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

House of Representatives
Standing Committee on Economics

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Chair's foreword

At our most recent public hearing with APRA in October 2015 the committee learned of a number of actions the regulator had taken to reinforce prudential practices across APRA regulated institutions in the financial sector.

The committee notes that this year APRA released a study on the relative capital strength of the major Australian banks against their overseas peers and also announced that effective 1 July 2016 it will increase the risk weight for residential mortgage exposures for banks that are accredited to use internal models to determine their capital ratios.

We also note from our discussions with APRA that the recommendations of the Financial System Inquiry (FSI) report and the work of the Basel Committee are likely to influence the capital requirements of Australian banks further and look forward to following the progress that is anticipated in this area.

Additionally, the committee notes APRA's continued supervision of the residential mortgage lending practices of authorised deposit-taking institutions in the current environment of heightened risk. However, the committee notes reports by the RBA that data problems regarding lenders' housing loans have emerged following increased supervisory scrutiny, and will be investigating the matter further with APRA at future hearings.

In relation to superannuation, the committee will continue to scrutinise APRA on its oversight of the industry's implementation of prudential standards, particularly in light of the recent Stronger Super reforms.

The transition of responsibilities for the prudential supervision of private health insurance funds from the Private Health Insurance Administration Council (PHIAC) to APRA occurred from 1 July 2015 and the committee looks forward to observing the development of the prudential regime for private health insurers in the long term.

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 23 October

2015. The committee looks forward to further discussions on upcoming prudential issues at the next hearing with APRA on Friday, 18 March 2016 in Canberra.

Craig Laundry 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
AML/CTF Act	<i>Anti-Money Laundering and Counter-Terrorism Financing Act 2006</i>
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
AUSTRAC	Australian Transaction Reports and Analysis Centre
FSI	Financial System Inquiry
IRB	Internal ratings-based
PHIAC	Private Health Insurance Administration Council
RBA	Reserve Bank of Australia
RSE	Registrable Superannuation Entity

