

# Introduction

## Background

- 1.1 The House of Representatives Standing Committee on Economics (the committee) is empowered to inquire into, and report on, the annual reports of government departments and authorities tabled in the House, that stand referred to the committee in accordance with the Speaker's schedule.
- 1.2 The 2014 annual report (annual report) of the Australian Prudential Regulation Authority (APRA) stands referred to the committee in accordance with this schedule and the committee resolved at its meeting on 26 November 2014 that it would conduct an inquiry into the annual report.
- 1.3 Regarding APRA's appearance before the committee on 23 October 2015, the committee chair stated that 'the ongoing scrutiny of APRA is an important part of the committee's oversight role. Some of the issues that will be examined include APRA's new reporting standards for the superannuation industry, the increased capital requirements for Australian residential mortgage exposures by authorised deposit taking institutions (ADIs), and the new disclosure requirements for ADIs under the Basel III framework.'<sup>1</sup>
- 1.4 APRA was established by the *Australian Prudential Regulation Authority Act 1998* (Cth) as the prudential regulator of the Australian financial services industry. It oversees Australia's banks, credit unions, building societies, life and general insurance companies and reinsurance companies, friendly societies, and most of the superannuation industry. APRA currently

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<sup>1</sup> House of Representatives Standing Committee on Economics, 'APRA to appear before Economics Committee in Canberra', *Media Release*, 21 October 2015.

- supervises institutions holding \$4.9 trillion in assets for Australian depositors, policyholders and superannuation fund members.<sup>2</sup>
- 1.5 The annual report describes APRA's mission as '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.'<sup>3</sup>
- 1.6 All deposit-taking institutions, life and general insurance and reinsurance companies and friendly societies must hold an APRA licence to operate in Australia. APRA also licenses trustees of prudentially regulated superannuation funds.<sup>4</sup>
- 1.7 After an institution is licensed, it is subject to ongoing supervision by APRA to ensure that it is managing risks prudently and meeting prudential requirements. APRA aims to identify potential weaknesses in its regulated institutions as early as possible. It applies a risk-based approach under which institutions facing greater risks receive closer supervision.<sup>5</sup>
- 1.8 APRA employs a cooperative approach to resolving issues with supervised institutions. However, where an institution is unwilling or unable to cooperate, APRA is empowered to take enforcement action against an institution, or against individuals associated with that institution. Some enforcement options include formal investigation, imposing conditions on an institution's licence, appointment of a replacement trustee and taking criminal action against a person or institution.<sup>6</sup>
- 1.9 Responsibilities for the prudential supervision of private health insurers were transferred to APRA from the Private Health Insurance Administration Council (PHIAC), effective 1 July 2015.

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2 Australian Prudential Regulation Authority, *2014 Annual Report*, 13 October 2014, p. 1.

3 Australian Prudential Regulation Authority, *2014 Annual Report*, 13 October 2014, p. 3.

4 Australian Prudential Regulation Authority, 'Protecting Australia's depositors, insurance policyholders and superannuation fund members', <<http://www.apra.gov.au/AboutAPRA/Publications/Pages/APRA-Brochure.aspx>> viewed 6 November 2015.

5 Australian Prudential Regulation Authority, Supervision, <<http://www.apra.gov.au/AboutAPRA/Pages/Supervision.aspx>> viewed 6 November 2015.

6 Australian Prudential Regulation Authority, 'Factsheet 6 - APRA's enforcement activities', <<http://www.apra.gov.au/AboutAPRA/Publications/Documents/APRA-FS6-062015.pdf>> viewed 6 November 2015.

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## Scope and conduct of the review

- 1.10 APRA appeared before the committee at its third public hearing to review the 2014 annual report in Canberra on 23 October 2015.
- 1.11 The proceedings of the hearing were webcast over the internet, through the Parliament's website, allowing interested parties to view or listen to the proceedings as they occurred. The transcript of the hearing is available on the committee's website.<sup>7</sup>
- 1.12 This report focuses on the issues raised in the annual report and, in particular, on matters raised at the public hearing in Canberra on 23 October 2015.
- 1.13 At the public hearing, the committee examined the current policy settings and regulatory framework for enforcement of prudential standards and practices by APRA. Issues canvassed at the hearing included the Government's response to the Financial System Inquiry (FSI) report, property lending practices of ADIs, the review of capital requirements for ADIs following the FSI report and the work of the Basel Committee, and reforms to the prudential and reporting standards in superannuation, in particular those relating to governance.

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7 House of Representatives Standing Committee on Economics, Past Public Hearings and Transcripts, <[http://www.aph.gov.au/Parliamentary\\_Business/Committees/House/Economics/2014\\_APRA\\_Annual\\_Report/Public\\_Hearings](http://www.aph.gov.au/Parliamentary_Business/Committees/House/Economics/2014_APRA_Annual_Report/Public_Hearings)> viewed 4 November 2015.

