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The Parliament of the Commonwealth of Australia

# **Review of the Australian Prudential Regulation Authority Annual Report 2017**

House of Representatives  
Standing Committee on Economics

June 2018  
Canberra

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## Chair's foreword

On 28 March 2018, the Australian Prudential Regulation Authority (APRA) appeared before the committee, and discussed its activities supervising and enforcing prudential standards and practices in the Australian financial system.

APRA explained that its focus has been on improving resilience in the financial system. The committee scrutinised APRA on its work on issues of governance, risk management and culture in financial institutions. In particular, on measures to reinforce sound lending practices and ensure that Australian banks remain prudentially strong, and the new Banking Executive Accountability Regime (BEAR).

APRA is seeking to improve responsible lending practices in the Australian financial sector. However, there is still a lot of work to be done in this area. The disturbing evidence coming out of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry suggests that, in a number of cases, the major banks are moving from a low base when improving their responsible lending practices.

In recent years, APRA has provided guidance on lending practices, which was aimed at maintaining strong lending in an environment of heightened risks. The benchmark limiting the growth of investor loans to 10 per cent, issued in December 2014, was updated in guidance from APRA on 26 April 2018. From 1 July 2018, financial institutions will no longer have to meet this requirement if they are able to provide APRA with certain assurances about the strength of their lending practices. The benchmark limiting the flow of new interest-only lending, established in APRA guidance on 31 March 2017, remains in place.

Strengthening accountability measures for senior executives was a key recommendation of the committee's Review of the Four Major Banks. The BEAR will provide mechanisms to make senior bank executives more accountable and subject to additional oversight by APRA. It comes into effect on 1 July 2018 for the major banks. There will be a measured transition for smaller institutions.

The committee also sees a need to continue to improve competition in the banking sector. In its *Review of the Four Major Banks*, the committee previously called for removing barriers to new entrants to the sector. It welcomes the recent changes to the restrictions on institutions using the term 'bank' in lifting this barrier to new entrants.

The new crisis management powers introduced by the Government provide important new tools for APRA. They will empower APRA to better prepare, and take decisive action, to more quickly and effectively address crises in Australia's financial system.

The proposed changes to superannuation will improve governance and transparency in the industry. The committee expects that, once the measures are implemented, it will better position APRA-related superannuation licensees to deliver sound outcomes for their members. The committee notes that APRA has extended its strategic focus to superannuation, and will monitor APRA's performance in this area.

On behalf of the committee, I thank the Chairman of APRA, Mr Wayne Byres, and other APRA representatives for appearing at the public hearing.

**Sarah Henderson MP**  
**Chair**



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## **Membership of the Committee**

|                     |  |
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| <b>Chair</b>        | Ms Sarah Henderson MP  |
| <b>Deputy Chair</b> | The Hon Matt Thistlethwaite MP   |
| <b>Members</b>      | Mr Adam Bandt MP<br>Ms Julia Banks MP<br>Mr Scott Buchholz MP<br>Mr Trevor Evans MP<br>Mr Jason Falinski MP (from 20 June 2018)<br>Mr Kevin Hogan MP (until 27 March 2018)<br>Ms Ged Kearney MP (from 21 May 2018)<br>Mr Craig Kelly MP<br>Mr Matt Keogh MP<br>Mr Josh Wilson MP (until 10 May 2018) |

## **Committee Secretariat**

|                          |                      |
|--------------------------|----------------------|
| <b>Secretary</b>         | Mr Stephen Boyd      |
| <b>Inquiry Secretary</b> | Ms Samantha Mannette |
| <b>Office Manager</b>    | Ms Jazmine Rakic     |



## **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.



## **Abbreviations**

|         |  |
|---------|--|
| ACCC    | Australian Competition and Consumer Commission     |
| ADI     | Authorised Deposit-taking Institution              |
| APRA    | Australian Prudential Regulation Authority         |
| ASIC    | Australian Securities and Investments Commission   |
| AUSTRAC | Australian Transaction Reports and Analysis Centre |
| BEAR    | Banking Executive Accountability Regime            |
| CBA     | Commonwealth Bank of Australia                     |
| CPS 220 | Prudential Standard CPS 220 Risk Management        |
| RSE     | Registrable Superannuation Entity                  |

