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Review of the Australian Prudential Regulation Authority Annual Report 2014 (Second Report)

House of Representatives
Standing Committee on Economics

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Canberra

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Chair's foreword

It was pleasing to learn at our most recent public hearing with APRA in March 2015 that the Australian financial sector has continued to demonstrate stability overall. However, there are clearly some emerging risks in the housing market which need to be carefully monitored.

The committee notes that APRA has recently written to authorised deposit-taking institutions to outline its plans around sound lending practices. An increased scrutiny of mortgage portfolios is an appropriate response to this issue and we will be requesting updates on APRA's activities and processes in this regard at future hearings.

The progress in implementing the new prudential standards through the Stronger Super reforms is of continuing interest to the committee. APRA stated at the public hearing in March that the superannuation industry's approach to managing conflicts of interest needed to be improved.

We also note from our discussions with APRA on its oversight of the super industry that new disclosure requirements are yet to be fully implemented and enforced. We welcome APRA's undertaking that it is continuing to monitor the efforts of this sector to strengthen governance and risk management frameworks and practices.

The prudential responsibilities of the Private Health Insurance Administration Council will be transferring to APRA in July 2015. APRA outlined the resourcing of this transfer and its proposal to implement only the minimum changes required to achieve it. The committee will be monitoring this transition with interest over the coming months.

The outcomes of the Financial System Inquiry (FSI) and the work of the Basel Committee may well influence the capital requirements of the Australian banking sector and we look forward to discussing this with APRA more broadly at the next public hearing.

On behalf of the committee I would like to thank the Chairman of APRA, Mr Wayne Byres, and his colleagues for appearing at the public hearing on 20 March

2015. The committee looks forward to further discussions on upcoming prudential issues at the next hearing with APRA on Friday 23 October 2015 in Canberra.

John Alexander OAM MP
Chair



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Membership of the Committee

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Terms of reference

The House of Representatives Standing Committee on Economics 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 for any inquiry the committee may wish to make. The reports stand referred in accordance with the schedule tabled by the Speaker to record the areas of responsibility of the committee.



List of abbreviations

ADI	Authorised deposit-taking institution
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
FSI	Financial System Inquiry
GFC	Global Financial Crisis
IRB	Internal ratings-based
LCR	Liquidity coverage ratio
LVR	Loan to valuation ratio
PHIAC	Private Health Insurance Administration Council
RBA	Reserve Bank of Australia
SMSF	Self-Managed Super Fund

