



Appendix B — Government and APRA responses to Capability Review recommendations

#	Recommendation	Government response	APRA response
2.1	Building upon APRA's strategic initiative to enhance 'leadership, people and culture', APRA Members should address variation in leadership capability for all management levels. This should include a priority focus on leading change, effective execution and accountability. In addition, APRA should develop a cultural change program that fosters internal debate and contestability.		APRA supports this recommendation. APRA will build on its existing leadership, people and culture strategic initiatives to address these areas as part of its review of the Corporate Plan, which will be published in August 2019.
2.2	APRA should set transparent standards to hold staff and itself accountable for the timeliness of approvals and other commercially-important decisions for regulated institutions. APRA should publicly disclose adherence rates to these performance standards in its external accountability assessment (see recommendation 6.4).		APRA supports this recommendation. APRA will review its decision-making processes and current Service Charter to address this recommendation. APRA will include information on its performance in key areas as part of its enhanced communication approach (refer to Recommendation 6.6).
2.3	APRA should revise its organisational structure to reinforce the impact of the leadership and cultural changes recommended by the Review and APRA's own strategic plans. APRA should: a. restructure supervision divisions along industry lines — banking, insurance and superannuation; b. revise management structures and levels, with a view to widening spans of control and enhancing efficiency, speed of decision-making and empowerment; c. shift internal configuration to better support industry-focussed strategic activities and more agile ways of		APRA supports this recommendation. APRA undertook a review of its organisational structure in the latter part of 2018 under the strategic initiative in APRA's 2018-2022 Corporate Plan to lift organisational capability. Implementation of changes based on that review were deferred pending the outcomes of the Royal Commission and the Capability Review. APRA is now progressing implementation of changes to its organisational structure that

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	working; and d. create distinct people-leader and technical-specialist career pathways.		support flexible and effective modes of operating and address the areas highlighted by the Capability Review. This will include review of the current roles and responsibilities of the APRA Members (refer to recommendation 2.4) and restructuring the supervisory divisions along industry lines. APRA notes that some changes to management structures and levels are contingent on the Government accepting Recommendation 2.5 (removing APRA from the APS Workplace Bargaining Policy) and/or changes to APRA's Employment Agreement.
2.4	APRA's Chair should relinquish his ADI-specific oversight role and adopt a broader organisation-wide role. The remaining Members should split their roles to include a mix of industry, policy and functional responsibilities.		APRA supports this recommendation. See response to Recommendation 2.3.
2.5	To help facilitate a number of recommendations in the Review, the Government should remove APRA from the application of the APS Workplace Bargaining Policy. APRA should engage with the Government to consider ways to enable greater variation in remuneration levels.	The Government will work with APRA and the Australian Public Service Commission to better understand and address any restrictions within the current APS Bargaining Framework in order to ensure APRA can attract and retain high skilled staff.	APRA supports this recommendation and welcomes the Government's commitment to understand and address restrictions to ensure APRA can attract and retain the staff it needs to deliver its mandate.
3.1	While lifting organisational capability across the areas identified in this Review is important and necessary, APRA should retain its long-standing and core capability of fostering financial safety and financial stability.		APRA supports this recommendation, but notes that to maintain APRA's core capabilities in financial safety and stability, while also expanding its organisational capability across all the important areas identified by the Capability Review, will require additional resources.
3.2	APRA should build credit risk capacity to simultaneously maintain high supervisory intensity in both non-retail and retail credit risk.		APRA supports this recommendation but notes that to simultaneously maintain high supervisory

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			intensity across both non-retail and retail credit risk will require additional resourcing.
3.3	Reflecting its role as an independent prudential regulator, APRA should take a more transparent and assertive role in articulating the objectives of its macro-prudential policies, the design of the instruments chosen and assessment of its impacts, including on the broader areas of its mandate. APRA should continue to develop its public communication around the extent of systemic risks, conditions required for macro-prudential actions and assessments of any actions taken.		APRA supports this recommendation. Work is underway to strengthen external engagement and communication under one of the strategic initiatives in APRA's 2018- 2022 Corporate Plan. This existing initiative will be broadened to ensure it addresses the areas highlighted by the Capability Review. APRA will publish its 2019- 2023 Corporate Plan in August 2019.
3.4	APRA should advise the Government of the current state of its resolution capability and crisis preparedness as a basis for assessing whether additional resources are required to advance this work more quickly. This should be completed by the end of 2019.		APRA supports this recommendation. APRA is strengthening its resolution capability and crisis preparedness under the strategic initiatives of the 2018-2022 Corporate Plan. APRA will provide advice to the Government by the end of 2019 on the status of this work and the additional resources needed to enable it to be advanced more quickly.
3.5	APRA should seek to build strong allegiances with public and private sector experts, other regulators and financial firms to augment its internal capacity and to collaborate on ways to strengthen the cyber resilience of APRA's regulated sectors.		APRA supports this recommendation. APRA has identified cyber and technology as priority areas for focus across all APRA-regulated industries, and is developing a cyber and technology strategy that includes building strong allegiances with public and private sector experts.
3.6	To better prepare for and respond to the consequences of digital innovation and disruption, APRA should increase its IT risk capacity and capability, including through increased collaboration and partnerships. In doing so, APRA should consider the implications of new business models, management and transformation of legacy IT landscapes, greater reliance on third-party providers (for example, cloud providers), and technology-enabled competition.		APRA supports this recommendation, but notes that increasing IT risk capacity and capability will require additional resourcing.
3.7	To support its consideration of competition, APRA should: a. create a competition champion within APRA, preferably at Member level. Their role should be to ensure that issues of competition are embedded effectively across all areas of APRA;		APRA supports the objective of this recommendation. All APRA Members have overarching responsibility for achieving APRA's mandate, including consideration of competition, efficiency,

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	<p>b. ensure that there is sufficient tension in the internal debate and analysis of competition. It should test how policies are developed and applied by supervisors. This could be done in the Quality Assurance function and reported to the competition champion; and</p> <p>c. report regularly on competition developments in its external accountability assessment (see recommendation 6.4).</p>		<p>contestability and competitive neutrality. APRA will review and enhance its decision-making processes to more actively champion the consideration of all elements of APRA's mandate. APRA will strengthen its engagement and collaboration with the ACCC, as part of its strategic initiative in the 2018-2022 Corporate Plan. APRA will include information on its performance in this regard as part of its enhanced communication approach (refer to recommendation 6.6).</p>
4.1	<p>As part of its work to revise and enhance its supervisory and policy frameworks, APRA should:</p> <p>a. ensure the policy framework is focussed on assessing appropriate outcomes around GCA risk in regulated entities, not just appropriate processes;</p> <p>b. further develop its toolkit for assessing GCA risks, including board and senior management performance, and ensure that it has an escalating suite of options for engaging with entities;</p> <p>c. embed the recent entity self-assessment process into its more intense supervision of GCA risks by making it a biennial requirement. The self-assessments should be more prescriptive than APRA's recent program, including coverage of questions set out in Appendix 2. The self-assessments, APRA's assessment of each of them, APRA's thematic reviews, and any rectification requirements imposed by APRA in response to a self-assessment should be published;</p> <p>d. establish an external panel of experts to assist it in undertaking more in-depth assessments of individual entities; and</p> <p>e. explore ways to collaborate with regtech specialists and other experts to develop more efficient and effective tools to identify GCA risks.</p>		<p>APRA supports this recommendation. Issues of governance, culture, remuneration and accountability are priority areas for APRA. APRA is reviewing its program of work to enhance its regulatory and supervisory approach in these areas, following the Government's announcement of additional funding as part of the 2019-20 Commonwealth Budget. The Capability Review will inform this.</p> <p>Developing an enhanced regulatory and supervisory framework is a multi-year program of work and APRA will publish its strategy by end 2019.</p>
4.2	<p>APRA should build on the CBA Prudential Inquiry and entity self-assessments by embedding CBA-style prudential inquiries as an ongoing part of its supervisory toolkit. The Panel would expect to see several prudential inquiries in the first few years to reinforce the need for rigorous self-assessments (see recommendation 4.1). In time, the inquiries should involve</p>		<p>APRA supports this recommendation. APRA will consider as part of its broader response to Recommendation 4.1 how similar reviews can be incorporated into its work plan. Given the significant cost of such reviews, the precise number of reviews will be dependent on overall</p>

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	retail and industry superannuation, insurance and ADI entities.		resourcing.
4.3	The Government should consider providing APRA with a non-objections power to veto the appointment or reappointment of directors and senior executives of regulated entities. This would bring it into line with international regulators and strengthen its capacity to pre-emptively regulate GCA risks. The power should be available to APRA only where the risks associated with the entity, including but not limited to member outcomes for superannuation funds, warrant it.	The Government will ensure that APRA has sufficient powers and flexibility to prevent inappropriate directors and senior executives from being appointed or re-appointed to regulated entities, as part of extending the Banking Executive Accountability Regime;	APRA supports the objective of a strong regime for the fitness and propriety of directors and senior executives, but notes that ultimately this is a matter for Government. APRA will engage with the Government on how the objectives identified by the Capability Review can best be achieved, noting the potential for moral hazard and administrative burden.
5.1	APRA should create a new Superannuation Division, headed by an Executive General Manager. A key focus of the Division should be the overall performance of the superannuation system for members.		APRA supports this recommendation. This will be implemented as part of APRA's response to Recommendation 2.3.
5.2	APRA should embed and reinforce its increasing focus on member outcomes, and continue to ensure that trustees prudently manage member funds. Consistent with this change of approach, APRA should: <ul style="list-style-type: none"> a. publish objective benchmarks on product performance and publicly take action to demonstrate its expectations for member outcomes; b. develop a superannuation performance tool that replaces PAIRS by the end of 2019. The tool should be focussed on member outcomes; c. update its superannuation reporting standards and collect product level data that facilitates accurate assessments of outcomes and comparability across funds; and d. increase the resourcing dedicated to the superannuation industry. 		<p>APRA supports this recommendation. APRA will build on its work in recent years which was provided further impetus with the passing of the Treasury Laws Amendment (Improving Accountability and Member Outcomes in Superannuation) Act 2019.</p> <p>APRA's work on performance benchmarking and data collection will be a priority, and should be aligned with other initiatives that require legislation (such as choice product dashboards).</p> <p>APRA's program of work to review its supervisory model, initiated under APRA's 2018-22 Corporate Plan, includes a revised PAIRS model by mid-2020.</p> <p>APRA will consult with</p>

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			Government on the additional resources needed.
5.3	In accordance with recommendation 23 of the Productivity Commission's Superannuation Inquiry, the Government should legislate to make APRA's member outcomes mandate more explicit. The Government should clearly outline its expectations for APRA on superannuation in its next Statement of Expectations.	The Government will outline its expectations for APRA on superannuation in its next Statement of Expectations	APRA supports its member outcomes mandate being clear. This was recently achieved through the Treasury Laws Amendment (Improving Accountability and member Outcomes in Superannuation) Act 2019. APRA supports the Government further clarifying its expectations through the Statement of Expectations.
6.1	The Panel supports the direction of the APRA Enforcement Strategy Review. To effectively embed the Enforcement Approach, APRA should change its existing internal norms that create a low appetite for transparent supervisory challenge and enforcement by: <ul style="list-style-type: none"> a. departing from its behind closed doors approach with regulated entities; b. adopting a stronger approach towards recalcitrant institutions; c. building organisational confidence and improving management support; and d. increasing its risk appetite and use of the escalation toolkit. 		APRA supports this recommendation. APRA is implementing the revised Enforcement Approach that was released in April 2019. This program of work will be included in APRA's 2019-2023 Corporate Plan to be published in August 2019.
6.2	While APRA's regulatory tools are generally fit-for-purpose, the Government should consider: <ul style="list-style-type: none"> a. reviewing the adequacy of penalties across APRA's legislative framework; b. providing APRA with the power to appoint a skilled person to undertake a review of a regulated entity; and c. enhancing its private health insurance licensing powers. 	The Government will consider changes to APRA's regulatory framework including a review of penalties, amending its private health insurance licensing powers and providing APRA with the power to appoint a person to undertake a review of a regulatory entity;	APRA supports this recommendation, but ultimately it is a matter for Government. This recommendation builds on the matters identified in APRA's Enforcement Review and APRA welcomes the Government's commitment to consider review of these areas.
6.3	APRA should reinvigorate its approach to collaboration and information sharing with regulators and its international peers including clear protocols for staff.		APRA supports this recommendation. Strengthening collaboration and cooperation with peer regulators was identified as a priority in APRA's 2018-2022

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			Corporate Plan. APRA-ASIC engagement is a current priority, with new protocols established for senior executive coordination, and a revised MoU to be published by end 2019. From 1 August 2019, APRA is establishing a new Regulatory Affairs Unit to strengthen cross-agency cooperation.
6.4	APRA should use its existing external accountability framework more effectively, including a more assertive use of the Statement of Intent and it should publish a regular external accountability assessment.		APRA supports this recommendation. APRA will publish a review of its activities and performance at the end of 2019. This is part of the work underway in response to recommendation 6.6.
6.5	The Government should consider streamlining and improving the effectiveness of existing accountability arrangements when establishing the financial regulator oversight authority.	The Government will, in establishing the Financial Regulator Oversight Authority, streamline and improve the effectiveness of both APRA and ASIC's accountability arrangements.	APRA supports this recommendation and welcomes the Government's commitment to seek to streamline and improve the effectiveness of APRA's accountability arrangements.
6.6	APRA should take a more strategic, active and forceful approach in its public communications. As an independent regulator, it should use public communications to shape community and government expectations of it. In relation to specific areas, APRA should: a. publish an interpretation of its mandate; b. clearly articulate its role and approach to macro-prudential policy (see recommendation 3.3); c. advise the Government of the current state of its resolution capability and crisis preparedness (see recommendation 3.4). Taking account of the impact on the market, part of this advice could be published; and d. be more transparent in relation to superannuation, including by publishing objective benchmarks for superannuation performance on member outcomes and a strategy to promote long-term industry performance.		APRA supports this recommendation. Work is underway to enhance communications as a strategic priority from APRA's 2018-2022 Corporate Plan. Existing initiatives will be strengthened in this year's plan to address this recommendation. APRA will publish its updated Corporate Plan by end August 2019, and publish other material relevant to this recommendation as part of its enhanced strategic communication plan.

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Source APRA, APRA's responses to Capability Review Report, 17 July 2019, <<https://www.apra.gov.au/apras-response-capability-review-report>>, accessed 26 August 2019.