pacific Region. We are regularly responding to requests for information and advice from China, Korea, Hong Kong, Singapore, India, the Philippines and Papua New Guinea.

In 2000/01, we received and assisted several delegations from China interested in management of problem assets of ADIs, regulation of credit unions and in current and proposed arrangements for insurance supervision, as well as providing presentations on superannuation to delegations from Chinese pension agencies.

We also hosted a high-level delegation from Argentina that was interested in learning how APRA was structured as part of that country's consideration of implementing a Wallis-style reform program in its financial sector.

## **APRA call centre**

APRA's national call centre in Canberra continues to meet world's best practice in answering 90 per cent of calls from the general public within 10 seconds, and has taken significant steps forward on training and staff development. The team achieved an overall rating of 92 per cent on the quality of its calls during this financial year (calls where there was no need for improvement identified).

In February, the staff involved in the early release of superannuation benefits and the call centre team combined under one manager to improve customer focus and achieve efficiencies.

The volume of applications for the early release of preserved superannuation benefits has continued at around 1,000 per month. Under new arrangements, the assessors are determining applications well within the target turnaround time of 48 hours.

By June, the improved processes in the early release of benefits had resulted in a 10 per cent reduction in the number of enquiries to the call centre about pending applications. The feedback received from customers confirms that the current level of service exceeds expectations.





## Board responsibilities

The responsibilities of APRA Board members stem from statute and common law. The most relevant statutes are the *Australian Prudential Regulation Authority Act 1998* (APRA Act) and the *Commonwealth Authorities and Companies Act 1997* (CAC Act).

APRA's purpose, as set out in section 8 of the APRA Act, is to regulate bodies in the Australian financial sector in accordance with applicable laws and to develop the policy to be applied in performing that regulatory role. In doing this, APRA must balance the objectives of financial safety and efficiency, competition, contestability and competitive neutrality.

The Board's functions, as set out in section 17 of the APRA Act, are:

- to determine APRA's policies (including goals, priorities, strategies and administrative policies);
- to ensure that APRA performs its functions properly, efficiently and effectively; and
- to ensure that APRA's operations are conducted having regard to its purpose as stated in section 8.

In addition, other sections of the APRA Act refer to the obligations of the Board to inform the Government of APRA's policies (section 12) and to hold meetings.

Board members, other than representative members, are appointed by the Treasurer for a term of up to five years. Two representative members are appointed by the Governor of the Reserve Bank of Australia and one by the Chairman of the Australian Securities and Investments Commission.

Under the APRA Act, the Board may delegate some of its functions to the Chief Executive Officer, to a Board member or to a member of staff.

## Risk assessment and internal audit

A key element in APRA's corporate governance framework is the Board and senior management's

understanding of the risks facing the organisation and the implementation of strategies to control those risks.

Risk assessment and internal audit staff provide the Board's Risk Management and Audit Committee with a summary of the high and significant risks at the organisational level. These risks had been identified using the ongoing risk assessment process, which follows the Australian/New Zealand standard on risk management (AS/NZS 4360:1999). Management provided an overview of the strategies it has in place to mitigate each of these risks. The organisation's risk profile is reassessed every six months.

A further important outcome is the provision of regular risk assessment and audit reports to senior management and the Board Risk Management and Audit Committee. These reports cover risk identification and analysis, and associated risk management strategies and action plans. They also provide independent assurance that internal controls are in place and operating effectively.

During the year, APRA participated in a survey conducted by the Attorney-General's Department on fraud training provided by Commonwealth agencies. Fraud risk management also has been encompassed within APRA's overall strategic risk and is included in the 2001/02 strategic internal audit plan.

## Board members

From left to right:  
Dr Jeffrey Carmichael  
Mr Graeme Thompson



From left to right:  
Dr David Knox  
Dr John Laker



Below:  
Mr Ian Macfarlane  
Mr Don Mercer  
Mrs Marian Micalizzi



## Members' attendance at meetings

	Board meetings		Risk Management and Audit Committee	
	(a)	(b)	(a)	(b)
Dr Jeffrey Carmichael	11	11	4	4
Mr Graeme Thompson	11	11		
Mr Alan Cameron <sup>1</sup>	4	3		
Dr David Knox	11	11	4	4
Dr John Laker	11	11		
Mr Ian Macfarlane <sup>2</sup>	11	8		
Mr Don Mercer	11	8	4	4
Mrs Marian Micalizzi	11	11	4	4
Mr David Knott <sup>3</sup>	5	5		

(a) number of meetings held while a member      (b) number of meetings attended

<sup>1</sup> Alan Cameron's alternate, David Knott, attended the 27 July 2000 meeting. Mr Cameron's term ended on 17 November 2000.

<sup>2</sup> Ian Macfarlane's alternate, Dr Stephen Grenville, attended the 12 October and 16 November 2000 meetings.

<sup>3</sup> David Knott was appointed on 30 November 2000 and resigned on 22 May 2001.

### Dr Jeffrey Carmichael AO Chair (non-executive)

BCom (Hons 1) MCom (Hons)(UNSW), MA, PhD  
(Princeton), AIBF, AIFS

Dr Carmichael was a member of the Financial System Inquiry and is now a financial consultant and company director. He brings to his chairmanship of APRA considerable experience and knowledge of the financial system from his 20 years with the Reserve Bank of Australia (RBA), from his extensive academic career, where he specialised in the field of banking and finance, and, more directly, in prudentially regulating financial institutions. Dr Carmichael has previously held positions as Chair of the Australian Financial Institutions Commission (AFIC) and Chair of the Queensland Office of Financial Supervision. Both institutions were involved in the supervision of building societies, credit unions and friendly societies, which was transferred to APRA's jurisdiction on 1 July 1999.

### Mr Graeme Thompson Chief Executive Officer (executive)

BEc (Hons)(Syd)

Mr Thompson is the Chief Executive Officer of APRA. From 1993 until his present appointment, he was a Deputy Governor of the RBA with responsibilities including banking supervision, surveillance of the financial system as a whole and the payments system. From 1995 to 1998 he was also Chair of the Australian Payments Clearing Association Ltd. Mr Thompson previously held other senior positions in the RBA. He is currently APRA's representative member on the RBA's Payments System Board. He is also Chair of the boards of Note Printing Australia Ltd and Securrency Pty Ltd.

**Dr David Knox (non executive)**

BA, PhD (Macquarie), FIA, FIAA

Dr Knox is a Director with PricewaterhouseCoopers Actuarial. From 1992 to 1999 he was the Foundation Professor of Actuarial Studies at The University of Melbourne. From 1979 to 1992 he was a Lecturer and then Associate Professor of Macquarie University. Prior to his two decades in academia, he worked for National Mutual Life. Dr Knox has acted as a consultant to a range of financial organisations, in both the private and public sectors, specialising in the superannuation area. Dr Knox was President of the Institute of Actuaries of Australia in 2000 and was named Actuary of the Year in 1996. He is a member of APRA's Risk Management and Audit Committee.

**Dr John Laker (non executive)**

BEC (Hons 1)(Syd), MSc PhD(London)

Dr Laker was appointed Assistant Governor (Financial System) of the RBA in March 1998. He worked in the Commonwealth Treasury and International Monetary Fund before joining the RBA's International Department in 1982. Dr Laker held senior positions in the economic, bank supervision and international areas before becoming the RBA's Chief Representative in Europe, based in London, from 1991 to 1993. Prior to his current appointment he was Assistant Governor (Corporate Services). Dr Laker is also Deputy Chair of the Payments System Board of the RBA and an RBA representative on the Council of Financial Regulators.

**Mr Ian Macfarlane (non executive)**

BEC (Hons), MEc (Monash), FASSA

Mr Macfarlane is Governor and Chairman of the Board of the RBA. He is also Chairman of the RBA's Payments System Board and of the Council of Financial Regulators.

**Mr Don Mercer (non executive)**

BSc (Hons 1)(St Andrews), Dip Pub Admin, MA (Econ)(Manchester)

Mr Mercer is Chancellor of RMIT University, Chair of Orica Ltd and Chair of Australia Pacific Airports Corporation. He is a Director of CSIRO. After graduating, he spent 19 years with Shell

International Petroleum Co. Ltd, with postings in the United Kingdom, the Netherlands, Canada, Indonesia and Australia. He joined ANZ in March 1984 as General Manager, Strategic Planning and Economics, and in 1988 was appointed Chief General Manager, Australian Retail Services. In June 1992, Mr Mercer was named Group Managing Director and Chief Executive Officer. He retired on 30 September 1997. He was President of the Victorian Institute of Company Directors from 1994 to 1996, and is currently a national Vice-President of AICD. He was President of the Australian Coalition of Service Industries from 1994 to 1998. He is the Chair of APRA's Risk Management and Audit Committee.

**Mrs Marian Micalizzi (non executive)**

BBus (QUT), FCA, MAICD

Mrs Micalizzi's expertise is in financial advisory areas and she is a current member of several advisory boards and panels including the Corporations and Securities Panel and the Companies and Securities Advisory Committee, as well as the boards of Enertrade and Queensland Investment Corporation. She was a director of the Queensland Office of Financial Supervision from 1992 to August 1999 and AFIC from 1996 until October 1999, which were responsible for the regulation and supervision of non-bank financial institutions. Mrs Micalizzi is a former partner of PricewaterhouseCoopers Financial Advisory Services division, having previously been admitted as a partner of a predecessor firm in 1986. She is also a member of APRA's Risk Management and Audit Committee.

**Mr Rod Atfield (non executive)**

FIA, FIAA, FAII

Mr Atfield was appointed to the Board as an independent member for the term of five years from 1 September 2001. He was previously Managing Director of the Mercantile Mutual Group, with extensive experience in the general insurance industry. In addition to Mr Atfield's more than 40 years experience in the insurance field, he has made a significant contribution to the industry and professional associations of which he has been a member during his career. Mr Atfield is a former director of the Insurance Council of Australia, the

Life Insurance Federation of Australia and a past President of the Institute of Actuaries of Australia.

**Mr Alan Cameron, AM (non executive)**

BA, LLM (Hons)(Syd)

Mr Cameron was the Chair of the Australian Securities and Investments Commission (ASIC, formerly Australian Securities Commission) until 17 November 2000. After varied experience in the legal and financial sectors in Australia and overseas, he practised as a partner with law firm Blake Dawson Waldron for 12 years, becoming the National Managing Partner in 1989. He was also a director of various listed and unlisted companies. He was Chair of the Business Law Section of the Law Council of Australia and a part-time judicial member of the NSW Equal Opportunity Tribunal. Prior to his appointment to the ASIC on 1 January 1993, he held the position of Commonwealth Ombudsman from April 1991 until December 1992. He is now self employed as a consultant and company director.

**Mr David Knott (non executive)**

LLB (Melb)

Mr Knott was appointed as Chairman of ASIC on 18 November 2000 and is based in ASIC's Melbourne office. He first joined ASIC as its Deputy Chairman on 5 July 1999. His career spans more than 30 years of experience in both the private and public sectors. After graduating in law in 1970, he spent 13 years in private legal practice, specialising in company and commercial law before assuming senior roles in investment banking for a further 10 years and, since 1992, public administration. Positions held include partnership at Arthur Robinson and Co (now Allens Arthur Robinson), Senior Executive Director Capel Court; Chief Executive of AFIC, CEO of Commonwealth Funds Management and Chief Operating Officer of APRA.

## THE COST OF PRUDENTIAL SUPERVISION AND APRA'S FINANCES



APRA's income comes mostly from annual levies on regulated financial institutions. Its expenditure is devoted, directly or indirectly, to prudential supervision, regulation and enforcement activities in relation to those entities.

### APRA's expenditure

APRA's operating expenditure in 2000/01 was \$52.5 million. This was above the budgeted figure of \$51.1 million because of costs associated with APRA's inspection of HIH Insurance and higher depreciation of fixed assets.

The table below shows the trend in operating expenditure on prudential regulation, and staff engaged directly or indirectly on this, in Australia over recent years.

	Expenditure \$m	Staff at 30 June
1997/98 (estimate)	56.4	559
1998/99 (estimate)	59.9	482
1999/00	52.8	397
2000/01 <sup>1</sup>	52.5	396
2001/02 (budgeted) <sup>2</sup>	53.1	417

In contrast to these data, the figures in the financial accounts accompanying this report show a more substantial fall in spending (including employee expenses) in 2000/01. This is because new accounting standards require abnormal expenditure to be reported as part of operating transactions. The expenditure figure for 1999/00 includes abnormal items of \$6 million that were part of APRA's total establishment expenditure of \$19.8 million, which had been reported separately

in the 1999/00 financial accounts.

These figures<sup>3</sup> show that, following APRA's creation and absorption of functions previously carried out in 11 separate agencies, the running costs of prudential supervision fell significantly in nominal terms, more so if adjusted for inflation. This has been achieved through a combination of integration savings, shared facilities, more flexible work practices and investment in infrastructure.

The estimated percentage distribution of APRA's operating expenditure across its main activities in 2000/01 is:

- supervision, rehabilitation and enforcement, 57 per cent;
- development of prudential policies and standards, 9 per cent;
- liaison with industry, 7 per cent; and
- administrative support and corporate governance, 27 per cent.

While total spending on prudential supervision has come down over recent years (as expected and foreshadowed by the Government when it decided to establish APRA) this trend cannot be expected to continue if APRA is to carry out its responsibilities effectively. This is true even though the number of regulated entities is declining with industry rationalisation in most sectors.

Several factors will mean increased spending on prudential supervision in the future. Our resources are already spread thin and the community clearly expects a more intensive scrutiny of financial institutions, particularly where institutional failure would hit the household sector.

<sup>1</sup> The expenditure figure for 2000/01 is lower than reported in the financial statements by \$0.7 million due to sublease rental income on properties leased being offset.

<sup>2</sup> The figures for 2001/02 are from APRA's Agency Budget Statement in the Commonwealth Budget Papers.

<sup>3</sup> The figure for 1997/98 is the aggregate of prudential supervision costs incurred by APRA's predecessor agencies – the Insurance and Superannuation Commission, the Reserve Bank's Bank Supervision Department and the various agencies under the state-based Financial Institutions Scheme. APRA was established on 1 July 1998 but did not acquire responsibility for institutions under the latter scheme until 1 July 1999. Consequently, the figure for 1998/99 is an amalgam of APRA and state agency costs.

Further demands are stemming from APRA's ambitious policy reform program, the increasing complexity of financial instruments and services, the growing impact of international prudential standards and the pace of institutional restructuring – all of which mean more work for the prudential supervisor.

Another factor of note is the trend toward recognition of financial institutions' internal risk systems for calculating regulatory capital. This is in the interests of the better-run companies because it is likely to result in a lower regulatory capital charge, but it puts a lot of new pressures on the resources of supervisory agencies.

### APRA's income

APRA is funded primarily from levies collected from regulated financial institutions, with subsidiary sources being interest on funds invested and revenue from sale of publications.

Levies are raised according to the *Financial Institutions Supervisory Levies Collection Act 1998* and six other Acts applying to the main industry sectors. In each case it is provided that levies will be applied as a rate on assets, subject to a minimum and maximum amount per institution, except for non-operating holding companies that are levied a flat rate. The levies collected by APRA also cover some costs of the Australian Securities and Investments Commission (ASIC) and the Australian Taxation Office (ATO).

The process leading to the determination of levy rates by the Treasurer each year, and the way which costs are allocated to industry sectors by APRA, was described in detail in APRA's annual report for 1999/00. The process includes a detailed round of consultation with the main industry groups and with Commonwealth Treasury.

One important point is worth reiterating: while the levies are based on industry sectors, APRA's organisation structure, and its supervisory approach as an integrated whole-of-system agency, do not lend themselves to exact allocation of spending on this basis. Much of APRA's policy development work and its frontline supervision cut across traditional, and increasingly outmoded, industry boundaries.

In 2000/01, APRA planned to collect \$61 million from industry including \$12.6 million on behalf of ASIC and \$2.4 million for the ATO. Over-collection from authorised deposit-taking institutions of \$0.5 million and under-collections

from superannuation (\$0.9 million) and life insurance (\$0.2 million) were factored into levy determinations for 2001/02.

### Reserves

APRA's statement of financial performance shows a deficit of \$1.1 million for 2000/01 which, when added to the accumulated surplus at the beginning of the year, results in an accumulated surplus carried forward of \$0.6 million. The accumulated reserves are now only 1.1 per cent of levy income and below the target level – 5 per cent to 10 per cent of annual levies – set by the Board. APRA will be seeking to build up its reserves in future years.

### Accounting policies

APRA has adopted accounting policies that match levy income to the cost of supervision during the levy year on an accrual basis. This policy has been endorsed by a senior independent expert on public sector accounting. The Australian National Audit Office's (ANAO) report qualifies the financial statements on the basis that, in its opinion, section 50 of the *Australian Prudential Regulation Authority Act 1998* entitles APRA to recognise only the cash collected as levies. This position is not supported by the independent opinion obtained by APRA.

The ANAO also considers that the recognition by APRA of levies invoiced but not yet collected is a departure from *Australian Accounting Standard AAS 15 – Revenue*. In the opinion of the ANAO, APRA does not have control of the invoiced, but not yet received, levies. Changes have been drafted to section 50 of the APRA Act. When enacted, these changes will clarify the basis on which APRA receives levies revenue and permit levies invoiced, but unpaid at the year-end, to be recognised as revenue.

APRA has changed its policy on revenue recognition when levies collected vary from the planned levies that APRA has agreed, during consultation with industry, as necessary to cover its operating costs. This policy had been to recognise a liability to industry (or an asset) for the over-collection (or under-collection) of levies against the plan. The ANAO has indicated that, in its opinion, there is no obligation in law for APRA to return over-collections of levies or to pursue under-collections and, therefore, there is no basis on which to establish an asset or liability for this purpose. APRA has accepted this view and altered its policy accordingly in this year's accounts.







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AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY  
STATEMENT BY BOARD MEMBERS



In our opinion, the attached financial statements give a true and fair view of the matters required by Schedule 1 of the Commonwealth Authorities and Companies (Financial Statements 2000/01) Orders.

Dr Jeffrey Carmichael  
Chair of the Board  
13 September 2001

Graeme Thompson  
Chief Executive Officer  
13 September 2001

## STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 30 June 2001

	Notes	2001 \$'000	2000 <sup>1</sup> \$'000
<b>Revenues from ordinary activities</b>			
Revenues from government	6A	49,367	60,586
Sales of goods and services	6B	1,265	1,663
Interest	6C	1,439	2,021
Proceeds from disposal of assets	6D	4	28
<b>Total revenues from ordinary activities</b>		<b>52,075</b>	64,298
<b>Expenses from ordinary activities</b>			
Employees	7A	33,347	37,221
Suppliers	7B	15,523	17,469
Depreciation and amortisation	7C	2,833	2,527
Asset threshold change	7D	649	-
Revaluation and write-down of assets	7E	839	18
Disposals of assets	7F	22	1,204
<b>Total expenses from ordinary activities</b>		<b>53,213</b>	58,439
<b>Borrowing cost expenses</b>	8	<b>2</b>	8
<b>Net operating surplus (deficit) from ordinary activities attributable to the Commonwealth</b>	14	<b>(1,140)</b>	5,851
Net credit to asset revaluation reserve	14	558	-
Restructuring adjustment	14, 15	-	220
<b>Total revenues, expenses and valuation adjustments recognised directly in equity</b>		<b>558</b>	220
<b>Total changes in equity other than those resulting from transactions with owners as owners</b>		<b>(582)</b>	6,071

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

<sup>1</sup> Note that the comparative figures for 1999/00 have been restated to reflect the changes to Australian Accounting Standard AAS 1 - Statement of Financial Performance. As a result, transactions previously reported as abnormal and totalling \$6.202 million are now incorporated into "Expenses from ordinary activities" (see Notes 7A, 7B and 7F).

# STATEMENT OF FINANCIAL POSITION

as at 30 June 2001

	Notes	2001 \$'000	2000 \$'000
<b>ASSETS</b>			
<b>Financial assets</b>			
Cash	9A	13,796	23,574
Receivables	9B	1,529	6,401
Accrued revenues	9C	522	715
<b>Total financial assets</b>		<b>15,847</b>	<b>30,690</b>
<b>Non-financial assets</b>			
Infrastructure, plant and equipment	10A, C	6,568	7,535
Intangibles	10B, C	7,311	2,103
Other	10D	134	71
<b>Total non-financial assets</b>		<b>14,013</b>	<b>9,709</b>
<b>Total assets</b>		<b>29,860</b>	<b>40,399</b>
<b>LIABILITIES</b>			
<b>Interest-bearing liabilities</b>			
Leases	11	24	34
<b>Total interest-bearing liabilities</b>		<b>24</b>	<b>34</b>
<b>Payables</b>			
Suppliers	12A	5,120	5,615
Revenue in advance	12B	51	3,140
Loans	12C	5,439	10,878
<b>Total payables</b>		<b>10,610</b>	<b>19,633</b>
<b>Provisions</b>			
Employees	13A	10,110	11,019
Other	13B	2,751	2,766
<b>Total provisions</b>		<b>12,861</b>	<b>13,785</b>
<b>Total liabilities</b>		<b>23,495</b>	<b>33,452</b>
<b>EQUITY</b>			
Capital	14	5,255	5,255
Reserves	14	558	-
Accumulated surpluses	14	552	1,692
<b>Total equity</b>		<b>6,365</b>	<b>6,947</b>
<b>Current assets</b>		<b>15,982</b>	<b>30,761</b>
<b>Non-current assets</b>		<b>13,878</b>	<b>9,638</b>
<b>Total assets</b>		<b>29,860</b>	<b>40,399</b>
<b>Current liabilities</b>		<b>17,254</b>	<b>20,942</b>
<b>Non-current liabilities</b>		<b>6,241</b>	<b>12,510</b>
<b>Total liabilities</b>		<b>23,495</b>	<b>33,452</b>

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

## STATEMENT OF CASH FLOWS

for the year ended 30 June 2001

	Notes	2001 \$'000	2000 \$'000
<b>OPERATING ACTIVITIES</b>			
Cash received			
Appropriations		51,591	56,960
Sales of goods and services		650	1,224
Interest		1,362	1,938
GST recovered from taxation authority		1,566	-
Other		760	969
<b>Total cash received</b>		<b>55,929</b>	<b>61,091</b>
Cash used			
Employees		(34,256)	(43,010)
Suppliers		(18,170)	(13,414)
Borrowing costs		(2)	(8)
Other		(123)	(174)
<b>Total cash used</b>		<b>(52,551)</b>	<b>(56,606)</b>
Net cash from operating activities	16	<b>3,378</b>	4,485
<b>INVESTING ACTIVITIES</b>			
Cash received			
Proceeds from sale of plant and equipment		4	28
<b>Total cash received</b>		<b>4</b>	<b>28</b>
Cash used			
Purchase of plant and equipment		(2,460)	(4,140)
Purchase of intangibles		(5,261)	-
<b>Total cash used</b>		<b>(7,721)</b>	<b>(4,140)</b>
Net cash used by investing activities		<b>(7,717)</b>	(4,112)
<b>FINANCING ACTIVITIES</b>			
Cash received			
Proceeds from debt		-	3,998
Other		-	-
<b>Total cash received</b>		<b>-</b>	<b>3,998</b>
Cash used			
Repayments of debt		(5,439)	(5,439)
<b>Total cash used</b>		<b>(5,439)</b>	<b>(5,439)</b>
Net cash used by financing activities		<b>(5,439)</b>	(1,441)
<b>Net decrease in cash held</b>		<b>(9,778)</b>	(1,068)
Cash at the beginning of the reporting period		23,574	24,642
<b>Cash at the end of the reporting period</b>	9A	<b>13,796</b>	<b>23,574</b>

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

## SCHEDULE OF COMMITMENTS

as at 30 June 2001

	2001 \$'000	2000 \$'000
<b>BY TYPE</b> <sup>1,2</sup>		
COMMITMENTS PAYABLE		
Operating leases <sup>3</sup>	33,846	39,145
<b>Total commitments payable</b>	<b>33,846</b>	<b>39,145</b>
COMMITMENTS RECEIVABLE		
Operating subleases <sup>4</sup>	(7,217)	(8,451)
<b>Total commitments receivable</b>	<b>(7,217)</b>	<b>(8,451)</b>
<b>Net commitments</b>	<b>26,629</b>	<b>30,694</b>
<b>BY MATURITY</b>		
Net commitments		
One year or less	3,727	4,067
From one to five years	14,986	14,570
Over five years	7,916	12,057
<b>Total net commitments</b>	<b>26,629</b>	<b>30,694</b>

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

<sup>1</sup> Commitments are GST inclusive where relevant.

<sup>2</sup> APRA has no capital commitments.

<sup>3</sup> Operating leases are effectively non-cancellable and comprise:

- leases for office accommodation;
- photocopier lease and copy charges; and
- leases for motor vehicles.

<sup>4</sup> Operating subleases commitments receivable comprise amounts receivable from other bodies for subleasing of office accommodation.

## SCHEDULE OF CONTINGENCIES

as at 30 June 2001

	2001 \$'000	2000 \$'000
<b>CONTINGENT LOSSES</b>		
Claims for damages/costs	60	50
<b>Total contingent losses</b>	<b>60</b>	<b>50</b>

The claim for costs at 30 June 2001 represents APRA's estimate of costs payable should a matter awaiting decision be determined in the defendant's favour.

The amount allowed for contingent losses at 30 June 2000 was for estimated legal costs payable in a legal matter that had not been determined. That matter has since been resolved.

Estimated costs incurred during the year associated with other legal action, currently under way, are reflected in the Statement of financial performance.

## SCHEDULE OF UNQUANTIFIABLE CONTINGENCIES

At 30 June 2001, APRA had a number of legal matters outstanding that APRA is defending. It is not possible to estimate the amounts of any eventual payments that may be required in relation to these claims.

Estimated costs incurred during the year associated with other legal action, currently under way, are reflected in the Statement of financial performance.

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



**SCHEDULE OF ADMINISTERED REVENUES AND EXPENSES**

for the year ended 30 June 2001

	Notes	2001 \$'000	2000 <sup>1</sup> \$'000
Revenues from ordinary activities			
Taxation			
Financial institutions supervisory levies	22A	62,027	-
<b>Total taxation</b>		<b>62,027</b>	-
Non-taxation			
Refunds by APRA of overpayments by institutions	22B	639	-
<b>Total non-taxation</b>		<b>639</b>	-
<b>Total revenues from ordinary activities</b>		<b>62,666</b>	-
Less: expenses from ordinary activities			
Net write-down of assets	23A	(1,228)	-
<b>Total expenses from ordinary activities</b>		<b>(1,228)</b>	-
<i>Less: cash transferred to</i>			
<i>Official Public Account</i>		<b>(68,460)</b>	-
<b>Net decrease in administered net assets</b>	27	<b>(7,022)</b>	-

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

<sup>1</sup> Note that comparative figures are not provided for 1999/00 as the Department of the Treasury previously reported these transactions at a highly summarised level, including transactions for both APRA-regulated institutions and self-managed superannuation funds.

## SCHEDULE OF ADMINISTERED ASSETS AND LIABILITIES

as at 30 June 2001

	Notes	2001 \$'000	2000 <sup>1</sup> \$'000
<b>ASSETS</b>			
Financial assets			
Receivables	24A	493	-
Accrued revenue	24B	306	-
<i>Total financial assets</i>		<u>799</u>	-
Total assets		<u>799</u>	-
<b>LIABILITIES</b>			
Payables			
Revenue in advance	25	4,461	-
<i>Total payables</i>		<u>4,461</u>	-
Total liabilities		<u>4,461</u>	-
<b>EQUITY</b>			
Accumulated results	26	(3,662)	-
Total equity		<u>(3,662)</u>	-

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

<sup>1</sup> Note that comparative figures are not provided for 1999/00 as the Department of the Treasury previously reported these transactions at a highly summarised level, including transactions for both APRA-regulated institutions and self-managed superannuation funds.

**SCHEDULE OF ADMINISTERED CASH FLOWS**

for the year ended 30 June 2001

	Notes	2001 \$'000	2000 <sup>1</sup> \$'000
<b>OPERATING ACTIVITIES</b>			
Cash received			
Financial institutions supervisory levies		68,460	-
<b>Total cash received</b>		<b>68,460</b>	<b>-</b>
Cash used			
Cash to official public account		(68,460)	-
<b>Total cash used</b>		<b>(68,460)</b>	<b>-</b>
Net cash from operating activities	27	-	-
Net increase (decrease) in cash held			
Cash at the beginning of the reporting period		-	-
Cash at the end of the reporting period		-	-

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

**SCHEDULE OF ADMINISTERED COMMITMENTS**

As at 30 June 2001

There were no administered commitments as at 30 June 2001.

**SCHEDULE OF ADMINISTERED CONTINGENCIES**

As at 30 June 2001

There were no administered contingencies as at 30 June 2001.

<sup>1</sup> Note that comparative figures are not provided for 1999/00 as the Department of the Treasury previously reported these transactions at a highly summarised level, including transactions for both APRA-regulated institutions and self-managed superannuation funds.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2001

<b>Note</b>	<b>Description</b>
1	Summary of significant accounting policies
2	Reporting by segments and outcomes
3	Economic dependency
4	Subsequent events
5	Financial institutions supervisory levies
6	Operating revenues
7	Operating expenses
8	Borrowing cost expenses
9	Financial assets
10	Non-financial assets
11	Interest-bearing liabilities
12	Payables
13	Provisions
14	Equity
15	Non-cash financing and investing activities
16	Cash-flow reconciliation
17	Remuneration of Board members
18	Related-party disclosures
19	Remuneration of officers
20	Remuneration of auditors
21	Financial instruments
22	Administered revenues
23	Administered expenses
24	Administered financial assets
25	Administered revenue in advance
26	Administered equity
27	Administered cash-flow reconciliation
28	Administered financial instruments
29	Moneys held in trust

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2001

### Note 1. Summary of significant accounting policies

#### 1.1 Basis of accounting

These financial statements are required by clause 1(b) of Schedule 1 to the *Commonwealth Authorities and Companies Act 1997* and are a general-purpose financial report.

The statements have been prepared in accordance with:

- Schedule 1 of the Commonwealth Authorities and Companies (Financial Statements 2000/2001) Orders;
- Australian Accounting Standards and Accounting Interpretations issued by Australian Accounting Standards Boards;
- other authoritative pronouncements of the Boards; and
- Consensus Views of the Urgent Issues Group.

The statements have been prepared having regard to:

- Statements of Accounting Concepts;
- the Explanatory Notes to Schedule 1 issued by the Department of Finance and Administration; and
- Guidance Notes issued by that Department.

APRA's statements of financial performance and financial position have been prepared on an accrual basis and are in accordance with the historical cost convention, except for certain assets which, as noted, are at valuation. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

Assets and liabilities are recognised in APRA's statement of financial position when and only when it is probable that future economic benefits will flow and the amounts of the assets or liabilities can be reliably measured. Assets and liabilities arising under agreements equally proportionately unperformed are, however, not recognised unless required by an Accounting Standard. Liabilities and assets that are unrecognised are reported in the schedule of commitments and the schedule of contingencies.

Revenues and expenses are recognised in APRA's statement of financial performance when and only when the flow or consumption or loss of economic benefits has occurred and can be reliably measured.

The continued existence of APRA in its present form, and with its present programs, is dependent on Government policy and on continuing appropriations by Parliament for APRA's administration and programs. These appropriations are primarily derived from levies on the institutions that APRA regulates (see Note 1.4).

#### Administered items

Administered items are distinguished from APRA items in the financial statements by shading. The same basis of accounting has been applied to the administered items as has been applied to APRA transactions.

Administered transactions relate to the levies, late lodgement and late payment penalties collected under the *Financial Institutions Supervisory Levies Collection Act 1998*. In prior years, the Department of the Treasury reported this information at a summary level. Detailed comparative figures are not available for 1999/00.

While the revenues from these levies are in part used to fund the operations of APRA, they are first remitted to the Commonwealth's Official Public Account. A certain amount, as specified by the Treasurer in an annual Determination made under section 50(2) of the *Australian Prudential Regulation Authority Act 1998*, is

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2001

retained in the Consolidated Revenue Fund to fund the Australian Securities and Investments Commission for consumer protection and market integrity functions, and the Australian Taxation Office, for unclaimed moneys and lost member functions. The balance is drawn down by APRA under a special appropriation.

**1.2 Changes in accounting policy**

There have been changes to two accounting policies during the financial year.

*(a) Revenue recognition*

APRA recognises appropriation revenue on the basis of levies invoiced during the year, less the amount to be retained in the Consolidated Revenue Fund. In 1999/00, this amount was further adjusted for collections of levies in excess of the amount required to support funding needs, as presented to industry during levy consultation.

APRA has been advised by the Australian National Audit Office that, in its opinion, APRA has no present obligation to return over-collections to industry. To recognise such a liability for over-collections would be in breach of *Australian Accounting Standard AAS 15 - Revenue*. Consequently, APRA no longer applies this policy. If this had not been applied in the prior year, revenues for 1999/00 would have been \$2.954 million higher, as detailed below. As a consequence, the revenues for 2000/01 would have been \$2.954 million lower.

	Original 1999/00 \$'000	Revised 1999/00 \$'000
<u>Statement of financial performance</u>		
Revenue from government	60,586	63,540
Total revenue	64,298	67,252
Net surplus (deficit)	5,851	8,805

Statement of financial position

Revenue in advance	3,140	186
Total payables	19,633	16,679
Total liabilities	33,452	30,498
Accumulated surpluses	1,692	4,646
Total equity	6,947	9,901

*(b) Asset threshold*

APRA has changed the threshold to be applied for the capitalisation of fixed assets. The policy now applied is outlined in Note 1.11(b) and the financial impact is provided in Note 7D.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2001

### 1.3 Reporting by outcomes

A comparison of budget and actual figures by outcome specified in the appropriation acts relevant to APRA is presented in Note 2(b). Any intra-government costs included in the figure "net cost to budget outcomes" are eliminated in calculating the actual budget outcome for the Government overall.

### 1.4 Revenue

#### (a) *Revenues from Government – APRA appropriations*

APRA is funded primarily through levies paid by the industries it regulates. The levies raised are transferred to APRA via a Special Appropriation, the amount transferred being net of the amount specified in the Treasurer's Determination to be retained in the Consolidated Revenue Fund (CRF) to fund consumer protection, market integrity, unclaimed moneys and lost member functions.

APRA revenue reflects its performance in managing the levy process, being reduced by any waivers or write-offs of debt.

#### (b) *Resources received free of charge*

Services received free of charge are recognised as revenue when and only when a fair value can be reliably determined and the services would have been purchased if they had not been donated. Use of those resources is recognised as an expense.

Contributions of assets at no cost of acquisition or for nominal consideration are recognised at their fair value when the asset qualifies for recognition, unless received from another government agency as a consequence of a restructuring of administrative arrangements.

#### (c) *Other revenue*

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Revenue from disposal of non-current assets is recognised when control of the asset has passed to the buyer.

Revenue from the rendering of a service is recognised by reference to the stage of completion of contracts or other agreements to provide services to Commonwealth bodies. The stage of completion is determined according to the proportion that costs incurred to date bear to the estimated total costs of the transaction.

### 1.5 Transactions by the Government as owner

Appropriations to APRA designated as "capital-equity injections" are recognised directly in equity to the extent drawn down as at the reporting date.

### 1.6 Employee entitlements

#### (a) *Leave*

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



## **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

### **for the year ended 30 June 2001**

The liability for annual leave reflects the value of total annual leave entitlements of all employees at the end of the financial year and is recognised at its nominal amount.

The non-current portion of the liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the end of the financial year. In determining the present value of the liability, APRA has taken into account attrition rates and pay increases through promotion and inflation.

#### *(b) Separation and redundancy*

Provision is made for separation and redundancy payments in cases where APRA has formally identified positions as excess to requirements and a reliable estimate of the amount payable can be determined (see Note 13A).

#### *(c) Superannuation*

APRA employees contribute to the Commonwealth Superannuation Scheme, the Public Sector Superannuation Scheme, and the Reserve Bank Officers' Superannuation Fund. In addition, employer contributions are made to other superannuation funds, as nominated by the employee (see Note 7A).

No liability for superannuation benefits is recognised as at 30 June as the employer contributions fully extinguish the accruing liability that is assumed by the Commonwealth, or by the other funds, as appropriate.

### **1.7 Leases**

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets, and operating leases under which the lessor effectively retains all such risks and benefits.

Where a non-current asset is acquired by means of a finance lease, the asset is capitalised at the present value of minimum lease payments at the inception of the lease and a liability recognised for the same amount. Leased assets are amortised over the period of the lease. Lease payments are allocated between the principal component and the interest expense.

Operating lease payments are expensed on a basis which is representative of the pattern of benefits derived from the leased assets. The net present value of future net outlays in respect of surplus space under non-cancellable lease agreements is expensed in the period in which the space becomes surplus.

Lease incentives taking the form of "free" leasehold improvements and rent holidays are recognised as liabilities. These liabilities are reduced, by allocating lease payments between rental expense and the reduction of the liability.

### **1.8 Borrowing costs**

All borrowing costs are expensed as incurred except to the extent that they are directly attributable to qualifying assets, in which case they are capitalised. The amount capitalised in a reporting period does not exceed the amounts of costs incurred in that period.

APRA has no qualifying assets for which funds were borrowed specifically in 2000/01 (1999/00: nil).

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2001

### 1.9 Cash

Cash includes:

- cash at bank;
- petty cash; and
- Commonwealth and state government securities (held for a maximum of 90 days).

### 1.10 Financial instruments

Accounting policies in relation to financial instruments are stated at Note 21.

Accounting policies in relation to administered financial instruments are stated at Note 28.

### 1.11 Infrastructure, plant and equipment

#### (a) *Acquisition of assets*

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

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and revenues at their fair value at the date of acquisition.

#### (b) *Asset recognition threshold*

Purchases of plant and equipment are recognised initially at cost in the statement of financial position, except for purchases costing less than \$3,000 and all desktop computers, which are expensed in the year of acquisition. In 1999/00, a capitalisation threshold of \$2,000 was applied. The full effect of the change in accounting policy has been recognised in 2000/01 (see Note 7D).

#### (c) *Revaluations*

Infrastructure, plant and equipment and leasehold improvements are revalued progressively in accordance with the "deprival" method of valuation every three years, so that no asset has a value greater than three years old. All assets on hand at the end of April, excluding intangible assets, were revalued as at 30 June 2001. Assets purchased after 30 April 2001 are reported at cost.

Where assets are held which would not be replaced or are surplus to requirements, measurement is at net realisable value. At 30 June 2001, APRA had no assets in this situation.

All valuations are independent.

#### (d) *Recoverable amount test*

Schedule 1 requires the application of the recoverable amount test to APRA's non-current assets in accordance with *Australian Accounting Standard AAS10 - Recoverable Amount of Non-Current Assets*. The carrying amounts of these non-current assets have been reviewed to determine whether they are in excess of their recoverable amounts. In assessing recoverable amounts, the relevant cash flows have been discounted to their present value.

#### (e) *Depreciation and amortisation*

Depreciable equipment assets are written-off to their estimated residual values over their estimated useful lives to APRA using, in all cases, the straight-line method of depreciation. Leasehold improvements are amortised on a straight-line basis over the lesser of the estimated useful life of the improvements or the unexpired period of the lease.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2001

Depreciation/amortisation rates, useful lives and methods are reviewed at each balance date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate. Residual values are re-estimated for a change in prices only when assets are revalued.

Depreciation and amortisation rates applying to each class of depreciable asset are based on the following useful lives:

	2001	2000
Equipment	3 to 12 years	3 to 12 years
Leasehold improvements	Lower of 10 years or lease term	Lower of 10 years or lease term

The aggregate amount of depreciation allocated for each class of asset during the reporting period is disclosed in Note 7C.

### 1.12 Intangibles

The carrying amount of each non-current intangible asset is reviewed to determine whether it is in excess of the asset's recoverable amount. If an excess exists as at the reporting date, the asset is written down to its recoverable amount immediately. In assessing recoverable amounts, the relevant cash flows, including the expected cash inflows from future levies, have been discounted to their present value.

Intangible assets are amortised on a straight-line basis over their anticipated useful lives. Useful lives are reviewed each year to assess potential obsolescence and relevance.

Depreciation and amortisation rates applying to each class of intangible asset are based on the following useful lives:

	2001	2000
Internally developed software	5 years	5 years
Purchased software	5 years	5 years

### 1.13 Taxation

APRA is exempt from all forms of taxation except fringe benefits tax and the goods and services tax.

### 1.14 Insurance

APRA has insured for risks through the Government's insurable risk-managed fund Comcover. Workers compensation is insured through Comcare Australia.

### 1.15 Comparative figures

Comparative figures have been adjusted to conform to changes in presentation in these financial statements where required.

Comparative figures for administered transactions are not provided as these transactions were previously reported, at a summary level, by the Department of the Treasury.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2001

### 1.16 Rounding

Amounts have been rounded to the nearest \$1,000, except in relation to the following:

- remuneration of Board members;
- remuneration of officers (other than Board members); and
- remuneration of auditors.

### 1.17 Restructuring

APRA will continue to review its business functions. To the extent that positions are identified as redundant, or facilities over which leases are held are identified as excess to needs, provision is made for redundancies, surplus leased space and a reduction in the useful life for leasehold improvements.

### Note 2. Reporting by segments and outcomes

#### (a) Reporting by segments

APRA operates in a single industry and geographic segment, being provision of government prudential regulation of the finance industry in Australia.

#### (b) Reporting by outcome for 2000/01

APRA is structured to meet the following outcome:

*To enhance public confidence in Australia's financial institutions through a framework of prudential regulation which balances financial safety and efficiency, competition, contestability and competitive neutrality.*

Outcome 1		
	Budget	Actual
	\$000	\$000
Administered expenses	-	1,228
Net cost of APRA outputs	49,805	50,507
Net cost to budget outcome <sup>1</sup>	49,805	51,735
Outcome-specific assets	22,170	29,860

### Note 3. Economic dependency

APRA was established pursuant to the *Australian Prudential Regulation Authority Act 1998* as a separate legal entity of the Commonwealth of Australia. APRA is dependent on Government policy, and on continuing appropriations by Parliament for APRA's administration and programs. These appropriation are primarily derived from levies on institutions that APRA regulates (see Note 1.4).

### Note 4. Subsequent events

No events occurring after balance date were noted.

<sup>1</sup> The net cost to budget outcome shown includes intra-government costs that would be eliminated in calculating the actual budget outcome.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2001

**Note 5. Financial institutions supervisory levies**

This note provides details on APRA's management of levies collected under the *Financial Institutions Supervisory Levies Collection Act 1998*.

	2001 \$'000	2000 \$'000
<u>Note 5A. Summary</u>		
Annual levies on APRA-regulated institutions (see Note 5B)	61,295	-
Add: late payment penalties (see Note 5C)	459	-
Add: late lodgement penalties (see Note 5D)	273	-
Levy revenue to the Commonwealth (see Note 5E)	62,027	-
Less: waivers and write-offs (see Notes 5F and 5G)	(1,228)	-
Levy revenue net of waivers and write-offs (see Note 5H)	60,799	-
Less: amounts retained in the Consolidated Revenue Fund (see Note 5I)	(14,919)	-
Funding of APRA by Special Appropriation (see Note 5J)	45,880	-
<u>Note 5B. Annual levies on APRA-regulated institutions</u>		
Superannuation funds	24,969	-
Authorised deposit-taking institutions	22,632	-
Life insurers and friendly societies	8,453	-
General insurers	5,147	-
Retirement savings account providers	94	-
Total annual levies	61,295	-
<u>Note 5C. Late payment penalties</u>		
Superannuation funds	432	-
Authorised deposit-taking institutions	22	-
General insurers	5	-
Total late payment penalties	459	-
<u>Note 5D. Late lodgement penalties</u>		
Superannuation funds	273	-
Total late lodgement penalties	273	-

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2001

**Note 5. Financial institutions supervisory levies (continued)**

	2001 \$'000	2000 \$'000
<u>Note 5E. Total levy revenue to the Commonwealth</u>		
Superannuation funds	25,674	-
Authorised deposit-taking institutions	22,654	-
Life insurers and friendly societies	8,453	-
General insurers	5,152	-
Retirement savings account providers	94	-
Total levy revenue to the Commonwealth	<u>62,027</u>	-
<u>Note 5F. Levies waived by APRA on behalf of the Commonwealth</u>		
Superannuation funds	(517)	-
Life insurers and friendly societies	(142)	-
Total levies waived	<u>(659)</u>	-
<u>Note 5G. Levies written off by APRA on behalf of the Commonwealth</u>		
Superannuation funds	(567)	-
Authorised deposit-taking institutions	(2)	-
Total levies written-off	<u>(569)</u>	-
<u>Note 5H. Levy revenue net of waivers and write-offs</u>		
Superannuation funds	24,590	-
Authorised deposit-taking institutions	22,652	-
Life insurers and friendly societies	8,311	-
General insurers	5,152	-
Retirement savings account providers	94	-
Total levy revenue net of waivers and write-offs	<u>60,799</u>	-
<u>Note 5I. Amounts retained in the Consolidated Revenue Fund (see Note 1.1)</u>		
Superannuation funds	(8,599)	-
Authorised deposit-taking institutions	(2,560)	-
Life insurers and friendly societies	(2,040)	-
General insurers	(1,720)	-
Total levy amount retained in CRF	<u>(14,919)</u>	-

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2001

**Note 5. Financial institutions supervisory levies (continued)**

	2001 \$'000	2000 \$'000
<u>Note 5J. APRA special appropriation for 2000/01 levies</u>		
Superannuation funds	15,991	-
Authorised deposit-taking institutions	20,092	-
Life insurers and friendly societies	6,271	-
General insurers	3,432	-
Retirement saving account providers	94	-
Total APRA special appropriation for 2000/01 levies	<b>45,880</b>	-
<u>Note 5K – Levies receivable at year end</u>		
Superannuation funds – levies receivable	1,050	-
Provision for doubtful debts	(557)	-
Net levies receivable	<b>493</b>	-

**Note 6. Operating revenues**

Note 6A. Revenues from Government

*(a) Appropriations for outputs*

Annual appropriation <sup>1</sup>	-	1,500
Special appropriation levies (see Notes 5A and 5J)	45,880	58,814
Special appropriation – net increase in opening debt-related SAF levies <sup>2</sup>	263	-
Prior year over-collections (see Note 1.2(a))	2,954	-
Total appropriations for outputs	<b>49,097</b>	60,314

*(b) Resources received free of charge*

Comcover insurance premium	270	272
Total resources received free of charge	<b>270</b>	272
Total revenues from Government	<b>49,367</b>	60,586

<sup>1</sup> The \$1.5 million annual appropriation in 1999/00 is funding for the administration of self-managed superannuation funds (SMSFs). Responsibility for administration of these funds transferred to the Australian Taxation Office on 1 July 2000.

<sup>2</sup> The 1999/00 closing value of debt was calculated by reference to outstanding debt for non-excluded superannuation funds only. APRA was also entitled to levy collections on superannuation funds regulated by APRA which were previously classified as excluded superannuation funds. APRA's entitlement to outstanding levies was therefore understated by the above amount. The above figure has been reduced by an amount to reflect the assessed low level of collectibility of this outstanding debt.



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2001

Note 6. Operating revenues (continued)

	2001 \$'000	2000 \$'000
<u>Note 6B. Sales of goods and services</u>		
Goods	74	29
Services	442	1,634
Property sub-leases	749	-
Total sales of goods and services	1,265	1,663

Note 6C. Interest

Deposits	829	504
Commonwealth and state government securities	610	1,517
Total interest	1,439	2,021

Note 6D. Proceeds from disposal of assets

*(a) Proceeds from disposal of assets*

Infrastructure, plant and equipment	4	28
Total proceeds from disposal of assets	4	28

*(b) Net loss on sale of assets*

Proceeds from disposal of assets	4	28
Less: disposals of assets (see Note 7F)	(22)	(1,204) <sup>1</sup>
Net loss on sale of assets	(18)	(1,176)

<sup>1</sup> The comparative figure includes \$1.108 million disclosed in 1999/00 as an abnormal item. This was expenditure that was directly attributed to the restructuring of APRA subsequent to its establishment. The expenditure has been reclassified due to a change in Australian Accounting Standard AAS 1 – Statement of Financial Performance.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2001

**Note 7. Operating expenses**

	2001 \$'000	2000 \$'000
<u>Note 7A. Employee expenses</u>		
Remuneration (for services provided)	30,862	33,141
Separation and redundancy	767	2,708 <sup>1</sup>
Total remuneration	<u>31,629</u>	35,849
Other employee expenses	1,718	1,372
Total employee expenses	<u>33,347</u>	37,221

*Superannuation*

APRA contributes to the Commonwealth Superannuation (CSS) and the Public Sector (PSS) Superannuation schemes, which provide retirement, death and disability benefits to 23 per cent of its employees, previously employed by APRA's antecedent bodies. Contributions to the schemes are at rates calculated to cover existing and emerging obligations. Current contribution rates are 19.2 per cent of salary (CSS) and 10.3 per cent of salary (PSS). An additional 3 per cent is contributed for employer productivity benefits. Both of these schemes are closed to new APRA contributors. Employer contributions amounting to \$983,009 (1999/00: \$1,237,649) in relation to these schemes have been expensed in these financial statements.

Contributions on behalf of the balance of staff are made to various complying superannuation funds in accordance with the *Superannuation Guarantee (Administration) Act 1992*. Employer superannuation productivity benefit contributions totalled \$153,931 (1999/00: \$332,250).

Note 7B. Suppliers expenses

Supply of goods and services	11,380	12,385 <sup>2</sup>
Operating lease rentals	4,143	5,084
Total suppliers expenses	<u>15,523</u>	17,469

<sup>1</sup> The comparative figure includes \$2.708 million disclosed in 1999/00 as an abnormal item. This was expenditure that was directly attributable to the restructuring of APRA subsequent to its establishment. The expenditure has been reclassified due to a change in *Australian Accounting Standard AAS 1 – Statement of Financial Performance*.

<sup>2</sup> The comparative figure includes \$2.386 million disclosed in 1999/00 as an abnormal item. This was expenditure that was directly attributable to the restructuring of APRA subsequent to its establishment. The expenditure has been reclassified due to a change in *Australian Accounting Standard AAS 1 – Statement of Financial Performance*.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2001

**Note 7. Operating expenses (continued)**

	<b>2001</b>	<b>2000</b>
	<b>\$'000</b>	<b>\$'000</b>
<u>Note 7C. Depreciation and amortisation</u>		
Depreciation of non-leased infrastructure, plant and equipment	<b>1,796</b>	1,593
Amortisation of leased assets	<b>14</b>	14
Amortisation of intangibles	<b>1,023</b>	920
Total depreciation and amortisation	<b>2,833</b>	2,527
The aggregate amounts of depreciation or amortisation expensed during the reporting period, for each class of depreciable asset, are as follows:		
Infrastructure, plant and equipment	<b>840</b>	969
Leasehold improvements	<b>970</b>	638
Intangibles	<b>1,023</b>	920
Total depreciation and amortisation	<b>2,833</b>	2,527
<u>Note 7D. Asset threshold change (see Note 1.11(b))</u>		
Impact on infrastructure, plant and equipment	<b>649</b>	-
Total impact of asset threshold change	<b>649</b>	-
<u>Note 7E. Revaluation and write-down of assets</u>		
<i>(a) Financial assets</i>		
Receivables for goods and services	<b>41</b>	18
Total impact on financial assets	<b>41</b>	18
<i>(b) Non-financial assets</i>		
Infrastructure, plant and equipment – revaluation decrement	<b>615</b>	-
Infrastructure, plant and equipment – write-off	<b>183</b>	-
Total impact on non-financial assets	<b>798</b>	-
Total revaluation and write-down of assets	<b>839</b>	18
<u>Note 7F. Disposal of assets</u>		
<i>Non-financial assets</i>		
Cost of infrastructure, plant and equipment disposed	<b>22</b>	1,204 <sup>1</sup>
Net book value of assets disposed	<b>22</b>	1,204

<sup>1</sup> The comparative figure includes \$1.108 million disclosed in 1999/00 as an abnormal item. This was expenditure that was directly attributed to the restructuring of APRA subsequent to its establishment. The expenditure has been reclassified due to a change in *Australian Accounting Standard AAS 1 – Statement of Financial Performance*.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2001

**Note 8. Borrowing cost expenses**

	2001 \$'000	2000 \$'000
Finance charges on lease liabilities	2	8
Total borrowing cost expenses	2	8

**Note 9. Financial assets**

Note 9A. Cash

Cash at bank and on hand	3,743	11,737
Deposits at call	10,053	11,837
Total cash	13,796	23,574

Note 9B. Receivables

*(a) Receivables for goods and services*

Receivable for goods and services	345	191
Less: provision for doubtful debts	(41)	-
Net receivables for goods and services	304	191

*(b) Appropriation receivable*

Appropriations to be transferred after year end	219	3,592
Appropriation receivable related to outstanding levy debt	1,050	2,619
Less: provision for doubtful debt related to outstanding levy debt	(557)	(20)
Net appropriation receivable	712	6,191

*(c) GST receivable*

GST receivable	513	19
Total GST receivable	513	19

*(d) Total receivables*

Gross value of receivables	2,127	6,421
Less: provision for doubtful debt	(598)	(20)
Net receivables	1,529	6,401

Receivables (gross) which are overdue are aged as follows:

Not overdue	1,268	4,276
Overdue by:		
- less than 30 days	233	222
- 30 to 60 days	19	53
- 60 to 90 days	14	1,043
- more than 90 days	593	827
Total receivables (gross)	2,127	6,421

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2001

**Note 9. Financial assets (continued)**

	<b>2001</b>	<b>2000</b>
	<b>\$'000</b>	<b>\$'000</b>
<u>Note 9C. Accrued revenues</u>		
Interest	<b>77</b>	133
Fees and charges	<b>139</b>	458
Accrued appropriation for levy revenue accruals	<b>306</b>	124
Total accrued revenues	<b>522</b>	715

**Note 10. Non-financial assets**

Note 10A. Infrastructure, plant and equipment

*(a) Computer hardware and office equipment*

Computer hardware and office equipment		
– received free of charge – at fair value	-	78
Accumulated depreciation	-	(24)
	-	54
Computer hardware and office equipment – at cost	<b>634</b>	2,266
Accumulated depreciation	<b>(11)</b>	(506)
	<b>623</b>	1,760
Computer hardware and office equipment		
– at valuation (1998)	-	1,572
Accumulated depreciation	-	(1,102)
	-	470
Computer hardware and office equipment		
– at valuation (2001)	<b>2,959</b>	-
Accumulated depreciation	<b>(1,288)</b>	-
	<b>1,671</b>	-
Computer hardware and office equipment		
– under finance lease	<b>33</b>	41
Accumulated depreciation	<b>(22)</b>	(14)
	<b>11</b>	27
Total computer hardware and office equipment	<b>2,305</b>	2,311

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2001

**Note 10. Non-financial assets (continued)**

	<b>2001</b>	<b>2000</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>(b) Leasehold improvements</i>		
Leasehold improvements – at cost	-	6,087
Accumulated depreciation	-	(863)
	<b>-</b>	<b>5,224</b>
Leasehold improvements – at valuation (2001)	<b>7,043</b>	-
Accumulated depreciation	<b>(2,780)</b>	-
	<b>4,263</b>	-
Total leasehold improvements	<b>4,263</b>	5,224
Total infrastructure, plant and equipment	<b>6,568</b>	7,535

The revaluations were in accordance with the revaluation policy stated at Note 1.11 – Infrastructure, plant and equipment and were completed by an independent valuer, the Australian Valuation Office.

**Note 10B. Intangibles**

Computer software – received free of charge – at fair value	<b>128</b>	128
Accumulated amortisation	<b>(102)</b>	(52)
	<b>26</b>	76
Computer software – internally developed – at cost	<b>355</b>	473
Accumulated amortisation	<b>(213)</b>	(116)
	<b>142</b>	357
Computer software – purchased – at cost	<b>1,475</b>	541
Accumulated amortisation	<b>(295)</b>	(93)
	<b>1,180</b>	448
Computer software – internally developed – at valuation (1999)	<b>1,925</b>	1,925
Accumulated amortisation	<b>(1,622)</b>	(1,070)
	<b>303</b>	855
Computer software – purchased – at valuation (1999)	<b>600</b>	600
Accumulated amortisation	<b>(355)</b>	(233)
	<b>245</b>	367
Computer software – internally developed – in progress – at cost	<b>5,415</b>	-
Accumulated amortisation	-	-
	<b>5,415</b>	-
Total intangibles	<b>7,311</b>	2,103

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2001

**Note 10. Non-financial assets (continued)**

Note 10C. Analysis of infrastructure, plant and equipment and intangibles

**Table A**

**Movement summary 2000/01 for all assets irrespective of valuation basis**

Item	Computer hardware and office equipment \$'000	Leasehold improvements \$'000	Intangibles \$'000	Total \$'000
<b>Gross value as at 1 July 2000</b>	<b>3,957</b>	<b>6,087</b>	<b>3,667</b>	<b>13,711</b>
Additions: purchases of assets	1,004	723	6,258	<b>7,985</b>
Revaluations: write-ups/(write-downs)	121	397	-	<b>518</b>
Assets transferred in/(out)	(61)	61	-	-
Asset threshold change	(1,343)	(11)	(5)	<b>(1,359)</b>
Write-offs	(13)	(196)	(22)	<b>(231)</b>
Disposals	(39)	(18)	-	<b>(57)</b>
<b>Gross value as at 30 June 2001</b>	<b>3,626</b>	<b>7,043</b>	<b>9,898</b>	<b>20,567</b>
<b>Accumulated depreciation/amortisation</b>				
<b>as at 1 July 2000</b>	<b>(1,646)</b>	<b>(863)</b>	<b>(1,564)</b>	<b>(4,073)</b>
Disposals	17	18	-	<b>35</b>
Depreciation/amortisation charge for the year	(840)	(969)	(1,024)	<b>(2,833)</b>
Revaluations: write-ups/(write-downs)	437	(1,012)	-	<b>(575)</b>
Assets transferred in/(out)	-	-	-	-
Asset threshold change	709	-	1	<b>710</b>
Write-offs	2	46	-	<b>48</b>
<b>Accumulated depreciation/amortisation as at 30 June 2001</b>	<b>(1,321)</b>	<b>(2,780)</b>	<b>(2,587)</b>	<b>(6,688)</b>
<b>Net book value as at 30 June 2001</b>	<b>2,305</b>	<b>4,263</b>	<b>7,311</b>	<b>13,879</b>
<b>Net book value as at 1 July 2000</b>	<b>2,311</b>	<b>5,224</b>	<b>2,103</b>	<b>9,638</b>



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2001

**Note 10. Non-financial assets (continued)**

Note 10C. Analysis of infrastructure, plant and equipment and intangibles (continued)

**Table B**

**Summary of balances of assets at valuation as at 30 June 2001**

Item	Infrastructure plant and equipment \$'000	Intangibles \$'000	Total \$'000
<b>As at 30 June 2001</b>			
Gross value	10,002	2,525	12,527
Accumulated depreciation/amortisation	(4,068)	(1,977)	(6,045)
Net book value	5,934	548	6,482
<b>As at 30 June 2000</b>			
Gross value	1,572	2,525	4,097
Accumulated depreciation/amortisation	(1,102)	(1,304)	(2,406)
Net book value	470	1,221	1,691

**Table C**

**Summary of balances of assets held under finance leases as at 30 June 2001**

Item	Infrastructure plant and equipment \$'000	Total \$'000
<b>As at 30 June 2001</b>		
Gross value	33	33
Accumulated depreciation/amortisation	(22)	(22)
Net book value	11	11
<b>As at 30 June 2000</b>		
Gross value	41	41
Accumulated depreciation/amortisation	(14)	(14)
Net book value	27	27

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2001

**Note 10. Non-financial assets (continued)**

Note 10C. Analysis of infrastructure, plant and equipment and intangibles (continued)

**Table D**

**Summary of assets under construction as at 30 June 2001**

<b>Item</b>	<b>Computer software intangibles \$'000</b>	<b>Total \$'000</b>
<b>As at 30 June 2001</b>		
Gross value	<b>5,415</b>	<b>5,415</b>
Accumulated depreciation/amortisation	-	-
Net book value	<b>5,415</b>	<b>5,415</b>
<b>As at 30 June 2000</b>		
Gross value	-	-
Accumulated depreciation/amortisation	-	-
Net book value	-	-

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2001

**Note 10. Non-financial assets (continued)**

	2001 \$'000	2000 \$'000
<u>Note 10D. Other non-financial assets</u>		
Prepayments	134	71
Total prepayments	<u>134</u>	<u>71</u>

**Note 11. Interest-bearing liabilities**

Leases

Finance lease commitments		
Not later than one year	9	12
Later than one year and not later than two years	17	9
Later than two years and not later than five years	-	17
Minimum lease payments	<u>26</u>	38
Deduct: future finance charges	(2)	(4)
Finance lease liability	<u>24</u>	<u>34</u>
Lease liability is represented by:		
Current	7	10
Non-current	17	24
Total finance lease commitments	<u>24</u>	<u>34</u>

The finance lease relates to a motor vehicle. The lease is non-cancellable and is for a fixed term. APRA guarantees the residual value of the asset leased. There are no contingent rentals.

**Note 12. Payables**

Note 12A. Suppliers

Trade creditors	5,093	5,536
GST payable to the Australian Taxation Office	27	-
Operating lease rentals	-	79
Total suppliers	<u>5,120</u>	<u>5,615</u>

Note 12B. Revenue in advance

Under-recovery of levies (see Note 1.2(a))	-	2,954
Other revenue in advance	51	186
Total revenue in advance	<u>51</u>	<u>3,140</u>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2001

**Note 12. Payables (continued)**

	<b>2001</b>	<b>2000</b>
	<b>\$'000</b>	<b>\$'000</b>
<u>Note 12C. Loans</u>		
Loans from Government	<b>5,439</b>	10,878
Maturity schedule for loans:		
Payable: within one year	<b>5,439</b>	5,439
In one to two years	-	5,439
Total loans	<b>5,439</b>	10,878

APRA was appropriated \$16,144,000 in 1998/99 and a further \$3,998,000 in 1999/00 to fund establishment and transition costs, including the costs associated with the transfer of most of the functions of the Australian Financial Institutions Commission and the state supervisory authorities. The balance currently outstanding is to be repaid on or before 30 June 2002.

**Note 13. Provisions**

Note 13A. Employee provisions

Salaries and wages	<b>2,217</b>	2,506
Leave	<b>7,229</b>	7,412
Separation and redundancy	<b>554</b>	784
Other	<b>110</b>	317
Aggregate employee entitlements liability	<b>10,110</b>	11,019
Current	<b>5,632</b>	6,678
Non-current	<b>4,478</b>	4,341
	<b>10,110</b>	11,019

Note 13B. Other provisions

Surplus leased space	<b>605</b>	648
Make good premises at lease end	<b>289</b>	-
Lease incentives	<b>1,857</b>	2,118
Total other provisions	<b>2,751</b>	2,766

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2001

### Note 14. Equity

Item	Capital		Asset revaluation reserve		Accumulated results		Total equity	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
<b>Balance 1 July</b>	<b>5,255</b>	5,255	-	-	<b>1,692</b>	(4,379)	<b>6,947</b>	876
Operating result	-	-	-	-	<b>(1,140)</b>	5,851	<b>(1,140)</b>	5,851
Transfer to reserves	-	-	<b>558</b>	-	-	-	<b>558</b>	-
Restructuring adj.	-	-	-	-	-	220	-	220
<b>Balance 30 June</b>	<b>5,255</b>	5,255	<b>558</b>	-	<b>552</b>	1,692	<b>6,365</b>	6,947

### Note 15. Non-cash financing and investing activities

	2001 \$'000	2000 \$'000
Equipment – received free of charge	-	122
Equipment under finance lease	-	41
Finance lease liability for equipment	-	(41)
Intangibles – received free of charge	-	128
Employee leave provisions	-	(966)
Less: cash received for employee leave provisions	-	936
Net non-cash financing and investing activities	-	220

The net non-cash financing and investing activities are shown at the amounts transacted as a result of the integration of the Australian Financial Institutions Commission and various state supervisory authorities on 1 July 1999. These amounts have not been adjusted for depreciation, amortisation or other movements.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2001

**Note 16. Cash-flow reconciliation**

	<b>2001</b> <b>\$'000</b>	<b>2000</b> <b>\$'000</b>
<b>Reconciliation of operating surplus to net cash provided by operating activities:</b>		
Operating surplus/(deficit) before extraordinary items	<b>(1,140)</b>	5,851
Depreciation and amortisation of Infrastructure, plant and equipment	<b>1,810</b>	1,607
Amortisation of intangibles	<b>1,023</b>	920
Infrastructure, plant and equipment written off	<b>183</b>	-
Infrastructure, plant and equipment threshold change	<b>649</b>	-
Infrastructure, plant and equipment revaluation decrement	<b>615</b>	-
Loss on disposal of infrastructure, plant and equipment	<b>18</b>	1,176
Adjustment to accumulated results: employees	-	(30)
Changes in assets and liabilities:		
(Increase)/decrease in receivables	<b>4,872</b>	(6,020)
(Increase)/decrease in accrued revenue	<b>193</b>	(609)
(Increase)/decrease in other non-financial assets	<b>(63)</b>	603
Increase/(decrease) in revenue in advance	<b>(3,089)</b>	3,140
Increase/(decrease) in leases	<b>(11)</b>	-
Increase/(decrease) in employees liabilities	<b>(909)</b>	(5,736)
Increase/(decrease) in suppliers liabilities	<b>(758)</b>	4,175
Increase/(decrease) in other provisions and payables	<b>(15)</b>	(592)
<b>Net cash provided by operating activities</b>	<b>3,378</b>	4,485

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2001

### Note 17. Remuneration of Board members

	2001	2000
Aggregate amount of superannuation payments in connection with the retirement of Board members	32,279	29,308
Other remuneration received or due and receivable by Board members	683,735	621,438
Total remuneration received or due and receivable by Board members	716,014	650,746

The number of Board members of APRA included in these figures are shown below in the relevant remuneration bands:

	Number	Number
\$Nil - \$10,000	4	4
\$30,001 - \$40,000	-	1
\$40,001 - \$50,000	3	1
\$110,001 - \$120,000	1	1
\$450,001 - \$460,000	-	1
\$460,001 - \$470,000	1	-
	9	8

Total remuneration for each Board member includes, where applicable, changes in accumulated recreation and long service leave valued in accordance with Commonwealth policy guidelines. As a result, reported remuneration will increase where leave taken is less than the leave entitlements accrued during the year.

### Note 18. Related-party disclosures

#### Board members of APRA

The Board members of APRA during the year were:

Dr Jeffrey Carmichael (Chair)  
 Dr David Knox  
 Dr John Laker  
 Mr Ian Macfarlane  
 Mr Donald Mercer  
 Ms Marian Micalizzi  
 Mr Graeme Thompson (Chief Executive Officer)  
 Mr Alan Cameron (term ended 17/11/00)  
 Mr David Knott (appointed 30/11/00; resigned 22/5/01)

Board members of APRA are determined in accordance with section 19 of the *Australian Prudential Regulation Authority Act 1998*. The Treasurer of the Commonwealth has the power to appoint ordinary members to the Board. The aggregate remuneration of Board members is disclosed in Note 17 - Remuneration of Board members.

#### Transactions with Board member-related entities

There were transactions between APRA and the following Board member-related entities: the Reserve Bank of Australia; PricewaterhouseCoopers; and the Australian Securities and Investments Commission.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2001

### Note 18. Related-party disclosures (continued)

The total value of payments and amounts payable to the Reserve Bank of Australia was \$75,560 (2000: \$161,888) and related to banking services. The total value of receipts and amounts receivable from the Reserve Bank of Australia was \$840,081 (2000: \$416,154) and arose mainly in its capacity as banker to APRA.

The total value of payments and amounts payable to PricewaterhouseCoopers was \$146,693 (2000: \$68,228) and related mainly to the provision of consulting services. The total value of receipts and amounts receivable from PricewaterhouseCoopers was \$3,039 relating mainly to seminar attendance fees (2000: \$840).

The total value of payments and amounts payable to the Australian Securities and Investments Commission was \$93,642 (2000: \$20,401) and related mainly to a staff secondment. The total value of receipts and amounts receivable from the Australian Securities and Investments Commission was \$3,098 (2000: \$7,394).

### Note 19. Remuneration of officers<sup>2</sup>

	2001 \$	2000 <sup>1</sup> \$
The aggregate amount of total remuneration of officers shown is:	<b>7,512,453</b>	*8,708,127
The number of officers included in these figures are shown below in the relevant income bands:	<b>Number</b>	<b>Number</b>
\$100,000 - \$110,000	<b>3</b>	1
\$110,001 - \$120,000	<b>8</b>	*7
\$120,001 - \$130,000	<b>3</b>	7
\$130,001 - \$140,000	<b>5</b>	4
\$140,001 - \$150,000	<b>7</b>	1
\$150,001 - \$160,000	<b>3</b>	4
\$160,001 - \$170,000	-	6
\$170,001 - \$180,000	<b>4</b>	*5
\$180,001 - \$190,000	<b>5</b>	*4
\$190,001 - \$200,000	<b>2</b>	*2
\$210,001 - \$220,000	-	*3
\$230,001 - \$240,000	<b>2</b>	-
\$260,001 - \$270,000	-	1
\$270,001 - \$280,000	<b>1</b>	-
\$280,001 - \$290,000	-	1
\$290,001 - \$300,000	-	1
\$300,001 - \$310,000	<b>1</b>	-
\$310,001 - \$320,000	-	1
\$340,001 - \$350,000	<b>2</b>	-
\$380,001 - \$390,000	-	*1
\$400,001 - \$410,000	-	*1
	<b>46</b>	50

\* For 1999/00 the remuneration of officers in these bands also included an amount totalling \$941,722 for separation and redundancy payments to seven officers who left APRA during that year. There were no equivalent events occurring in 2000/01.

<sup>1</sup> The 1999/00 comparatives have been revised so that there is a consistent application of the valuation of remuneration between the two financial years, in accordance with Commonwealth guidelines.

<sup>2</sup> "Officer" is defined as a person who forms part of senior management, excluding the CEO.



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**for the year ended 30 June 2001**

**Note 19. Remuneration of officers (continued)**

The remuneration of officers table includes all officers concerned with or taking part in the management of APRA during 2000/01, whose total remuneration exceeded \$100,000, except the Chief Executive Officer. The application of the Commonwealth reporting policy for valuation of employees' remuneration results in a reported increase in remuneration where an employee does not take all leave that accrued during the year. Details in relation to the Chief Executive Officer have been incorporated into Note 17 – Remuneration of Board members.

2001	2000
\$	\$

**Note 20. Remuneration of auditors**

Remuneration to Australian National Audit Office  
for auditing the financial statements for the  
reporting period (exclusive of GST)

<u>66,000</u>	52,000
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The Australian National Audit Office provided no other services during the reporting period.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2001

### Note 21. Financial instruments

#### (a) Terms, conditions and accounting policies

Financial instrument	Notes	Accounting policies and methods (including recognition criteria and measurement basis)	Nature of underlying instrument (including significant terms and conditions affecting the amount, timing and certainty of cash flows)
<b>Financial assets</b>		Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured.	
Cash	9A	Deposits are recognised at their nominal amounts. Interest is credited to revenue as it accrues.	Surplus funds are temporarily placed in the operating bank account with APRA's banker. Interest is earned on the daily balance at the prevailing daily rate and is paid on the first day of the following month.
Commonwealth and state government securities	9A, 21(b)	Commonwealth and state government securities are recognised at amortised cost (i.e. at original cost adjusted for amortisation to date of any discount or premium when originally issued). Interest is credited to revenue as it accrues.	APRA invests in securities with terms of up to 90 days. They are guaranteed by the issuing government and are traded in active markets. Effective interest rates averaged 6.17 per cent (1999/00: 4.94 per cent). Interest is paid on maturity.
Receivables for goods and services	9B	Receivables are recognised at the nominal amounts due less any provision for bad and doubtful debts. Collectability of debts is reviewed at balance date. Provisions are made when collection of the debt is judged to be less rather than more likely.	Credit terms for levies comply with the due date for payment of levies, as specified under the <i>Financial Institutions Supervisory Levies Collection Act 1998</i> . For non-superannuation entities the due date for payment is 1 July of the financial year, or within six weeks of becoming a regulated entity. For superannuation entities, the due date for payment is within six weeks of lodgement of an annual return, or within six weeks of becoming a regulated entity. These levies are drawn-down by APRA within a fortnight of being deposited to the Consolidated Revenue Fund. Credit terms for other receivables are net 30 days (1999/00: 30 days).
Accrued revenues	9C	Accrued revenues are recognised at the nominal amounts as it accrues.	Accrued interest revenues are due: on the first day of the next month for interest on the operating account and on maturity on securities. All other accrued revenues are due within 30 days of invoicing.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2001

**Note 21. Financial instruments (continued)**  
**(a) Terms, conditions and accounting policies (continued)**

<b>Financial instrument</b>	<b>Notes</b>	<b>Accounting policies and methods (including recognition criteria and measurement basis)</b>	<b>Nature of underlying instrument (including significant terms and conditions affecting the amount, timing and certainty of cash flows)</b>
<b>Financial liabilities</b>		Financial liabilities are recognised when a present obligation to another party is entered into and the amount of the liability can be reliably measured.	
Loans	12C	The loans are recognised as a liability on receipt of the appropriation.	The loans are to fund the establishment of APRA. The balance is to be repaid by 30 June 2002. No interest is payable.
Revenue in advance	12B	Where revenue is received in advance of the service being provided the balance relating to work yet to be completed is recognised as revenue in advance.	APRA will recognise the revenue in advance, as revenue as the related work is completed.
Finance lease liabilities	11, 21(b)	Finance lease liabilities are recognised at the present value of the minimum lease payments at the beginning of the lease. The discount rates used are estimates of the interest rates implicit in the leases.	At reporting date, APRA had finance leases with terms averaging two years and a maximum term of two years. The interest rate implicit in the leases averaged 8.11 per cent (1999/00: 8.11 per cent). The lease assets secure the lease liabilities.
Provisions	13B	The lease incentives are recognised as a liability on receipt of the incentives. The amount of the liability is reduced on a straight-line basis over the life of the lease by allocating lease payments between rental expense and reduction of the liability.	APRA received rent-free periods and cash lease incentives in August 1998, February 1999 and February 2000. On 1 July 1998 APRA assumed the lease incentive liabilities of the Insurance and Superannuation Commission.
Trade creditors	12A	Creditors and accruals are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).	Settlement is usually made net 30 days.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2001

**Note 21. Financial instruments (continued)**

**(b) Interest rate risk:**

<b>Financial instrument</b>	<b>Notes</b>	<b>Floating interest rate</b>		<b>Fixed interest 1 year or less</b>		<b>Fixed interest 1 to 2 years</b>		<b>Fixed interest 2 to 5 years</b>		<b>Non-interest bearing</b>		<b>Total</b>		<b>Weighted average effective interest rate</b>	
		<b>2001 \$'000</b>	<b>2000 \$'000</b>	<b>2001 \$'000</b>	<b>2000 \$'000</b>	<b>2001 \$'000</b>	<b>2000 \$'000</b>	<b>2001 \$'000</b>	<b>2000 \$'000</b>	<b>2001 \$'000</b>	<b>2000 \$'000</b>	<b>2001 \$'000</b>	<b>2000 \$'000</b>	<b>2001 %</b>	<b>2000 %</b>
<b>Financial assets (recognised)</b>															
Cash at bank	9A	3,740	11,734	-	-	-	-	-	-	-	-	3,740	11,734	4.65	4.52
Cash on hand	9A	-	-	-	-	-	-	-	-	3	3	3	3	n/a	n/a
Commonwealth and state government securities	9A	-	-	10,053	11,837	-	-	-	-	-	-	10,053	11,837	6.17	4.94
Receivables	9B	-	-	-	-	-	-	-	-	1,529	6,382	1,529	6,401	n/a	n/a
Accrued revenues	9C	-	-	-	-	-	-	-	-	522	734	522	715	n/a	n/a
<b>Total financial assets (recognised)</b>		<b>3,740</b>	<b>11,734</b>	<b>10,053</b>	<b>11,837</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,054</b>	<b>7,119</b>	<b>15,847</b>	<b>30,690</b>		
<b>Total assets</b>												<b>29,860</b>	<b>40,399</b>		
<b>Financial liabilities (recognised)</b>															
Loans	12C	-	-	-	-	-	-	-	-	5,439	10,878	5,439	10,878	n/a	n/a
Revenue in advance	12B	-	-	-	-	-	-	-	-	51	3,140	51	3,140	n/a	n/a
Leases	11	-	-	7	11	17	7	-	16	-	-	24	34	8.11	8.11
Provisions	13B	-	-	-	-	-	-	-	-	1,857	2,118	1,857	2,118	n/a	n/a
Suppliers	12A	-	-	-	-	-	-	-	-	5,120	5,615	5,120	5,615	n/a	n/a
<b>Total financial liabilities (recognised)</b>		<b>-</b>	<b>-</b>	<b>7</b>	<b>11</b>	<b>17</b>	<b>7</b>	<b>-</b>	<b>16</b>	<b>12,467</b>	<b>21,751</b>	<b>12,491</b>	<b>21,785</b>		
<b>Total liabilities</b>												<b>23,495</b>	<b>33,452</b>		

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2001

### Note 21. Financial instruments (continued)

#### (c) Net fair values of financial assets and liabilities

	Note	2001 Total carrying amount \$'000	2001 Aggregate net fair value \$'000	2000 Total carrying amount \$'000	2000 Aggregate net fair value \$'000
<b>Financial assets</b>					
Cash at bank	9A	3,740	3,740	11,734	11,734
Cash on hand	9A	3	3	3	3
Commonwealth and state government securities	9A	10,053	10,053	11,837	11,837
Receivables	9B	1,529	1,529	6,382	6,382
Accrued revenue	9C	522	522	734	734
Total financial assets		15,847	15,847	30,690	30,690
<b>Financial liabilities (recognised)</b>					
Loans	12C	5,439	5,439	10,878	10,878
Revenue in advance	12B	51	51	3,140	3,140
Leases	11	24	24	34	34
Provisions	13B	1,857	1,857	2,118	2,118
Suppliers	12A	5,120	5,120	5,615	5,615
Total financial liabilities (recognised)		12,491	12,491	21,785	21,785

#### *Financial assets*

The net fair values of cash, government securities and non-interest-bearing monetary financial assets approximate their carrying amounts.

#### *Financial liabilities*

The net fair values of the financial liabilities are based on discounted cash flows using current interest rates for liabilities with similar risk profiles. (Where the liability is on a floating rate of interest, the method returns the principle amount).

The net fair values for suppliers are approximated by their carrying amounts.

#### (d) Credit risk exposures

APRA's maximum exposures to credit risk at reporting date, in relation to each class of recognised financial assets, is the carrying amount of those assets as indicated in the Statement of assets and liabilities.

APRA's highest credit risk exposure is levies of \$1,050,236 (2000: \$2,570,801), which were receivable at 30 June 2001 from superannuation funds regulated by APRA. The asset has been recognised in the Statement of financial position, net of a provision for doubtful debts.

All figures for credit risk referred to do not take into account the value of any collateral or other security.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2001

**Note 22. Administered revenues**

	2001 \$'000	2000 \$'000
<u>Note 22A. Financial institutions supervisory levies</u> (see Note 5E)	62,027	-
	<u>62,027</u>	<u>-</u>
 <u>Note 22B. Refunds processed by APRA</u>	 639	 -
	<u>639</u>	<u>-</u>
 Under APRA's special appropriation, all monies collected by APRA for industry levies in excess of the amount to be retained in the Consolidated Revenue Fund to fund certain activities of the Australian Securities and Investments Commission and the Australian Taxation Office are paid to APRA. Where it is subsequently determined that amounts are to be refunded to financial institutions and the related amount has already been paid to APRA, APRA remits the funds directly to the institution from its operating account. APRA is therefore meeting an obligation of the Commonwealth and an administered revenue results.		
<b>Total administered revenue</b>	<u>62,666</u>	<u>-</u>

**Note 23. Administered expenses**

<u>Note 23A. Net write-down of assets</u>		
Levies waived (see Note 5F)	659	-
Levies written off (see Note 5G)	569	-
Total levies waived and written off	<u>1,228</u>	<u>-</u>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2001

**Note 24. Administered financial assets**

	<b>2001</b>	<b>2000</b>
	<b>\$'000</b>	<b>\$'000</b>
<u>Note 24A. Receivables</u>		
Levies (see Note 5K)	<b>1,050</b>	-
Less: provision for doubtful debts	<b>(557)</b>	-
Net receivables	<b>493</b>	-
<i>Receivables which are overdue are aged as follows:</i>		
Not overdue	<b>267</b>	-
Overdue by:		
Less than 30 days	<b>232</b>	-
30 to 60 days	<b>18</b>	-
60 to 90 days	<b>3</b>	-
More than 90 days	<b>530</b>	-
Total levies receivable	<b>1,050</b>	-
<u>Note 24B. Accrued revenues</u>		
Accrued levy revenue	<b>306</b>	-
Total accrued revenues	<b>306</b>	-

**Note 25. Administered revenue in advance**

2001/02 supervisory levies paid in advance	<b>4,461</b>	-
Total revenue in advance	<b>4,461</b>	-

**Note 26. Administered equity**

<b>Item</b>	<b>Accumulated net change in administered net assets from operations</b>		<b>Total equity</b>	
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000<sup>1</sup></b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Balance 1 July	<b>3,360</b>	-	<b>3,360</b>	-
Change in administered net assets from operations	<b>61,438</b>	-	<b>61,438</b>	-
Cash transferred to Official Public Account	<b>(68,460)</b>	-	<b>(68,460)</b>	-
Balance 30 June	<b>(3,662)</b>	-	<b>(3,662)</b>	-

<sup>1</sup> Note that comparative figures are not provided for 1999/00 as the Department of the Treasury previously reported these transactions at a highly summarised level, including transactions for both APRA-regulated institutions and self-managed superannuation funds. The opening equity represents best estimates as to the value of net assets relating to APRA-regulated institutions included in the transactions recognised by the Department of the Treasury.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2001

**Note 27. Administered cash-flow reconciliation**

	2001 \$'000	2000 <sup>1</sup> \$'000
Reconciliation of "Net change in administered net assets" from schedule of administered revenues and expenses to net cash provided by operating activities:		
Net decrease in administered net assets	(7,022)	-
Changes in assets and liabilities		
Decrease in cash at bank	48	-
Decrease in receivables	2,819	-
Increase in accrued revenue	(306)	-
Increase in revenue in advance	4,461	-
Net cash from operating activities	0	-

<sup>1</sup> Note that comparative figures are not provided for 1999/00 as the Department of the Treasury previously reported these transactions at a highly summarised level, including transactions for both APRA-regulated institutions and self-managed superannuation funds. The changes in assets and liabilities have been calculated using best estimates as to the value of assets and liabilities relating to APRA-regulated entities included in the transactions recognised by the Department of the Treasury.



**Note 28. Administered financial instruments**

**(a) Terms, Conditions and Accounting Policies**

<b>Financial instrument</b>	<b>Notes</b>	<b>Accounting policies and methods (including recognition criteria and measurement basis)</b>	<b>Nature of underlying instrument (including significant terms and conditions affecting the amount, timing and certainty of cash flows)</b>
<b>Financial assets</b>		Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured.	
Receivables for levies	24A	Receivables are recognised at the nominal amounts due less any provision for bad and doubtful debts. Collectability of debts is reviewed at balance date. Provisions are made when collection of the debt is judged to be less rather than more likely.	Credit terms for levies comply with the due date for payment of levies, as specified under the <i>Financial Institutions Supervisory Levies Collection Act 1998</i> . For non-superannuation entities the due date for payment is 1 July of the financial year, or within six weeks of becoming a regulated entity. For superannuation entities, the due date for payment is within six weeks of lodgement of an annual return, or within six weeks of becoming a regulated entity.
Accrued revenues	24B	Accrued revenues are recognised at the nominal amounts as it accrues. The amount recognised relates to superannuation returns which have been lodged but for which the related levies have not been invoiced as at the end of the financial year.	The levies will be invoiced with a due date for payment consistent with the legislation as detailed above.
<b>Financial liabilities</b>		Financial liabilities are recognised when a present obligation to another party is entered into and the amount of the liability can be reliably measured.	
Revenue in advance	25	Revenue in advance relates to levies paid before the end of the financial year in respect of the following financial year.	The Commonwealth will recognise the revenue in advance, as revenue, in the following financial year.

AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2001

**Note 28. Administered financial instruments (continued)**

**(b) Interest rate risk**

Financial instrument	Note	Non-interest bearing		Total	
		2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
<b>Financial assets (recognised)</b>					
Receivables	24A	493	-	493	-
Accrued revenue	24B	306	-	306	-
<b>Total financial assets (recognised)</b>		799	-	799	-
<b>Total assets</b>				799	-
<b>Financial liabilities (recognised)</b>					
Revenue in advance	25	4,461	-	4,461	-
<b>Total financial liabilities (recognised)</b>		4,461	-	4,461	-
<b>Total liabilities</b>				4,461	-

**(c) Net fair values of financial assets and liabilities**

	Note	2001 Total carrying amount 2001 \$'000	2001 Aggregate net fair value 2001 \$'000	2000 Total carrying amount 2000 \$'000	2000 Aggregate net fair value 2000 \$'000
<b>Financial assets</b>					
Receivables	24A	493	493	-	-
Accrued revenue	24B	306	306	-	-
<b>Total financial assets</b>		799	799	-	-
<b>Financial liabilities</b>					
Revenue in advance	25	4,461	4,461	-	-
<b>Total financial liabilities</b>		4,461	4,461		

*Financial assets*

The net fair values of financial assets approximate their carrying amounts.

**(d) Credit risk exposures**

The Commonwealth's maximum exposures to credit risk at reporting date, in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Schedule of Administered Assets and Liabilities.

The Commonwealth's highest credit risk exposure is levies of \$1,050,236 which were receivable at 30 June 2001 from superannuation funds regulated by APRA. The asset has been recognised in the schedule of administered assets and liabilities, net of a provision for doubtful debts.

AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2001

**Note 29. Moneys held in trust**

APRA's antecedent body, the Insurance and Superannuation Commission, reported in 1997/98 the existence of certain amounts held in trust on behalf of the Commonwealth. The subsequent dispersal of these funds, necessitated by the establishment of APRA as a corporate body as defined in the *Commonwealth Authorities and Companies Act 1997*, was not clearly stated in subsequent APRA annual reports.

Administration of an amount of \$562,153 held as Lloyd's Deposit Trust Fund, under S93 of the *Insurance Act 1973*, was transferred to the Department of the Treasury in July 1998.

An amount of \$6,250, held in the Reserved Money Fund – Other Trust Moneys as untraceable moneys, is recorded by the Department of Finance and Administration as part of APRA's interest in the Consolidated Revenue Fund at 30 June 2001.



## Independent audit report



To the Minister for Financial Services and Regulation

### Scope

I have audited the financial statements of the Australian Prudential Regulation Authority for the year ended 30 June 2001. The financial statements comprise:

- Statement by Board Members;
- Statements of Financial Performance, Financial Position and Cash Flows;
- Schedules of Commitments and Contingencies;
- Schedules of Administered Revenues and Expenses, Assets and Liabilities, Cash Flows, Commitments and Contingencies; and
- Notes to and forming part of the financial statements.

The members of the Board are responsible for the preparation and presentation of the financial statements and the information they contain. I have conducted an independent audit of the financial statements in order to express an opinion on them to you.

The audit has been conducted in accordance with Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards, to provide reasonable assurance as to whether the financial statements are free of material misstatement. Audit procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with Australian Accounting Standards, other mandatory professional reporting requirements and statutory requirements in Australia so as to present a view of the entity which is consistent with my understanding of its financial position, the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

### Qualification

The Authority administers levies on behalf of the Commonwealth under the *Financial Institutions Supervisory Levies Collection Act 1998* and reports revenue arising from these levies in the Schedule of Administered Revenues and Expenses.

The Authority is funded under the *Australian Prudential Regulation Authority Act 1998*. Section 50 of the Act provides for a Special Appropriation, whereby the Authority is to be paid an amount equal to the rest of the levy money received by the Commonwealth, after deducting the Commonwealth's costs of providing market integrity and consumer protection functions for prudentially regulated institutions.

The Authority records 'Revenues from Government' as the amount of levies invoiced net of the Commonwealth's costs of providing market integrity and consumer protection functions. This policy is contrary to section 50 of the Australian Prudential Regulation Authority Act, which, in its present form, entitles the Authority to a Special Appropriation equal to the amount of levy money received by the Commonwealth net of the costs of market integrity and consumer protection.

The policy adopted also represents a departure from *Australian Accounting Standard AAS 15 – Revenue*, which requires that revenues be recognised when, and only when, the entity has gained control of the revenue or the right to receive the revenue. The effects of this departure are:

- overstatement of receivables (\$0.493 million), accrued revenues (\$0.306 million) and total equity (\$0.799 million) in the Statement of Financial Position; and
- overstatement of revenues from Government (\$0.799 million) and understatement of the net operating deficit (\$0.799 million) in the Statement of Financial Performance.

### Qualified Audit Opinion

In my opinion, except for the effects on the financial statements of the matter referred to in the Qualification paragraph,

- (i) the financial statements have been prepared in accordance with Schedule 1 of the Commonwealth Authorities and Companies (Financial Statements 2000/01) Orders; and
- (ii) the financial statements give a true and fair view, in accordance with applicable Accounting Standards, other mandatory professional reporting requirements and Schedule 1 of the Commonwealth Authorities and Companies (Financial Statements 2000/01) Orders, of:
  - the financial position of the Australian Prudential Regulation Authority as at 30 June 2001 and the results of its operations and its cash flows for the year then ended; and
  - the Commonwealth assets and liabilities as at 30 June 2001 and the revenues, expenses and cash flows of the Commonwealth for the year ended, which have been administered by the Authority.

Australian National Audit Office



P Hinchey  
Senior Director  
Delegate of the Auditor-General

Sydney  
13 September 2001

## STATUTORY REPORT

APRA has reported in accordance with the following Commonwealth legislation:

	Page
<i>Australian Prudential Regulation Authority Act 1998</i>	89
<i>Commonwealth Authorities and Companies Act 1997</i>	90
<i>Equal Employment Opportunity (Commonwealth Authorities) Act 1987</i>	93
<i>Freedom of Information Act 1992</i>	94
<i>Occupational Health and Safety (Commonwealth Employment) Act 1991</i>	97
and the Prime Minister and Cabinet guidelines	98

## Australian Prudential Regulation Authority Act 1998

### Report under section 59

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

- the activities of authorised deposit-taking institution (ADI) statutory managers within the meaning of the *Banking Act 1959* and persons conducting investigations under Division 2 of Part II and section 61 of that Act;
- the exercise during the year of APRA's powers under Part 15 of the *Retirement Savings Accounts Act 1997* and Part 29 of the *Superannuation Industry (Supervision) Act 1993* (SIS Act).

APRA did not appoint any ADI statutory managers or persons to conduct an investigation under Division 2 of Part II or section 61 of the *Banking Act* during 2000/01. There were no continuing appointments during that year.

APRA did not exercise its powers under Part 15 of the *Retirement Savings Accounts Act 1997* during the year. It exercised its powers under Part 29 of the *Superannuation Industry (Supervision) Act 1993* as set out below:

Exemption number	Date	Provision of SIS regulations exempted
107	26/7/00	Paragraph 7.03(2)(b)
108	5/9/00	Regulation 9.29
109	13/9/00	Regulation 9.29
110	16/11/00	Subregulation 6.17(2)
111	28/6/01	Regulation 9.29
113	3/4/01	Division 9.3
114	3/4/01	Division 9.3
115	15/6/01	Paragraph 9.29(a)
116	1/6/01	Paragraph 9.29(a)
117	7/6/01	Regulation 9.29
118	28/6/01	Subregulation 6.17(2)
Modification declaration	Date	Provision of SIS Act or regulations affected
Amendment of Modification Declaration No 23	18/10/00	Regulations 9.29A and 9.31
Amendment of Modification Declaration No 23	25/1/01	Regulation 9.29A
Amendment and Revocation of Modification Declaration No 10	23/2/01	Sections 92, 92A and 92B, regulation 4.08A.

## *Commonwealth Authorities and Companies Act 1997*

### **Auditor-General's report**

In June 2000, the Australian National Audit Office (ANAO) commenced a performance audit of APRA's prudential supervision of banks. It examined APRA's adoption and implementation of internationally accepted supervisory standards and developments for banks in areas such as risk-based supervisory programs, off-balance sheet activities of banks and supervision of international banking groups. The audit paid particular attention to the adequacy of APRA's monitoring of banks' capital adequacy, liquidity management and credit exposures. Consideration was also given to the funding arrangements of APRA and the allocation of resources by APRA to its areas of responsibility, within a risk management framework. The audit report was tabled in May 2001.

In its summary, the ANAO notes that APRA has "negotiated the transition from the previous system of Commonwealth and state supervisors to become an integrated prudential regulator of all authorised deposit-taking institutions. This has included establishing a new organisation structure with effect from August 1999, adopting from July 2000 a risk-based supervisory methodology for sophisticated financial institutions (including most banks) and the October 2000 introduction of harmonised Prudential Standards for all ADIs."

The report notes that APRA's supervision of banks conforms with most aspects of international best practice as set out in the Core Principles for Effective Banking Supervision recommended by the Basel Committee on Banking Supervision. APRA published its self-assessment against these Principles (which were finalised only toward the end of 1999) in April this year.

The ANAO's report also points out a few areas where APRA's practices could usefully be brought more closely into line with the Core Principles. These include the stringency of limits on banks' large credit exposures, formal arrangements for information sharing with regulators in other countries, and a more structured scheduling of APRA's on-site visits to banks. APRA accepts the recommendations made in these areas. In some instances, work was already under way to move toward closer compliance with international best practice as part of APRA's normal review process; in other cases, APRA now intends to modify its current arrangements.

The House of Representatives Standing Committee on Economics, Finance and Public Administration in June 2001 undertook to review the Auditor-General's report and also review levy arrangements, resourcing, risk-based supervision methodology and compliance with international standards. APRA will assist the Committee in its deliberations.

The ANAO has also advised that it intends to conduct performance audits on APRA's prudential supervision of superannuation funds and prudential supervision of the insurance industry in 2002.

In addition, see page 86 of the Financial statements in this report.



**Board members' attendance**

See page 33 of the Corporate governance section of this report.

**Board members' qualifications**

See page 33 of the Corporate governance section of this report.

**Board members' statement**

See page 40 of Financial statements in this report.

**Courts and tribunals**

During 2000/01 there were no significant judicial decisions or comments, or decisions or comments made by an administrative tribunal that had, or may have, a significant effect on APRA's operations.

The Enforcement section of this report contains details of court decisions relating to enforcement action taken by APRA.

**Enabling legislation**

APRA's purpose, powers and functions are set out in sections 8, 9, 9A, and 11 of the *Australian Prudential Regulation Authority Act (1998)*.

APRA's purpose is to regulate bodies in the financial sector in accordance with the laws of the Commonwealth that provide for prudential regulation or retirement income standards, and for developing the policy to be applied in performing that regulatory role. In providing this regulation and developing this policy, APRA is required to balance the objectives of financial safety and efficiency, and competitive neutrality.

**Financial statements**

See page 41 of this report.

**Indemnities and insurance premiums**

Due to amendments to the CAC Act, the Board resolved to enter into indemnities with Board members and officers as required, consistent with, and to the extent allowed, by section 27M of the CAC Act.

APRA directors and officers are covered by the professional indemnity insurance cover of the Commonwealth-managed insurance fund, Comcover. The generic terms and conditions of the insurance cover provided by Comcover to Commonwealth agencies are available on the Comcover internet site: [www.comcover.gov.au](http://www.comcover.gov.au). Under the conditions of the policy, APRA is prohibited from disclosing the specific nature and limit of the liabilities covered and the amount of the premium.

**Location**

See the inside back cover of this report.

**Organisation chart**

See page 100 of this report.

### Parliamentary Committees

A considerable amount of APRA senior officers' time was devoted to attendance before Parliamentary Committees.

In addition to appearances before the Senate Economics Legislation Committee in August and November 2000 and February and June 2001, APRA officers appeared before the Senate Select Committee on Superannuation and Financial Services six times and the House of Representatives Standing Committee on Economics, Finance and Public Administration twice.

The House of Representatives Standing Committee on Economics, Finance and Public Administration commented on APRA's operations in its "Review of the Australian Prudential Regulation Authority: Who will guard the guardians?" in October 2000. The first recommendation in this report related to Government reviewing the provisions of the Superannuation Industry (Supervision) Regulations 1993 to make it less onerous for working people over 65 to continue to contribute to a superannuation fund. The second recommendation related to the provision of statistics on the location and level of face-to-face banking in Australia. The first of these is the responsibility of the Department of the Treasury and APRA has responded to the second as part of the overhaul of its statistical collections.

As referred to in the section headed Auditor-General's reports, the Committee will be reviewing the report of the Auditor-General on banking supervision.

In August 2001, the Senate Select Committee on Superannuation and Financial Services issued a report on regulation of the financial system. This report will have an impact on the next financial year as APRA examines the recommendations and provides advice to the Government.

### Privacy Commission

There were no investigations by the Privacy Commissioner under section 36 of the *Privacy Act 1988* during 2000/01 and no reports were served under section 30 of the Act. The Privacy Commission made no determinations under section 52, nor did APRA seek any under section 72.

There were no adverse or favourable comments made by the Privacy Commission in respect of APRA's operations.

Privacy inquiries relating to APRA should be addressed to:

**The Privacy Officer**  
**Office of General Counsel**  
**Australian Prudential Regulation Authority**  
**GPO Box 9836**  
**Sydney NSW 2001**  
**Phone: 02 9210 3080 Fax: 02 9210 3424**

### Responsible Ministers

The Hon Peter Costello MP, Treasurer of the Commonwealth of Australia, has portfolio responsibility for APRA.

He is assisted in this by the Hon Joe Hockey MP, Minister for Financial Services and Regulation, and Senator the Hon Rod Kemp, Assistant Treasurer.

### Review of operations and prospects

See the narrative section of this report, beginning on page 2.

### Risk Management and Audit Committee attendance

See page 31 of the Corporate governance section of this report.

## ***Equal Employment Opportunity (Commonwealth Authorities) Act 1987***

### **EEO staff data**

Staff diversity as at 30 June 2001

	Female	NESB1	NESB2	ATSI	PWD	Total
Level 1	60	10	0	0	0	76
Level 2	46	17	1	0	0	79
Level 3	54	29	1	0	0	143
Level 4	22	11	3	0	1	62
Senior	4	8	1	0	1	44
Executive	0	0	0	0	0	4
<b>Total</b>	<b>186</b>	<b>75</b>	<b>6</b>	<b>0</b>	<b>2</b>	<b>408</b>

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

### **Workplace diversity program report**

APRA has a responsibility to develop an EEO plan under the *Equal Employment Opportunity (Commonwealth Authorities) Act 1987*. The Board of APRA endorsed an action plan that involves innovative strategies in full consultation with staff representatives to facilitate and cater for diversity in APRA employment.

The Staff Consultative Group plays an important oversight and advisory role in the action plan. A staff client survey is being conducted which includes specific questions concerning workplace diversity. This will assist in establishing a benchmark of awareness and appreciation of workplace diversity principles in APRA and identifying issues for future action. The survey will complement other ongoing initiatives, such as exit interview feedback, information provided at induction programs and participation in the Women in Law Enforcement Strategy group (WILES).

### ***Freedom of Information Act 1982***

The *Freedom of Information Act 1982* (FOI Act) provides the public with a general right of access to documents held by Commonwealth agencies, including APRA. This general right is limited by exceptions needed to protect essential public interests or the privacy and business affairs of those who give information to APRA or the Commonwealth.

In 2000/01 APRA received 10 applications under the FOI Act.

During that year, FOI applications (including an application received in 1999/00) were dealt with as follows:

Granted in full	3
Granted in part	2
Access refused	4
On hand at 30 June 2001	2
<b>Total</b>	<b>11</b>

While charges collected were \$695, the estimated cost of handling Freedom of Information requests in 2000/01 was \$10,772 (including Australian Government Solicitor's fees).

### **Access to documents**

APRA is increasingly using the Internet to make its publications available to the public free of charge from the APRA website. This contains applications, regulatory information, prudential statements, circulars and guidelines covering the types of entities which APRA regulates. These may be changed over time with the completion of various projects.

Some publications, however, attract a charge. A list of documents available for inspection and purchase is available on the Internet.

In addition, a list of documents which are used by APRA in making decisions or recommendations for the purposes of legislation administered by APRA, made under section 9 of the FOI Act, has been lodged with the Freedom of Information Controller at the National Archives of Australia in Canberra.

Questions about publications should be made to:

**Public Affairs Unit**  
**Australian Prudential Regulation Authority**  
 GPO Box 9836  
 Sydney NSW 2001  
 AUSTRALIA  
 Phone: 02 9210 3364 Fax: 02 9210 3430

### Categories of documents

APRA maintains the following categories of documents covered by s.8(1)(a)(iii) of the FOI Act:

- Documents open to public access as part of a public register in accordance with an enactment where access is subject to a fee or other charge:
  - Accounts and auditor certificates relating to general insurers available under section 122 of the *Insurance Act 1973*
- Other documents available for purchase by the public in accordance with arrangements made with APRA:
  - Life insurance publications (financial diskette containing annual data and market statistics from half-yearly data)
  - Prudential standards and rules made under the *Banking Act 1959* and the *Life Insurance Act 1995* (also available on APRA's website).
- Documents made available to the public free via APRA's website ([www.apra.gov.au](http://www.apra.gov.au)):
  - Lists of regulated entities and industry bodies
  - Prudential standards and rules made under the *Banking Act 1959* and the *Life Insurance Act 1995*, and explanatory notes
  - Transitional prudential standards made under the Financial Sector Reform (Amendments and Transitional Provisions) Regulations 1999
  - Draft prudential standards for general insurers
  - Transfer Rules made under the *Financial Sector (Transfers of Business) Act 1999*
  - Class consent under section 66 of the *Banking Act 1959*
  - Market statistics (including APRA *Insight*) and other research material
  - Policy discussion papers
  - Media releases
  - Corporate information
  - Procedural guidelines
  - Enabling legislation
  - Indexed file list for the purposes of Senate Continuing Order No. 5.

### Consultative arrangements

In most cases, APRA consults with industry bodies and regulated entities prior to formulating or amending policies or finalising prudential standards.

## **Executive and consultative committees**

### *Executive Committee*

This Committee comprises the Chief Executive Officer and the Executive General Managers and is responsible for oversight of policy and operational issues throughout APRA.

### *Change Management Steering Committee*

This Committee identifies and defines the key tasks that are required for APRA's organisation structure to work effectively, in particular tasks that either cross divisions, or need to be carried out consistently by two or more divisions.

### *Cross-divisional industry groups*

The four Committees promote consistent practice, and application of existing policy, on material issues across the industry. These are issues that set an industry precedent or require clear consistent APRA-wide interpretation of existing policy, but do not include issues leading to new or changed policy.

### *Information Technology Operations Committee*

The Committee's function is to monitor progress of IT projects, recommend prioritisation and allocation of resources for approved projects and review and recommend new projects.

### *Internet Project Steering Committee*

This Committee directs and controls the implementation of the project to develop a new Internet site.

### *Knowledge Management Steering Committee*

The Committee provides feedback, recommends improvements and provides assistance and guidance on cross-divisional operational issues and performance and develops and recommends a strategic knowledge management plan which meets APRA's statutory requirements and meets recognised best practice standards.

### *Learning and Development Reference Group*

The Group facilitates communication and consultation with staff on the development and implementation of the learning and development strategy.

### *Occupational Health and Safety Committee*

This Committee focuses on issues to do with the health, safety and well-being of staff and ensures that these are integrated into broader management systems and practices.

### *Performance and Reward Reference Group*

The Group facilitates communication and consultation with staff on the development and implementation of APRA's performance management and reward system, and contributes ideas that promote a performance culture.

### *Staff Consultative Group*

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

### *Statistics Project Steering Committee*

This Committee directs and controls the implementation of the Project to integrate and modernise APRA's statistical collections during calendar years 2000 and 2001.

### **Information on purpose and functions**

See the Enabling legislation section on page 91 of this report.

### **Initial contact for requests under FOI Act**

Requests under the Freedom of Information Act should be made in writing, together with the prescribed fee to:

The FOI Coordinator  
Office of General Counsel  
Australian Prudential Regulation Authority  
GPO Box 9836  
Sydney NSW 2001  
Phone: 02 9210 3080 Fax: 02 9210 3424

### **Organisation chart**

See page 100 of this report.

## ***Occupational Health and Safety (Commonwealth Employment) Act 1991***

### **Details of investigations and other matters as prescribed**

The following information is presented in accordance with section 74 of the *Occupational Health and Safety (Commonwealth Employment) Act 1991* (OH&S Act).

In terms of compliance with the OH&S Act, there were:

- no investigations conducted during the year that related to undertakings carried on by APRA;
- no tests conducted on any plant, substance or thing in the course of such investigations;
- no directions to APRA by an investigator that the workplace not be disturbed; and
- no prohibition or improvements and provisional notices were given to APRA.

### **Measures taken to ensure health, safety and welfare of employees and contractors**

APRA has developed and promulgated a policy in accordance with the terms of the OH&S Act.

Responsibilities imposed by the legislation were identified and allocated to individual staff members. This includes the identification and training of health and safety staff representatives at all work locations.

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

There has been development of policy and procedures to identify, assess and control hazards associated with work processes, particularly computer-based work. An ergonomic consultant has been introduced to assist the process.

We have provided first aid services for the treatment of work-related injury or illness, including appropriately trained first aid officers, at all work locations. Rehabilitation services and support are provided to injured employees with ongoing consultation for affected employees.

### **OH&S policies including agreement with employees, establishment of committees and selection of health and safety representatives**

Arrangements for consultation on all OH&S issues were undertaken, including the establishment of an OH&S committee with five staff representatives and five management representatives.

The OH&S committee satisfies all the requirements of the legislation, including meeting at least every three months and providing all staff with access to minutes of the meetings.

### **Statistics requiring the giving of notice under section 68**

During the year, 11 incidents were notified to APRA, none of which required report to Comcare in accordance with section 68 of the OH&S Act. The incidents were in the following locations:

On APRA premises	5
Home to work/ work to home	5
Other	1
<b>Total</b>	<b>11</b>

### **Prime Minister and Cabinet guidelines**

#### **Commonwealth disability strategy**

APRA is reviewing its adherence to the Commonwealth's Disability Strategy both as an employer and as a provider, principally of information and, to a more limited extent, services to the public.

Over the next 12 months, APRA will be ensuring that there are no obstacles to those with disabilities contained in our employment practices and procedures. As the principal channel of distribution of APRA's information is the Internet, APRA has done considerable work this year to ensure that its new website, to be launched early in 2001/02, will comply with the Commonwealth standards. For those services that are not provided electronically (particularly, early release of superannuation benefits), we are continually examining our service delivery to ensure that particular groups are not excluded either by virtue of financial circumstance or physical or intellectual disability.



## Consultancies

APRA's policy on procurement includes specific provisions on consultants and contractors. Considerations prior to engagement include whether in-house resources are available and cost effectiveness of the operation; whether the project is essential; availability of funds; selection and evaluation process resulting in fair competition; effective services and value for money; project definition and outcomes; and superannuation implications.

The main purpose for which consultants were engaged were: audit services; training; financial and accounting services; IT consultancies; legal advice; litigation services; management consultancy; recruitment selection, administration and outplacement and counselling; risk management; security; and a statistical survey.

The total number of consultants engaged was 33 and the total amount paid was \$8,521,539.

## Corrections to previous annual report

On page 75 of APRA's 2000 annual report, the 2000 and 1999 columns over item number 15 should not be followed by '000.

## Performance pay

APRA has a performance bonus system, designed with the assistance of the Staff Consultative Group and covering all of its staff. For 2000/01 the aggregate bonus pool was just under \$1.5 million (\$1.6 million in the previous year). Bonuses were paid early in 2001/02.

## Staff statistics

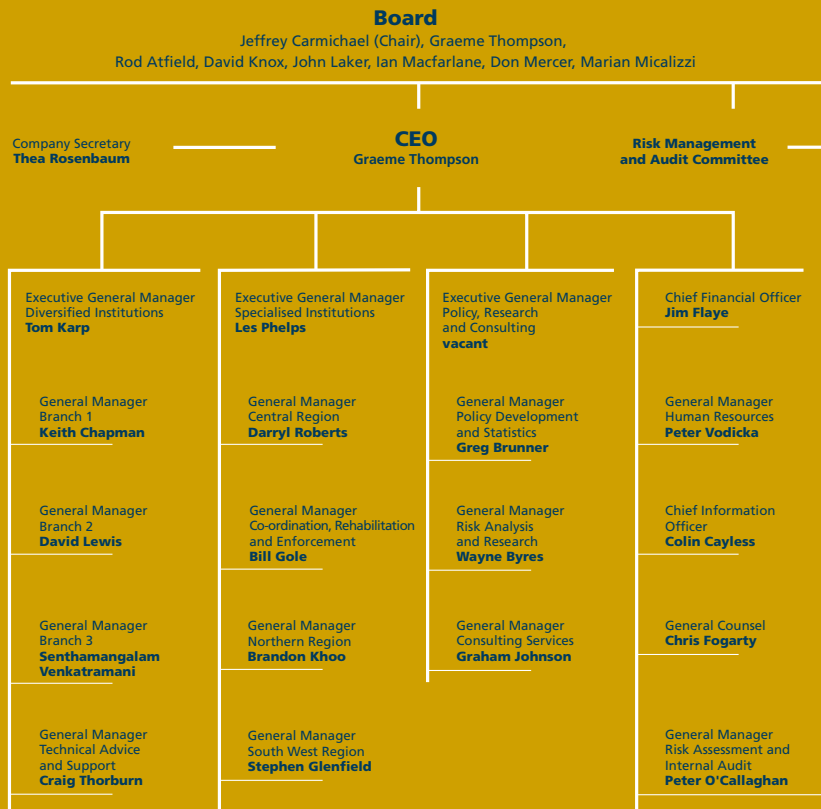
Staff by division and full time/part time as at 30 June 2001

Division	Full Time	Part Time	Total
Corporate Services	72	3	75
Diversified Institutions	57	2	59
Policy, Research and Consulting	78	1	79
Specialised Institutions	181	14	195
<b>Total</b>	<b>388</b>	<b>20</b>	<b>408</b>

Staff by location and full time/part time as at 30 June 2001

Location	Full Time	Part Time	Total
Adelaide	6	0	6
Brisbane	17	0	17
Canberra	62	12	74
Melbourne	56	4	60
Perth	9	0	9
Sydney	238	4	242
<b>Total</b>	<b>388</b>	<b>20</b>	<b>408</b>

## AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY ORGANISATION CHART



## Directory

Info Line 1300 13 1060

Website: [www.apra.gov.au](http://www.apra.gov.au)

*Head office, Sydney*

Level 26, 400 George Street

Sydney NSW 2000

GPO Box 9836, Sydney NSW 2001

Tel: 02 9210 3000 Fax: 02 9210 3411

## Other offices

*Adelaide*

Level 5, Allianz Centre

100 Pirie St

Adelaide SA 5000

GPO Box 9836, Adelaide SA 5001

Tel: 08 8232 5130 Fax: 08 8232 5180

*Brisbane*

Level 23, 300 Queen Street

Brisbane QLD 4000

GPO Box 9836, Brisbane QLD 4001

Tel: 07 3001 8500 Fax: 07 3001 8501

*Canberra*

243-251 Northbourne Avenue

Lyneham ACT 2602

GPO Box 9836, Canberra ACT 2601

Tel: 02 6247 2299 Fax: 02 6213 5100

*Melbourne*

Level 21, Casselden Place

2 Lonsdale Street

Melbourne VIC 3000

GPO Box 9836, Melbourne VIC 3001

Tel: 03 9246 7500 Fax: 03 9663 5085

*Perth*

Level 9, QV.1 Building

250 St Georges Terrace

Perth WA 6000

GPO Box 9836, Perth WA 6001

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