



APRA

ANNUAL REPORT

AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY

2015

The Australian Prudential Regulation Authority (APRA) is 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 is funded largely by the industries that it supervises. It was established on 1 July 1998.

APRA currently supervises institutions holding \$5.4 trillion in assets for Australian depositors, policyholders and superannuation fund members.

From 1 July 2015, APRA also became the prudential regulator of private health insurance funds.

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2015

Australian Prudential Regulation Authority

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Wayne Byres
CHAIRMAN

7 October 2015

The Hon Scott Morrison, MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer,

In accordance with sections 43 and 46 of the *Public Governance, Performance and Accountability Act 2013*, I am pleased to submit the Australian Prudential Regulation Authority Annual Report and Financial Statements for the year ended 30 June 2015.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Wayne Byres'.

APRA VISION, MISSION AND VALUES

OUR VISION

is to be a world-class prudential regulator, with excellence of supervision as our foundation.

OUR CORE MISSION

is 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.

We also act as a national statistical agency for the Australian financial sector.

OUR VALUES

underpin the critical role we play in protecting the financial well-being of the Australian community. High standards are required in everything we do. In our work and in our interactions with others, we value and seek to demonstrate:



OUR SUPERVISORY APPROACH

is forward-looking, primarily risk-based, consultative, consistent and in line with international best practice. The approach also recognises that management and boards of supervised institutions are primarily responsible for financial soundness.

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GLOSSARY

AASB	Australian Accounting Standards Board
ADI	Authorised deposit-taking institution
ANAO	Australian National Audit Office
APRA	Australian Prudential Regulation Authority
APRA Act	<i>Australian Prudential Regulation Authority Act 1998</i>
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
AUSTRAC	Australian Transaction Reports and Analysis Centre
BCBS	Basel Committee on Banking Supervision
CET1	Common Equity Tier 1
CLF	Committed Liquidity Facility
CRF	Consolidated Revenue Fund
D2A	Direct to APRA
D-SIB	Domestic systemically important bank
FCS	Financial Claims Scheme
FSI	Financial System Inquiry
FSB	Financial Stability Board
G-SIB	Global systemically important bank
IAIS	International Association of Insurance Supervisors
ICAAP	Internal Capital Adequacy Assessment Process
IMF	International Monetary Fund
IOPS	International Organisation of Pension Supervisors
IOSCO	International Organisation of Securities Commissions
LCR	Liquidity Coverage Ratio
MoU	Memorandum of Understanding
NSFR	Net Stable Funding Ratio
PHIAC	Private Health Insurance Administration Council
RBA	Reserve Bank of Australia
RBNZ	Reserve Bank of New Zealand
RSE	Registrable Superannuation Entity
SIS Act	<i>Superannuation Industry (Supervision) Act 1993</i>
SOARS	Supervisory Oversight and Response System

CHAPTER ONE / FROM THE CHAIRMAN

'APRA must regularly adjust and review its own activities and operations to ensure the organisation remains fit for purpose in a rapidly changing environment.'

FROM THE CHAIRMAN

Reflecting a domestic economy in its twenty-fifth year of expansion, the Australian financial system is in a sound financial position. That said, there is little room for complacency: international, technological, economic and market developments mean that the financial system must continually evolve and adapt. In response, APRA must regularly adjust and review its own activities and operations to ensure the organisation remains fit for purpose in a rapidly changing environment.

FINANCIAL SYSTEM INQUIRY

2014/15 began against the backdrop of the Financial System Inquiry (FSI). The FSI was tasked with examining how the financial system should be positioned to best meet Australia's evolving needs and support Australia's economic growth. The FSI's Final Report was issued to the Government in December 2014, and contained 44 recommendations across a range of areas including: the resilience of the financial system; superannuation and retirement incomes; innovation; consumer outcomes; and the regulatory system. These recommendations provide a broad roadmap to improve the efficiency, competitiveness and flexibility of the Australian financial system.

The vast bulk of the recommendations of the FSI are consistent with APRA's submissions to the Inquiry. Some of the recommendations – particularly those in relation to capital in the banking system – deal with matters directly in APRA's mandate, and will contribute significantly to APRA's work agenda in 2015/16 and beyond. On others, APRA looks forward to working with the Government to see them progressed.

SUPERVISORY AND POLICY ACTIVITIES

Despite the overall health of the financial sector, APRA must always stay alert to a range of risks and vulnerabilities that inevitably exist with a dynamic financial system.

- For authorised deposit-taking institutions (ADIs), a large part of APRA's supervisory agenda in 2014/15 has been devoted to heightened risks

in the housing market. During 2014/15, APRA took a range of steps to reinforce sound lending practices, given the environment of heightened risk due to high house prices, high household debt, low interest rates and subdued income growth. This will remain a key area of attention in the year ahead.

- The life insurance industry continues to address the poor claims experience in relation to group, and more recently individual, disability income business. The industry's response to ongoing market volatility and a persistent low interest rate environment, together with pressures on overall industry operating efficiency, have also been areas of focus for APRA during 2014/15.
- The general insurance industry has generally experienced healthy underwriting results in recent years, although profitability has been impacted by heightened claims costs due to natural catastrophe events and adverse trends in some long tail classes of business. This was again the case in 2014/15. APRA's supervision has focused on insurers' ability to effectively manage such adverse experience, and maintain profitability and capital levels in an environment of low growth and investment returns.
- The superannuation sector has been faced in recent years with significant regulatory reform, industry consolidation, heightened market volatility, and more members transitioning from the accumulation to the post-retirement phase. These factors, together with pressure on entities in the superannuation sector to enhance efficiency and remain competitive, have been the focus of APRA's supervisory activities across the sector.

Taken together these issues have consumed a great deal of APRA's supervisory attention over the past year, and APRA has had to respond to each with a wide range of supervisory and regulatory actions. All will remain high on APRA's agenda in 2015/16, alongside the opportunities and threats from rapid technological change, and the need to ensure contingency plans for any period of future financial stress are fully developed, maintained and tested.

NEW RESPONSIBILITIES

In the 2013/14 Commonwealth Budget, the Government announced that APRA would take on additional responsibilities for the prudential supervision of private health insurance. The transfer formally took effect on 1 July 2015, following passage a week earlier of the *Private Health Insurance (Prudential Supervision) Act 2015*.

APRA's goal in managing the transition of responsibilities was to make the change as smooth as possible. This was primarily achieved by implementing a new set of APRA prudential standards that, to the maximum extent possible, replicated existing Private Health Insurance Administration Council (PHIAC) standards. While the transfer was ultimately relatively seamless, the preparation for the transfer required a considerable amount of time and effort behind the scenes by a large number of staff from both APRA and PHIAC, with strong support from the Treasury and the Department of Health. APRA was also fortunate to retain the skills and expertise of PHIAC's highly capable staff, who have now become APRA employees. This will help ensure the smooth start to APRA's new responsibilities can be continued into the future.

RESOURCING

APRA remains a relatively lean and efficient supervisory agency. APRA has maintained fairly constant levels of expenditure and staffing over a considerable period of time, and the growth in its operating costs has been substantially lower than peer agencies elsewhere in the world.

APRA's operating expenditure has increased only modestly, by 4.6 per cent (or less than 1 per cent per annum), over the 2010 to 2015 period. In real terms, expenditure has fallen by 8.5 per cent over that time. As a result of this budgetary discipline, combined with strong growth in the financial sector, the cost of APRA's activities has fallen from more than 3 cents per \$1,000 of assets in 2010, to slightly over 2 cents in the most recent financial year.

Similarly, despite a significant expansion in the scope and complexity of APRA's activities in the post-crisis period, APRA's budgeted headcount has been little changed for more than a decade, having been maintained in the range of 560-610 throughout that period. Staff numbers at the end of the financial year were lower than budget, at 565 FTE, reflecting ongoing challenges in attracting and retaining high quality staff in a competitive financial sector.

INTERNAL REORGANISATION

During the year, the APRA Members spent some time considering the need for changes to APRA's structure and processes to ensure its supervisory model remained fit for purpose.

As a result, and aided by an international peer review, APRA made a number of changes to its organisational structure designed to sharpen and improve its operations in key areas, and in particular to enhance its risk-based approach. These changes are designed to, amongst other things: better integrate policy development and interpretation activities; improve financial analysis and data analytics; establish a centre of expertise on governance, culture and remuneration; increase APRA's readiness to deal with financial institution failure; and enhance APRA's internal risk management and quality assurance mechanisms. In addition, APRA's existing Executive General Managers were rotated to bring fresh perspectives to their roles, and a new Executive General Manager role was created to oversee the entirety, and improve the efficiency, of APRA's Corporate Services Division.

APRA's supervision-led philosophy has served it well over many years. Nothing in these changes is intended to alter that basic approach; indeed, the objective underlying these changes is to make APRA's supervision even more effective.



APRA Members in 2014/15 – (left to right) Mr Ian Laughlin, Mr Wayne Byres and Mrs Helen Rowell.

OUR PEOPLE

APRA's performance is ultimately founded on the quality of its supervision, supported by a robust prudential framework. This requires, in particular, a strong and highly experienced cadre of supervisory and policy staff across a range of technical disciplines, aided by efficient and effective corporate support. Over many years, APRA has been fortunate to have built an extremely hard-working and diligent workforce, which has again risen to the challenges of the past year. It was particularly pleasing for the APRA Members that this year's stakeholder survey gave very high ratings – indeed, the highest in the survey – to the professionalism and integrity of APRA staff. This rating is very much deserved.

On 30 June this year, Ian Laughlin ended his five-year term as an APRA Member, the last two as Deputy Chair. Ian was a valuable contributor across the full gamut of APRA's activities, covering policy development, supervision, and organisational governance and operations. Alongside his extensive insurance experience and strong commercial acumen, Ian brought a passion for strong governance and risk management both to APRA and the industries that it supervises. On behalf of all APRA staff, the APRA Members sincerely thank Ian for his service to the organisation and, through it, to the Australian community.

Wayne Byres
APRA Chairman

Key Highlights

2014/15



APRA finalises the implementation of the Liquidity Coverage Ratio in Australia

4 November 2014



APRA responds to the Interim Report of the Financial System Inquiry

29 August 2014



APRA releases final prudential practice guide on group insurance arrangements

30 October 2014



APRA commences regular appearances before the House of Representatives Standing Committee on Economics

18 July 2014



APRA releases the first quarterly MySuper statistics

2 October 2014



APRA releases final prudential practice guide on residential mortgage lending

5 November 2014



APRA outlines further steps to reinforce sound residential mortgage lending practices

9 December 2014



APRA finalises revisions to Basel III disclosure requirements

8 May 2015



APRA makes submission to the Inquiry into Home Ownership

26 June 2015



APRA announces changes to arrangements for Registered Financial Corporations

25 November 2014



Changes are announced to APRA's senior executive team

19 March 2015



APRA releases the prudential and reporting framework for APRA's supervision of private health insurers

7 June 2015



APRA releases discussion paper on the publication of enhanced annual superannuation statistics

28 May 2015

CHAPTER TWO / GOVERNANCE

'Under the Australian Prudential Regulation Act 1998 (APRA Act), APRA Members are collectively responsible and accountable for APRA's operation and performance.'

GOVERNANCE

THE APRA MEMBERS 2014/15

Under the *Australian Prudential Regulation Authority Act 1998* (APRA Act), APRA Members are collectively responsible and accountable for APRA's operation and performance. APRA Members are appointed by the Governor-General, on the advice of the Government, for terms of up to five years.



MR WAYNE BYRES / BEc (Hons), MAppFin, SF Fin – Chairman and Member

Appointed Member and Chairman of APRA from 1 July 2014 for a five-year term.

Wayne Byres' early career was in the Reserve Bank of Australia (RBA), which he joined in 1984. After more than 14 years with the RBA, including time on secondment to the Bank of England in London, he transferred to APRA on its establishment in 1998, holding a number of senior executive positions in APRA's policy and supervisory divisions. In 2011, Mr Byres was appointed Secretary General of the Basel Committee on Banking Supervision, based at the Bank for International Settlements in Basel, Switzerland. During his time in Basel, Mr Byres was also a member of the Financial Stability Board (FSB), and served as the Basel Committee's representative on various FSB standing committees. In his current role, Mr Byres is APRA's representative on the Reserve Bank of Australia's (RBA) Payment System Board, the Council of Financial Regulators, and the Trans-Tasman Council on Banking Supervision, and represents Australia on the Basel Committee and FSB's Standing Committee on Supervisory and Regulatory Cooperation.



MR IAN LAUGHLIN / BSc (Qld), FIA, FIAA, FAICD, CERA – Deputy Chairman and Member

Appointed Member of APRA on 1 July 2010 for a three-year term, and reappointed as a Member and appointed Deputy Chairman for a two-year term commencing 1 July 2013.

Ian Laughlin has extensive experience in the financial services industry. He was a non-executive director of AMP Life Limited, serving as Chairman of its Board Audit Committee, Managing Director of the United Kingdom life insurance subsidiaries of AMP (Pearl, London Life and NPI), director of HHG plc, and non-executive director of Diligenta Ltd in the UK. Before then, he held senior management positions in AMP, Suncorp and National Mutual, in Australia, New Zealand and Hong Kong. Mr Laughlin has been APRA's representative on the Executive Committee of the International Association of Insurance Supervisors and on the Financial Reporting Council. Mr Laughlin is a Fellow of the Institute of Actuaries of Australia and has served on its council.



MRS HELEN ROWELL / BA (Macquarie), FIAA – Member

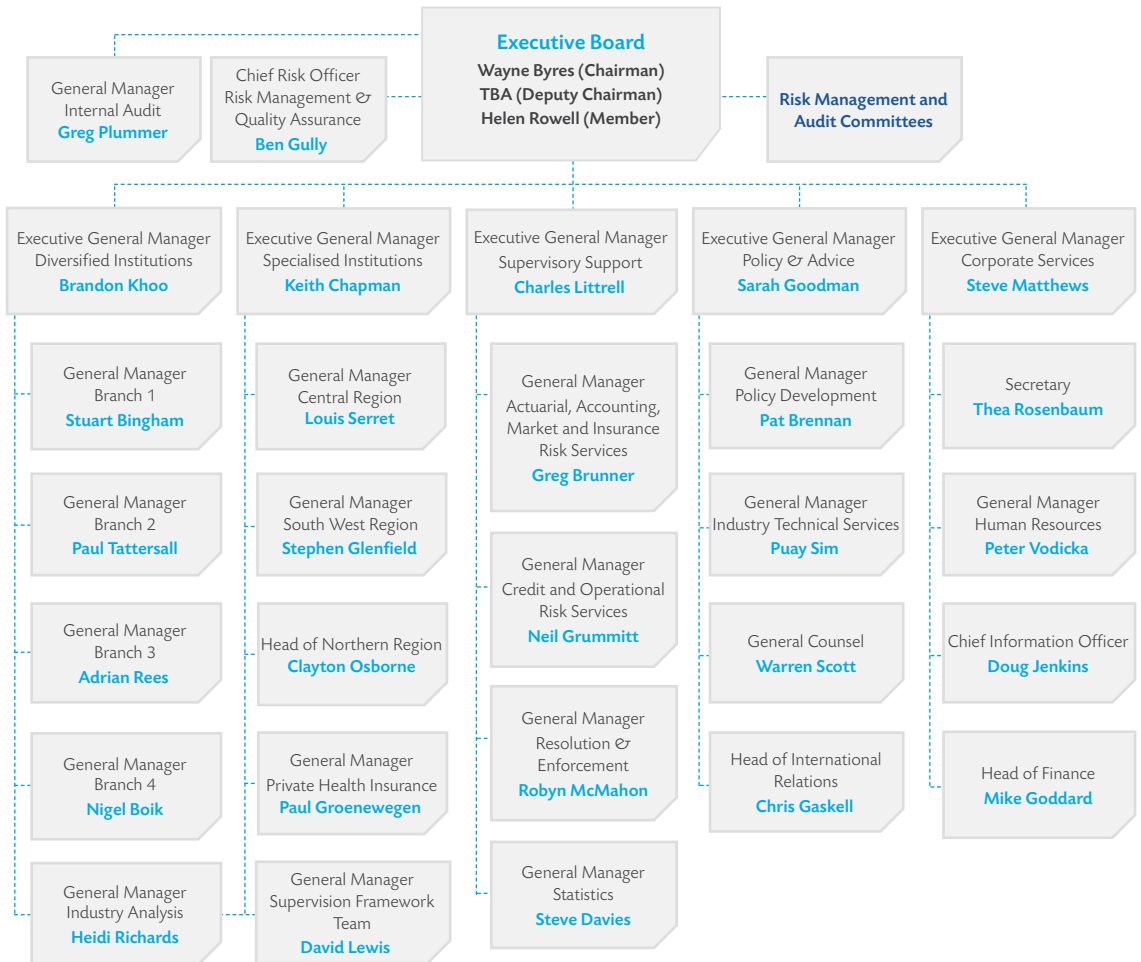
Appointed Member of APRA on 1 July 2013 for a five-year term.

Mrs Rowell joined APRA in 2002 as General Manager – Industry Technical Services and has held other senior roles including General Manager – Diversified Institutions Division, General Manager – Policy Development and Executive General Manager – Supervisory Support Division. Mrs Rowell was the chair of APRA's general insurance industry group from 2006 to 2011. Mrs Rowell has represented APRA at various subcommittees of the International Association of Insurance Supervisors, on the Joint Forum Financial Conglomerates Committee and the FSB's Supervision Intensity and Effectiveness Group. Prior to joining APRA, Mrs Rowell was a partner at the international consulting firm Towers Perrin; she is also a Fellow and past President of the Institute of Actuaries of Australia.

The APRA Members formally meet as the Executive Board. The Executive Board meets on a monthly basis, and more frequently as required, to discuss and resolve major prudential policy, supervisory and strategic issues facing APRA. The Executive Board also holds Management Committee and Policy Development Committee meetings with APRA's senior management team weekly. These meetings are used for the high-level exchange of information, and decisions on more routine supervisory, policy or organisational matters.

Information on attendance at Executive Board meetings is provided in Chapter 8 – Statutory Report.

ORGANISATIONAL CHART*



* As at July 2015

RISK MANAGEMENT AND AUDIT

APRA's risk management and audit matters are the subject of oversight by committees that comprise independent non-executive and executive members.

Prior to 1 January 2015, APRA had a single Risk Management and Audit Committee (RMAC). At that time, APRA created separate committees – a Risk Management Committee and an Audit Committee – to ensure adequate focus on issues specific to risk management and to audit. This change also ensured APRA's own practices aligned with APRA's governance requirements for ADIs and insurers.

The Risk Management Committee's role is to assist the APRA Chairman in considering risk management issues affecting APRA and to help raise awareness of risk management issues that could impact APRA and the fulfilment of its mission. The Audit Committee provides independent assessment to the APRA Chairman on financial and performance reporting responsibilities, APRA's systems of internal control, and compliance with applicable laws and regulations.

The Risk Management Committee and the Audit Committee comprise an external chair, an external representative and one APRA Member. The Australian National Audit Office and APRA management representatives are regular attendees at these Committee meetings.

During 2014/15, the Risk Management and Audit Committee met three times and the separate Committees each met twice. In respect to audit related matters, the annual internal audit and external audit plans were reviewed and endorsed, and progress against these plans were monitored by the Audit Committee. The committee also reviewed all internal and external audit reports and provided attestations and advice to the APRA Chairman in relation to its activities, and whether it was aware of any impediments to the signing of the annual accounts. The Risk Management Committee reviewed and endorsed the risk management plan, monitored progress against this plan, received regular risk reports from management and monitored the operation of APRA's Enterprise Risk Management framework.

The members of the Risk Management Committee and the Audit Committee in 2014/15:

Mr W Peter Day

*LLB (Hons), MBA, FCPA, FCA,
CTA, FAICD*

Audit Committee - Chair

Risk Management Committee - Independent member

Peter Day originally joined the RMAC as an independent member in 2008 and assumed the role of Chair from 1 September 2010. With the restructure of the RMAC, Mr Day was appointed as Chair of APRA's Audit Committee on 1 January 2015 for a two-year term. He also remains an independent member of the Risk Management Committee for the same period. Mr Day is a non-executive director of Alumina Limited, Ansell Limited, Boart Longyear Limited and SAI Global Limited. He also serves on the Accounting Professional and Ethical Standards Board. Mr Day was, for seven years until 2007, Chief Financial Officer of Amcor Limited. He is a former Chairman of the Australian Accounting Standards Board, has participated in the setting of international accounting standards and was Deputy Chairman of the Australian Securities and Investments Commission (ASIC) from 1997 to 1999.

Ms Fiona Bennett

BA (Hons), FCA, FAICD, FAIM

Risk Management Committee - Chair

Audit Committee - Independent member

Fiona Bennett originally joined the RMAC as an independent member on 1 January 2011. With the restructure of the RMAC, Ms Bennett was appointed as Chair of APRA's Risk Management Committee on 1 January 2015 for a three-year term. She also remains an independent member of the Audit Committee for the same period. Ms Bennett is Chair of the Victorian Legal Services Board and a non-executive director of Hills Limited, Boom Logistics Limited and Beach Energy Limited. During her executive career, Fiona held senior executive positions at BHP Billiton Limited and Coles Group Limited, and has been Chief Financial Officer in several organisations in the health sector.

Mr Ian Laughlin

APRA Deputy Chairman and Member

Information on attendance at Risk Management Committee and Audit Committee meetings is provided in Chapter 8 – Statutory Report.

CHAPTER THREE / FINANCIAL SECTOR DEVELOPMENTS

'The low interest rate environment is not without its challenges for the financial system. For authorised deposit-taking institutions (ADIs), low interest rates place pressure on margins and ... are impacting on risks within the housing market. A sustained low interest rate environment is also challenging for insurers and superannuation funds.'

FINANCIAL SECTOR DEVELOPMENTS

THE FINANCIAL ENVIRONMENT

Globally, diverging central bank policies, sharp falls in commodity prices and growing uncertainty about economic prospects, particularly in Europe and China, resulted in a number of large movements in international financial markets during 2014/15. Oil prices fell by more than 50 per cent, equity prices in China more than doubled in less than 12 months only to then fall by more than 30 per cent, and volatility in foreign exchange markets was heightened.

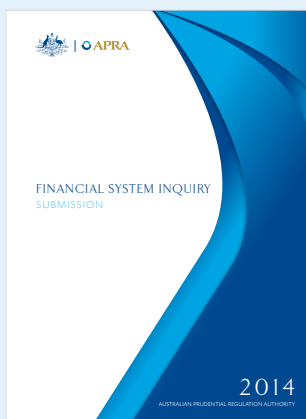
Notwithstanding these developments, bank funding markets were stable for much of the year and spreads on the major banks' unsecured bonds remained around post financial crisis lows. Wholesale funding costs for international banks, including in the UK, Euro-area and the US, were similarly benign.

Domestically, economic growth remains below trend and unemployment slightly elevated, in comparison to recent years. The Reserve Bank of Australia (RBA)

cash rate was reduced by 50 basis points in 2014/15, to 2 per cent, a historic low. This continues to support economic activity in the face of declining mining investment and subdued non-mining investment.

The low interest rate environment is not without its challenges for the financial system. For authorised deposit-taking institutions (ADIs), low interest rates place pressure on margins and, as is discussed in subsequent chapters of this Annual Report, are impacting on risks within the housing market. A sustained low interest rate environment is also challenging for insurers and superannuation funds. Lower returns on invested funds for insurers puts more focus on claims and underwriting results, and for life insurers with investment-linked products, participating business or annuity products, lower returns make these products relatively less attractive for new and existing clients. For superannuation funds, the low return environment makes achievement of return targets within the context of the articulated risk appetite more challenging.

THE FINANCIAL SYSTEM INQUIRY



The Financial System Inquiry (FSI) handed its Final Report to the Australian Government in December 2014. The FSI was charged with examining how the financial system could be positioned to best meet Australia's evolving needs and support Australia's economic growth.

APRA made two submissions to the FSI, the second submission in August 2014. In its Final Report, the FSI found that Australia's financial system has many strong characteristics and performed well through recent changes and challenges, including domestic and international economic crises, regulatory reform, the growth in the superannuation industry, and changes in technology and industry structures. However, the FSI also identified a number of areas for improvement, and the Final Report sought to offer a blueprint for an efficient and resilient financial system over the next 10 to 20 years. It contained 44

recommendations across a range of areas including: the resilience of the financial system; superannuation and retirement incomes; innovation; consumer outcomes; and the regulatory system.

Adoption of these recommendations has the potential to significantly reshape aspects of the financial system. The Government undertook a further round of consultation with industry in the early part of 2015.

APRA looks forward to working with the Government on the many recommendations that are of relevance to its prudential responsibilities.

AUTHORISED DEPOSIT-TAKING INSTITUTIONS

The ADI industry continued to consolidate in 2014/15 (Figure 1a). This continues a trend of increasing concentration evident for the past decade, driven by a combination of the global financial crisis, consolidation in the regional and smaller ADI sectors, and foreign bank branches scaling back in Australia. There are now 161 ADIs, comprising 73 banks, 7 building societies, 75 credit unions and 6 other ADIs. Over the past decade there has been a small but reasonably steady influx of new entrants into the ADI industry, although this has been insufficient in number to offset mergers and exits. New entrants have primarily been foreign-owned ADIs and remain a relatively small part of the industry. As a result, the share of industry assets held by the largest institutions has continued to increase. At the end of June 2015, the assets of the top five ADIs accounted for 79 per cent of industry assets; in comparison, this proportion was 69 per cent a decade earlier (Figure 1b).

Overall the ADI industry has maintained strong and steady profitability in recent years. The industry's return on equity (RoE) has been around 14 per cent per annum over the past decade; in 2014/15, a slightly higher than average RoE of 15 per cent was achieved (Figure 1c). Key drivers of improving profitability in the current environment have included low levels of bad debts and continued cost management measures. Funding market conditions also remained favourable in the past year. These factors have allowed ADIs to maintain overall RoEs even though higher capital requirements have been introduced in recent times.

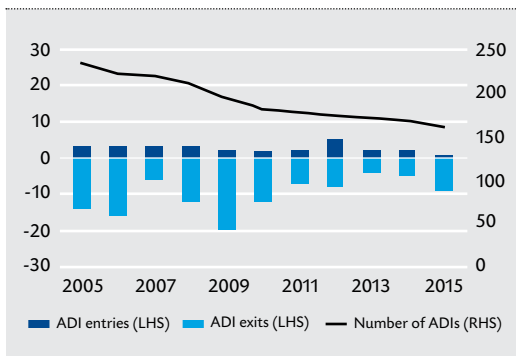
Credit losses have remained at very low levels in recent years, with non-performing loans continuing to decline from their peak in 2010 (Figure 1d). Non-performing loans accounted for 0.9 per cent of gross loans and advances at the end of June 2015, compared with a peak of 2.2 per cent in June 2010 in

the immediate aftermath of the global financial crisis. The declining trend has been driven by ongoing improvements in the asset quality of business portfolios, and in particular commercial property exposures, supported by very low bad debt levels in residential mortgage portfolios. The economic environment has continued to be supportive of these trends over the past year, with low interest rates and rising asset prices facilitating exit from troubled loans on more favourable terms.

Efficiency improvements have been a long-term focus at many ADIs, contributing to their continued strong profitability. This is shown by the trend, over the past decade, of improved cost-to-income ratios in the ADI industry (Figure 1e); this trend continued in 2014/15 with the industry achieving a cost-to-income ratio of 47 per cent. At current levels, the cost-to-income ratios of the major banks compare favourably to those of their international peers.

Risk-based capital ratios in the ADI industry have been strengthened since the global financial crisis (Figure 1f). At end June 2015, the weighted average Tier 1 ratio was 11.3 per cent. The newly-introduced (from January 2013) Common Equity Tier 1 ratio of the industry stood at 9.6 per cent. In both cases, these ratios have steadily increased in recent years, and the industry is now well placed to accommodate the introduction of the new capital buffer regime (including under the domestic systemically important banks (D-SIB) framework) that is being introduced from 1 January 2016 as part of the Basel III reforms. Further strengthening is, however, likely to be necessary to accommodate additional international reforms as well as the recommendations of the FSI.

Figure 1a - Number of ADI entries and exits



Representative offices of foreign banks excluded

Figure 1b - Largest institutions' share of ADI industry assets

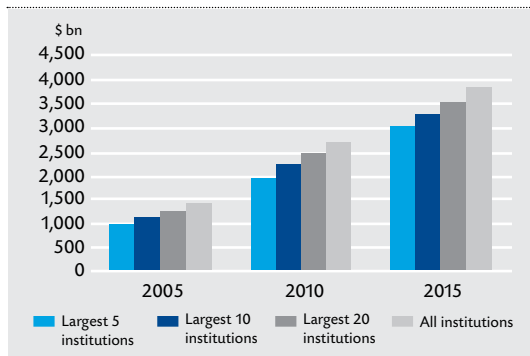
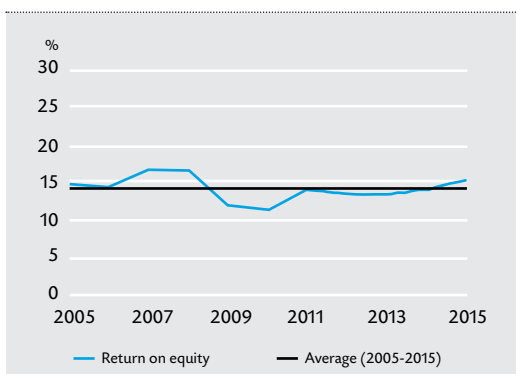


Figure 1c - ADIs' return on equity



Return on equity is net profit (loss) for the year divided by the average shareholders' equity over the year.

Figure 1d - Ratio of ADIs' non-performing loans to gross loans and advances

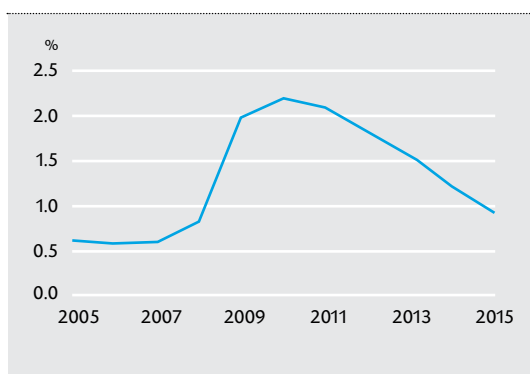


Figure 1e - ADIs' cost-to-income ratio

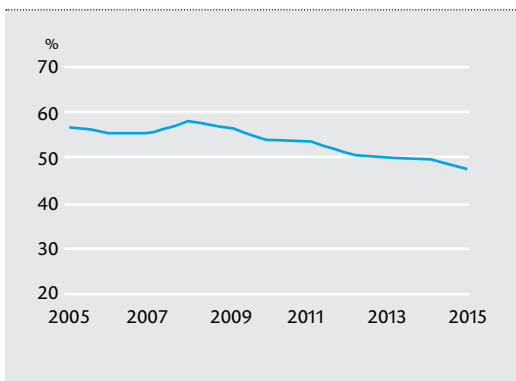
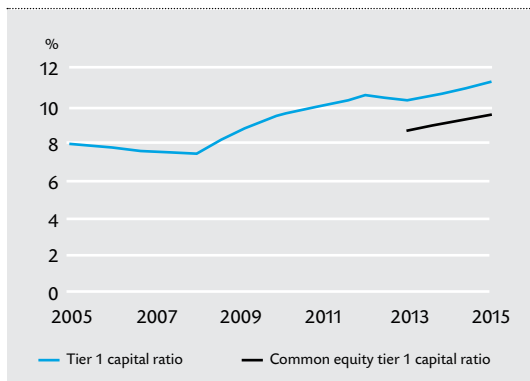


Figure 1f - ADIs' capital ratios



Capital data presented is collected under three different APRA reporting frameworks: the Basel I capital framework prior to 1 January 2008, the Basel II capital framework from 1 January 2008, and the Basel III capital framework from 1 January 2013.

GENERAL INSURANCE

There has been a steady decline in the number of APRA-authorized general insurers and reinsurers in recent years, largely due to mergers and acquisitions, and rationalisation within some insurance groups that held multiple licences arising from past acquisitions (Figure 2a). As a result the industry has become more concentrated, with the five largest insurers accounting for 54 per cent of gross written premium, compared with 42 per cent a decade earlier (Figure 2b). This trend is more evident in the personal lines market than in the commercial lines market, where the market shares of competing insurers are generally lower.

In total, there are 115 authorised general insurers in Australia, unchanged over the past year but a net decline of 18 over the decade. A number of new entrants, particularly APRA-authorized subsidiaries and branches of foreign insurers, have entered the personal and commercial lines markets over the past decade, offsetting the general trend towards consolidation and adding to the level of competition present. The reinsurance market in Australia continues to be highly concentrated, with the two largest reinsurance groups accounting for about 77 per cent of the market.

General insurers' profitability has largely been underpinned by healthy underwriting results and investment income, but also negatively impacted by the global financial crisis and various natural catastrophe events. Over the past decade, the industry has achieved an average return on net assets of 15 per cent per annum (Figure 2c) although more recent years have tended to be below this level because of claims costs from natural catastrophe events (Figure 2d). This was the case for example in 2010/11 with flood and cyclone events in Queensland, and the storm events in New South Wales and Queensland in 2014/15.

There have been some efficiency improvements achieved across the industry, which have aided profitability (Figure 2e). These have been driven by, amongst other things, reductions in operating expenses reported by insurers. On the other hand, underwriting expenses have largely remained unchanged as a portion of net premiums over the last 10 years.

The general insurance industry continues to be well capitalised. Although the overall capital coverage ratio has fallen slightly compared with previous years, at end-June 2015 the ratio stood at 1.7. This reflected the healthy surplus of eligible capital held by most insurers above their minimum capital requirements. The quality of insurers' capital continued to be strong, with eligible capital being predominantly Common Equity Tier 1 capital. Industry profitability has aided the build-up of the surplus capital position, with increased retained profits playing an important role in bolstering the industry's eligible capital in the face of increasing capital needs.

Figure 2a - Number of general insurance entries and exits

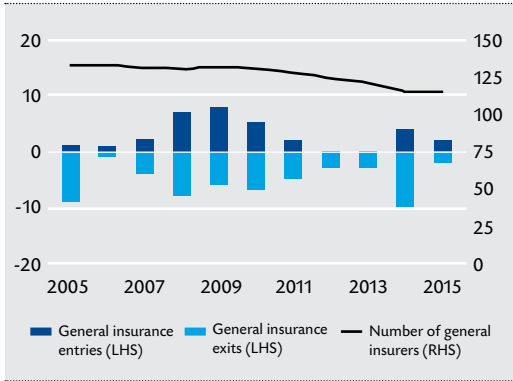


Figure 2b - Largest institutions' share of general insurance industry gross written premium

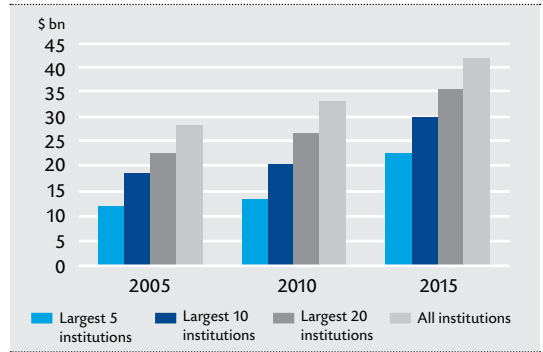
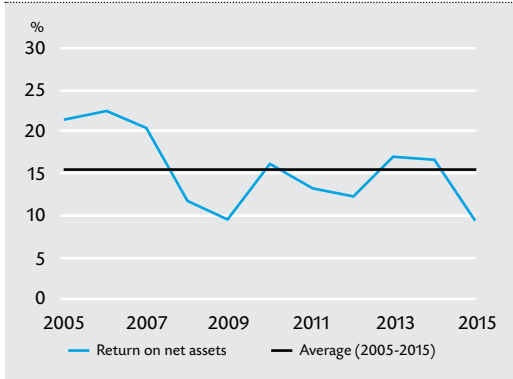
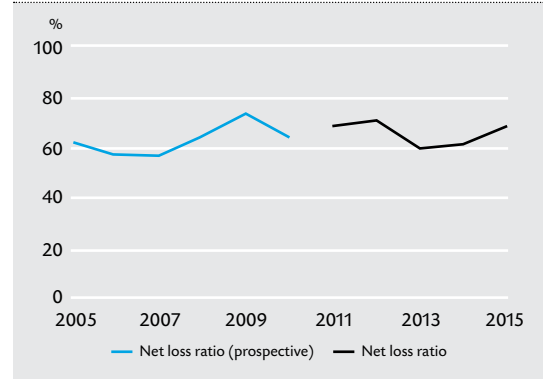


Figure 2c - General insurers' return on net assets



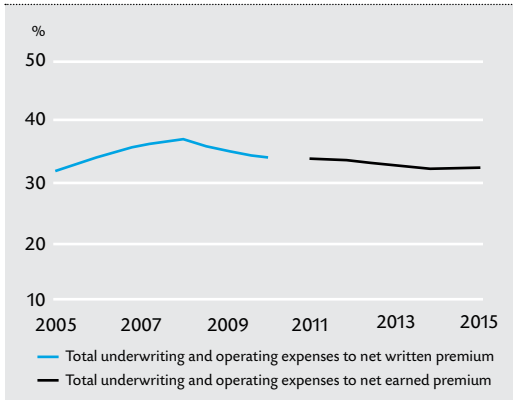
Return on net assets is net profit (loss) for the year divided by average net assets over the year.

Figure 2d - General insurers' net loss ratio



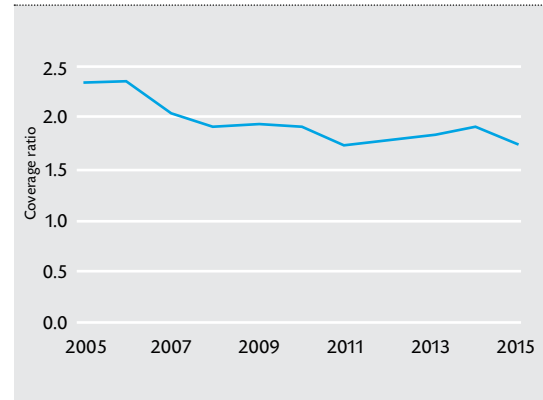
The break in the series is due to a change in reporting framework from 1 July 2010

Figure 2e - General insurers' expense ratio



The break in the series is due to a change in reporting framework from 1 July 2010

Figure 2f - General insurers' capital coverage ratio



From 1 January 2013, data are based on APRA's new capital standards

LIFE INSURANCE

The life insurance industry currently comprises 27 authorised life insurers; a decline of ten insurers over the past ten years (Figure 3a). In addition, there are 12 friendly societies, with total assets of \$6.8 billion, which represent less than 3 per cent of combined life/friendly society industry assets. The consolidation of life insurance licences in the past decade has been a continuation of a steady trend that began around 1990, when the number of licences peaked at 61. Since that time, mutually-owned insurers - which were once the largest life insurers in the market - have largely disappeared, while the banking industry has developed a prominent role in the ownership of life insurance and wealth management businesses more generally. The number of friendly societies has been quite stable over the past two years following an earlier period of rapid consolidation.

The life insurance industry is comprised of a number of distinct groups: 8 large diversified insurers, 4 insurance risk or annuity specialists, 9 relatively small or niche market players and 6 reinsurers. The friendly society industry is dominated by the larger players, 3 of which are part of much larger financial services groups, while 7 friendly societies remain mutually-owned; a number focus on niche products or market segments. The life insurance industry is the most concentrated of the APRA-regulated industries, with the five largest insurers now accounting for 81 per cent of industry assets (Figure 3b). This is little changed from a decade ago when the top five life insurers accounted for 76 per cent of total industry assets.

Although the average return on equity over the past decade of the life insurance industry (15 per cent) is not dissimilar from that of the ADI or general insurance sectors, there has been considerably more volatility in year-to-year results (Figure 3c). Amongst other things, this volatility has been driven by the global financial crisis and, more recently, major problems in the management of risk insurance business. The decline in profitability during the global financial crisis was caused by significant falls in the value of superannuation assets under management, and the resulting declines in fee revenue and investment returns on net assets. After a couple of subsequent years of strong profitability, poor lump

sum disablement claims experience for group risk insurance business generated substantial losses in 2013, with some reinsurers being particularly affected. Experience losses continued into 2014, although the source of the losses shifted somewhat from group to individual disability income business.

Life insurance risk business growth rates in the past were largely due to automatic contractual increases in premium rates rather than new business from new policyholders. Recent premium revenue growth has been underpinned by substantial premium rate increases, particularly in group insurance business, driven by the industry's worsening claims experience in that sector.

Life insurers have significant investment portfolios. In addition, a number of life insurers have products that provide some form of long-term benefit guarantees or allow some policyholders to participate in profits derived from investment returns. As a result, some life insurers are exposed to potential asset-liability mismatches for which they need to hold additional capital ('asset risk charge' in Figure 3d). Following the global financial crisis many life insurers took steps to de-risk their investment portfolios, which in turn has reduced that capital requirement.

Over the past decade, there has been little improvement in overall industry operating efficiency despite its increasing use of technology to administer, underwrite and distribute business (Figure 3e). This could be partially attributed to a need to maintain large books of legacy business, often on earlier generation systems, that can be expensive to administer and difficult to rationalise. The increase in the expense ratio also has reflected reduced margins caused by the poor claims experience in more recent years.

The industry continues to be well capitalised despite the impact of the recent increase in risk insurance claims on industry profits (Figure 3f). Coverage ratios at individual insurers vary significantly across the industry, reflecting the nature of the business mix and risks of each insurer. However, at an aggregate level, the capital coverage ratio of 1.7 reflects a general strengthening of capital buffers relative to minimum regulatory requirements.

Figure 3a - Number of life insurance entries and exits

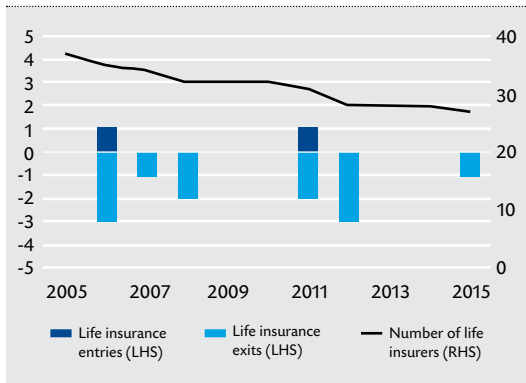


Figure 3b - Largest institutions' share of life insurance industry assets

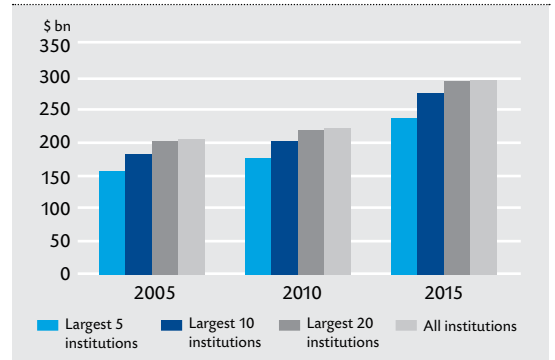
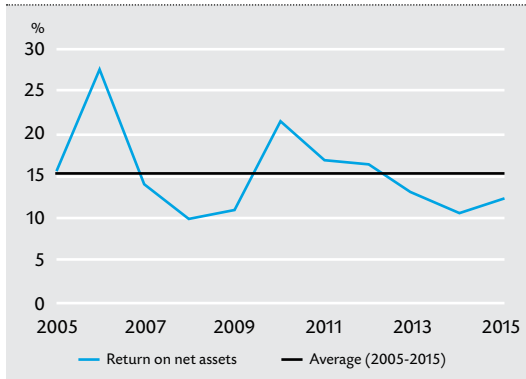


Figure 3c - Life insurers' return on net assets



Return on net assets is net profit (loss) for the year divided by average net assets over the year.

Figure 3d - Ratio of life insurers' asset risk charge to net assets

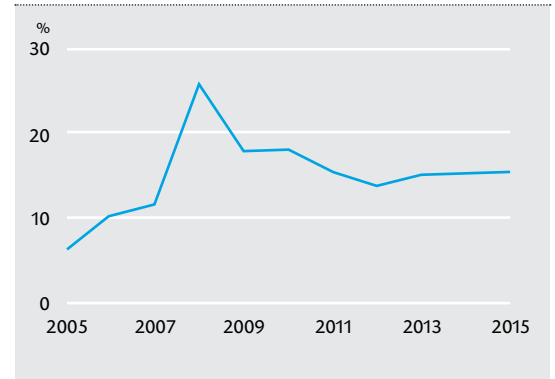


Figure 3e - Ratio of life insurers' controllable expenses to shareholders' margin

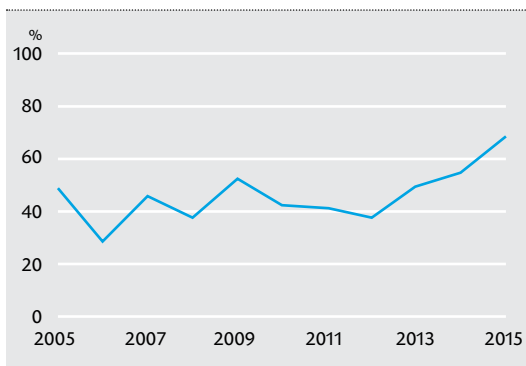
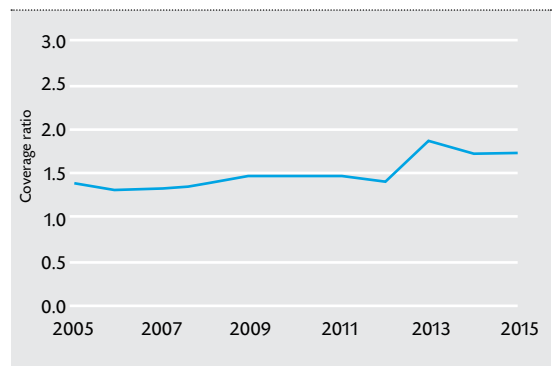


Figure 3f - Life insurers' capital coverage ratio



From 1 January 2013, data are based on APRA's new capital standards

SUPERANNUATION

The superannuation industry has continued to experience a steady rate of consolidation following a significant fall in the number of APRA-regulated superannuation funds in the early part of the past decade (Figure 4a). This trend has been attributed in part to significant regulatory reform, including the licensing of superannuation trustees between 2004 and 2006 and the introduction of prudential standards in 2013. Growing competition and the industry's search for scale have also provided a strong impetus for fund mergers. In particular, the number of corporate funds has declined significantly as they have been subsumed by industry funds and master trusts. At end-June 2015, there were 155 licensed superannuation trustees who were responsible for 247 APRA-regulated superannuation funds with more than four members, and 2,424 small APRA funds (with four or less members). There were also 45 single-member approved deposit funds and 50 pooled superannuation trusts. While the industry has grown substantially in size over the past decade, the consolidation in the number of APRA-regulated superannuation funds has resulted in an increase in concentration in the industry (Figure 4b). The top five funds accounted for 27 per cent of total industry assets at end-June 2015. While this is a relatively low level of concentration compared with other APRA-regulated industries, the corresponding figure a decade earlier was 20 per cent.

Strong long-term investment returns have been underpinned by a significant allocation to growth assets within the industry. The industry has averaged positive returns of slightly more than 6 per cent over the past decade, albeit with a degree of volatility (Figure 4c). Investment losses were sustained by superannuation funds during the global financial crisis, but otherwise returns have been positive in almost all years.

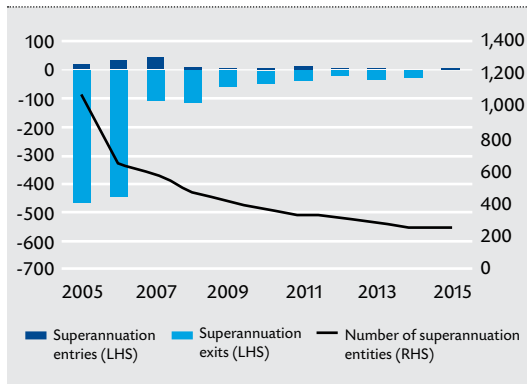
The industry has continued to experience strong growth in invested funds, fuelled by the compulsory nature of the superannuation guarantee contribution. However, benefit payments have been rising at a faster rate than contributions, as reflected

in the upward trend in the net outflow ratio (Figure 4d). This trend is due to Australia's ageing population and a large number of members transitioning from the accumulation phase to the post-retirement phase, and poses ongoing liquidity and investment risks for trustees in meeting their obligations to members. It also means the industry needs to consider the products, advice and education available to fund members as they make this transition. Lump sum payments continue to predominate, but fund members have been withdrawing an increasing proportion of their superannuation savings as pension payments (Figure 4e).

There have been only marginal improvements in efficiency in superannuation funds over the decade because, notwithstanding the benefits of scale-related cost reductions, the cost of enhancements in member services and adapting to regulatory change have added to the industry's cost base (Figure 4f). The realisation of cost reductions from fund mergers have also been less than anticipated.

The industry does not have capital requirements akin to those required of other APRA-regulated industries. However, from 1 July 2013, trustees have been required to hold reserves to mitigate the operational risks of their business operations and have been granted a transition period to implement this requirement. Many trustees have already built up this reserve and APRA is working closely with the rest of the industry to ensure it meets the requirement by 30 June 2016.

Figure 4a - Number of superannuation entries and exits



Only includes APRA-regulated entities with more than four members.

Figure 4b - Largest institutions' share of APRA-regulated superannuation industry assets

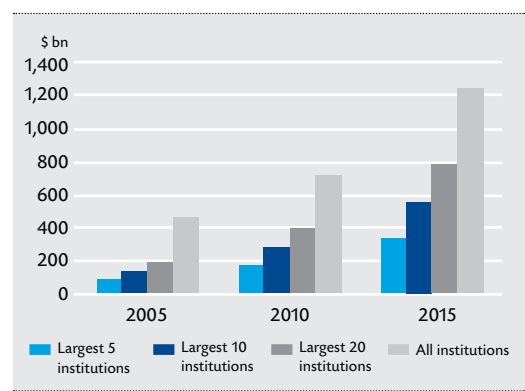
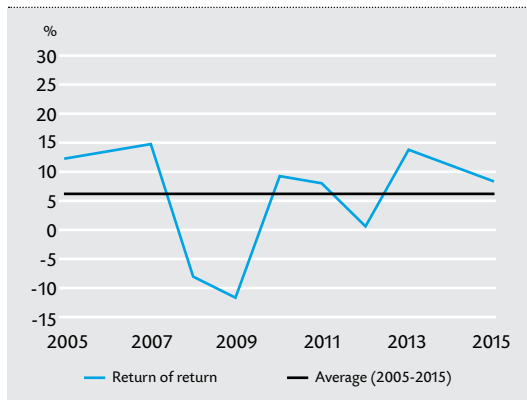


Figure 4c - Superannuation rate of return



Rate of return is net earnings after tax divided by cash flow adjusted net assets.

Figure 4d - Superannuation net outflow ratio

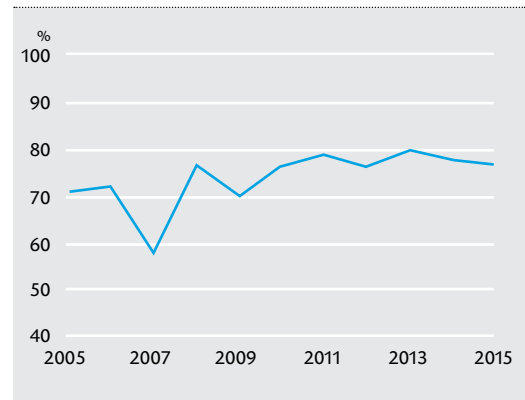


Figure 4e - Superannuation benefit payments

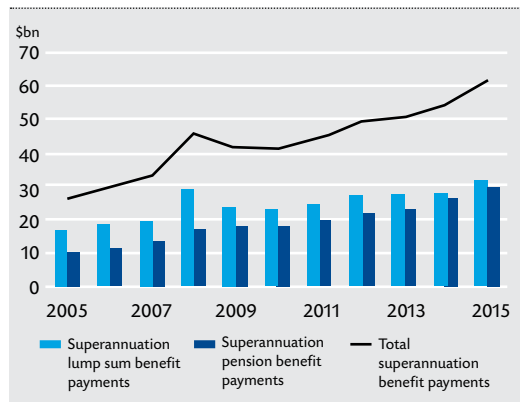
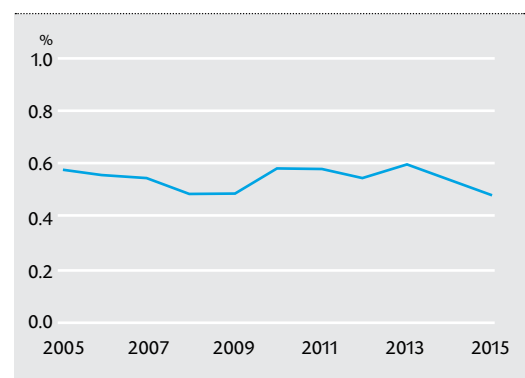


Figure 4f - Superannuation operating expenses as a proportion of cash flow adjusted net assets



APRA-regulated institutions

	Number of entities			Assets (\$ billion) ²		
	30 Jun 14 ¹	30 Jun 15	% change	30 Jun 14	30 Jun 15	% change
ADIs ³	169	161	-4.7%	3,445.3	3,815.2	10.7%
Banks	69	73	5.8%	3,373.3	3,748.3	11.1%
Building societies	9	7	-22.2%	23.5	21.3	-9.6%
Credit unions	84	75	-10.7%	41.3	42.3	2.5%
Other ADIs ⁴	7	6	-14.3%	7.1	3.2	-54.9%
Representative offices of foreign banks	13	15	15.4%			
General insurers	115	115	0.0%	114.4	121.1	5.9%
Life insurers	28	27	-3.6%	282.7	299.0	5.8%
Friendly societies	12	12	0.0%	6.6	6.8	2.2%
Licensed trustees	169	155	-8.3%			
Superannuation entities	2,753	2,766	0.5%	1,116.2	1,245.7	11.6%
Public offer funds	148	147	-0.7%	886.9	1,001.9	13.0%
Non-public offer funds	90	88	-2.2%	221.9	236.6	6.6%
Small APRA funds	2,408	2,424	0.7%	2.1	2.2	5.2%
Approved deposit funds	48	48	0.0%	0.1	0.1	-6.7%
Eligible rollover funds	9	9	0.0%	5.1	4.9	-2.9%
Pooled superannuation trusts ⁵	50	50	0.0%	108.2	137.3	27.0%
Non-operating holding companies	25	25	0.0%			
Total	3,284	3,276	-0.2%	4,965.1	5,487.8	10.5%

Notes:

- 1 Number of entities for end-June 2014 has been revised where better source data has become available.
- 2 Asset figures for end-June 2015 are based on the most recently submitted returns. Asset figures for end-June 2014 have been revised slightly from APRA's 2014 Annual Report in line with the audited returns received during the year.
- 3 The ADI classification does not include representative offices of foreign banks.
- 4 'Other ADIs' includes SCCIs for end-June 2014. The SCCI framework was abolished from 1 January 2015 and SCCIs are therefore not included in 'Other ADIs' for end-June 2015.
- 5 Pooled superannuation trust assets are not included in totals as these assets are already recorded in other superannuation categories.

CHAPTER FOUR / APRA'S ACTIVITIES

'As an integrated regulator with a wide range of responsibilities, APRA was involved in a large number of important issues in 2014/15.'

APRA'S ACTIVITIES

As an integrated regulator with a wide range of responsibilities, APRA was involved in a large number of important issues in 2014/15. These reflected APRA's primary supervisory and regulatory functions, some enforcement-related activity, its role as a national statistical agency for the financial sector, and domestic and international liaison. The key activities in these areas are set out below.

SUPERVISORY AND REGULATORY ACTIVITIES

Authorised deposit-taking institutions (ADIs)

Residential mortgage lending

Building on the initiatives taken in 2013/14, APRA undertook further actions during 2014/15 aimed at ensuring ADIs maintain sound mortgage lending standards.

For most ADIs, lending for housing is the largest loan portfolio on their balance sheet; in aggregate, housing loans account for two-thirds of industry lending. Historically, housing loan portfolios have been low risk in nature. However, in an environment of heightened risk, reflected in the combination of high house prices, high household debt, historically low interest rates, and subdued income growth, APRA considered it particularly important that sound lending standards and moderated growth aspirations were maintained across the industry.

APRA further increased its supervisory intensity in the area by:

- collecting more detailed risk information on larger ADIs' mortgage portfolios, including portfolio compositions and control frameworks;
- conducting a stress test of the 13 largest ADIs, with two scenarios focused on a severe downturn in the housing market (see below); and
- issuing *Prudential Practice Guide APG 223 Residential Mortgage Lending*, which set out sound risk management practices for ADIs undertaking this type of lending. Most ADIs have since assessed their own practices against APRA's guidance and, where necessary, are making improvements.

APRA has also worked closely with member agencies of the Council of Financial Regulators to develop appropriate responses to concerns about emerging imbalances in residential mortgage markets.

In December 2014, APRA wrote to all ADIs emphasising the importance of sound lending standards.¹ This letter identified specific areas of prudential concern, focused on risk profile, investor lending and serviceability assessments.² APRA indicated that, where ADIs' housing loan business was exhibiting indications of higher risk, this was likely to be met with further supervisory action, including potentially higher capital requirements. This approach of targeting individual ADIs undertaking higher risk activities was considered more efficient and effective than applying an across-the-board tightening of regulatory requirements for all ADIs. During the first three months of 2015, ADIs were given the opportunity to adjust their business plans and lending policies to avoid the need for further supervisory action and, where necessary, APRA provided specific feedback to individual ADIs on areas where lending policies or practices would need to be strengthened. All large housing lenders had agreed plans and policies with APRA by the end of the financial year: for some ADIs, significant changes are in the process of being implemented, particularly in regard to serviceability assessments.

APRA's goal in undertaking this work was to improve the quality of new loans being written, and these changes have led to a strengthening in industry mortgage lending practices. For example, in order to ensure there is no assumption that the current level of historically low interest rates will be maintained, interest rate buffers and floors have been strengthened in line with APRA's guidance. These rates will also be applied to existing debts, which previously had not been standard industry practice. Many ADIs have also made other significant changes to serviceability, including more prudent assumptions on borrower income and expenses.

All large ADIs with material investor loan portfolios have also committed to operate at or below APRA's 10 per cent growth benchmark in the period ahead. The acceleration in the growth in investor lending through 2013 and 2014 was contributing to an

¹ www.apra.gov.au/MediaReleases/Pages/14_30.aspx.

² In conjunction with this initiative, ASIC announced an investigation into interest-only lending. See ASIC 2014, Media Release 'ASIC to investigate interest-only loans', 9 December.

emerging imbalance in housing lending markets and, given the strong competition for this business, had the potential to drive a further weakening of credit standards. The 10 per cent growth benchmark was intended to generate some moderation in the plans of those ADIs looking to grow particularly rapidly, without unduly slowing growth across the industry as a whole.

At the end of 2014/15, the growth in investor lending remained marginally above the 10 per cent benchmark. However, there has been a moderation in the previous strong upward trajectory. Assuming ADIs broadly meet their plans and investor lending continues to grow at around 10 per cent, this type of lending will still be the fastest growing of the major classes of credit for the foreseeable future, and will be growing at, in broad terms, around twice the rate of nominal GDP.

Continuing scrutiny of mortgage lending will continue to be a key feature of APRA's supervision activities in 2015/16.

Liquidity

On 1 January 2015, APRA implemented a new quantitative liquidity risk metric, the Liquidity Coverage Ratio (LCR). The LCR was a key component of the Basel III package of reforms developed by the Basel Committee on Banking Supervision (BCBS), and represents the first internationally-agreed standard for liquidity risk. The standard is designed to ensure that ADIs have sufficient high quality liquid assets (HQLA) to survive a stress scenario lasting 30 days.

In Australia, the LCR was implemented through amendments to *Prudential Standard APS 210 Liquidity* (APS 210). Under the standard, a select group of large locally-incorporated ADIs must maintain an LCR in excess of 100 per cent (i.e. must have sufficient HQLA to meet net cash outflows under a period of stress).

To facilitate the introduction of the standard given the shortage of eligible HQLA in Australia (due to the paucity of Government debt available for banks to hold), the Reserve Bank of Australia (RBA) created the Committed Liquidity Facility (CLF). The CLF allows ADIs to establish, in return for a fee, a committed Australian dollar liquidity line with the RBA to help cover any shortfall between an ADI's holding of Australian dollar HQLA and the

requirement to hold such assets under the LCR. As part of the process for establishing such a facility, APRA must assess the extent to which an ADI has taken all reasonable steps to meet its liquidity needs before resorting to the CLF. In November 2014, APRA announced that it had approved – and the RBA had agreed to provide – CLFs for fourteen ADIs totalling \$275 billion.

Following further adjustment to APS 210 in late 2014, APRA determined that foreign bank branches operating in Australia must maintain an LCR in excess of 40 per cent, but would not have access to the CLF.

Stress testing

Stress testing has continued to be a key supervisory focus over the past year for the ADI sector. In November 2014, APRA announced the results of the 2014 ADI industry stress test. The aim of this test was to assess large ADIs' resilience to a severe downturn in the Australian housing market, within the context of a broader adverse shock to economic activity.

Two broad scenarios were utilised:

- a sharp decline in GDP growth to -4 per cent with, amongst other things, house prices falling by almost 40 per cent; and
- a fall in housing prices driven by a significant rise in interest rates.

Despite the severity of both scenarios, ADIs were able to withstand the stress period, albeit with material losses on loan portfolios and a significant impact on capital ratios. That outcome reflects the strengthening in capital ratios at an industry level over the past five years. However, it is not grounds for complacency. Almost all ADIs in the exercise projected that they would fall well into the capital conservation buffer range and would therefore be severely constrained on paying dividends and/or bonuses in both scenarios. For some ADIs, the conversion of Additional Tier 1 instruments would have been triggered as losses mounted. More generally, ADIs with substantially reduced capital ratios would be severely constrained in their ability to raise funding (both in availability and pricing), and hence in their ability to advance credit.

Beyond the need for the continued development of stress-testing capabilities – by both APRA and the industry – this result underlined the importance of further developing recovery planning. Robust recovery plans are critical to ADIs not just surviving a period of adversity, but being able to continue to provide their essential payment and intermediation services to the community. Developing and maintaining robust and credible recovery plans by ADIs will be a key area of focus for APRA in the year ahead.

New Basel III-related disclosures

In September 2014, APRA released a consultation package on three proposed new disclosure requirements. These proposals were consequential changes, stemming from the post-crisis strengthening of the international regulatory framework by the BCBS.

Complementing stronger capital adequacy and liquidity standards, disclosure requirements are designed to improve market discipline and transparency by providing consistent information about ADIs' key risk metrics to market participants. The new disclosure proposals covered:

- the Basel III leverage ratio, which APRA proposed should be disclosed by ADIs with approval to adopt an internal model approach to capital adequacy for their credit risks;
- the LCR, which APRA proposed should be disclosed by all locally-incorporated ADIs subject to the LCR regime; and
- the indicators used by the BCBS to identify global systemically important banks (G-SIBs), which APRA proposed should be disclosed by the four major banks. These banks currently participate in the annual G-SIB data collection and assessment process conducted by the BCBS and hence have the data readily available for disclosure.

After taking into account comments received on the proposals, APRA finalised new disclosure requirements in May 2015. The requirements took effect on 1 July 2015.

As part of this consultation process, APRA also made a number of minor amendments to its prudential standards to rectify minor deviations from the Basel framework identified during the BCBS's 2014 Regulatory Consistency Assessment Programme review of Australia.³

³www.apra.gov.au/AboutAPRA/Publications/Pages/Special-publications.aspx.

Banking exemptions for Registered Financial Corporations

In November 2014, APRA released its final position on proposed changes to the banking exemption order for Registered Financial Corporations (RFCs), which includes restrictions on the use of certain terms by RFCs and a requirement that retail debenture offers have a minimum 31-day maturity. These changes strengthen the regulation of RFCs that issue debentures to retail investors, and will assist retail investors to more easily distinguish between 'bank-like' products offered by RFCs and deposit products offered by ADIs.

The revised exemption order provided for a phase in of the new requirements. The requirement for a minimum maturity of 31 days for new retail debenture products took effect from 1 July 2015. For existing retail debenture products in existence at 30 June 2015 that did not meet this requirement, RFCs can continue to operate these products without change until 31 December 2015. In addition, APRA required the prudential supervision warning to be updated by 1 January 2016 to include a statement that RFC products are not covered by the Financial Claims Scheme (FCS), which applies only to deposits held in protected accounts of ADIs.

General insurance

Pricing risk in commercial lines

In 2014/15 APRA continued to review pricing risk in the commercial lines classes of business. The review focused on ascertaining whether there was any evidence of aggressive pricing strategies and/or inadequate pricing in commercial lines based on data available to APRA.

The review found that increases in the level of reinsurance capacity continued to result in heightened levels of price competition in the market for commercial lines insurance, particularly for large corporate risks in the fire and industrial special risks (ISR) class of business. The risk for insurers in such an environment is that premiums fall to levels which expose them to large unexpected losses should their claims experience significantly deteriorate. The results from the review have fed into ongoing supervisory engagement with insurers on their pricing strategies. Further work is also planned to gauge the effectiveness of commercial lines insurers' governance of pricing and in particular, the oversight of pricing management and controls.

Natural catastrophe claims and reinsurance management

APRA supervisors continued to monitor insurers and reinsurers management of reserving for outstanding claims from the Christchurch earthquake events in 2011. A significant amount of claims remain outstanding, raising capital requirements for insurers where the recoverable reinsurance amounts associated with these claims are owing from non-APRA authorised reinsurers.

It is important that insurers have robust reinsurance programmes in place to assist in managing the impact of claims from natural and other catastrophe events. APRA therefore continued to give attention to improving industry catastrophe risk governance and the management practices applied when determining catastrophe reinsurance needs, including the use of catastrophe models. In reviews conducted during 2014/15, there was evidence of improved practices by some insurers with:

- increases in the amount of reinsurance purchased to reflect the inherent uncertainty in catastrophe modelling output;
- the use of multiple brokers to obtain a range of views on model output;
- a strengthening in board education; and
- improvements in the standard of documentation.

Insurance liability valuation

In February 2015 APRA released its latest report on the range of risk margins adopted by insurers in their valuations of insurance liabilities. The reserves held as a result of these valuations have a direct impact on the financial soundness of insurers, and it is important that insurance liabilities, including risk margins and diversification benefits, are valued in an appropriate manner. The results from the report showed that risk margins and diversification benefits adopted by insurers were generally in line with expectations.

Assets in Australia

During the year APRA wrote to general insurers outlining APRA's views on payment clauses contained in reinsurance contracts in the context of the 'assets in Australia' requirements in the *Insurance Act 1973*. Feedback from the general insurance industry generally acknowledged APRA's views on payment and intermediary clauses contained in reinsurance contracts, and strongly supported a proposal

by APRA to make a determination that certain reinsurance recoverables are assets in Australia for the purposes of the Act. The determination was subsequently made, with effect from 1 July 2015. APRA also reminded insurers of the need to ensure compliance with the Act at all times.

Insurance liability valuation reports (ILVR)

In April 2015 APRA issued a consultation letter to the industry regarding the annual requirement for general insurers to obtain an external peer review of their ILVR. Reducing this requirement had been identified as a potential regulatory cost saving in APRA's February 2015 *Update on regulatory cost savings*. In its consultation letter, APRA proposed to replace the mandatory annual requirement with a provision allowing APRA to request an external peer review where it is considered necessary on prudential grounds. APRA is currently considering the consultation feedback on this proposal.

Low interest rate environment

An area of continued supervisory focus during the year was monitoring the effectiveness of insurer's risk management frameworks, in particular to ensure they highlight in a timely manner any changes in risk profiles arising from the low interest rate environment. Low interest rates continue to negatively impact the investment income generated on insurers' fixed interest investment portfolios. To date, most insurers have not changed their conservative investment strategies in response, with investments at an industry level still largely being held in cash and interest rate securities.

Life insurance and friendly societies

Group risk business

APRA undertook several significant pieces of supervisory work in 2014/15 to encourage the life insurance industry to promptly and comprehensively address the underlying causes of poor experience in group risk insurance.

APRA continued to closely monitor group lump sum risk business (in particular total and permanent disability (TPD) insurance). This business recorded significantly improved financial results in the year to June 2015 compared with the previous corresponding period; of particular note, profits were reported for the final three quarters of the financial year. Nevertheless, group disability income business

remained problematic and incurred a loss for the year (as well as recording losses for each quarter throughout the year).

There is broad agreement among insurers and trustees as to the underlying reasons for these losses. These include:

- record amounts of default cover being made available without underwriting;
- a weakening of underwriting controls for optional levels of cover, and automatic acceptance of incremental increases in cover without the need for medical tests;
- the complexity of TPD benefit definitions, resulting in some types of claims being admitted that arguably may not have been intended to be covered by the policy wording;
- changing community attitudes to mental health, leading to a higher prevalence of claims for stress-related illness;
- more claims now being subject to the involvement of lawyers on behalf of claimants;
- superannuation fund member awareness of life insurance cover available through superannuation, leading to a higher propensity to claim; and
- failure to match the greater complexity of the claims environment with development of adequate pools of experienced claims staff.

APRA's supervisory activities identified that life insurers have made considerable efforts to address many of these issues. For example, a series of significant premium increases for many group risk schemes has had the intended effect of restoring short-term profitability. These increases, however, do not address the structural reasons that led to the underlying problems, and have produced an unexpected increase in the cost of insurance for superannuation fund members.

A number of insurers, working with superannuation funds, have also modified their approach to providing additional levels of cover, both by reducing automatic acceptance levels and tightening the application of underwriting requirements for large sums insured. Assumptions of future claims incidence and amounts have been revised by most insurers to recognise the experience prevalent in more recent years. In some cases benefit definitions have been modified

to tighten eligibility for future claims by new, and in some cases existing, members.

Most insurers have undertaken claims improvement projects in order, for example, to ensure claims are paid in accordance with policy definitions; and also to speed up claims assessment (the latter in light of evidence that faster intervention in claims and a focus on a 'return to work' strategy leads to better outcomes for both insureds and insurers). More generally insurers and reinsurers have continued to review and seek to improve product design, pricing assumptions and claims management.

On the other hand, APRA has observed that benefit definitions remain complex in many policies. A number of insurers are working with trustees to review benefit definitions, but this may occur over a number of years. APRA remains of the view that modernisation of benefit design and definitions is a critical aspect of developing sustainable group risk products, and great stability in pricing and should occur as soon as practicable.

Reinsurance capacity for group business also remains tight. Reinsurers have been cautious on quoting for schemes for which they are not already 'on risk' and, as a result, insurers have increasingly considered obtaining cover from foreign (i.e., non-APRA authorised) reinsurers, although APRA's prudential requirements limit the recognition for regulatory capital purposes of cover from such sources.

In 2014, APRA sought information from life insurers and reinsurers describing how they had responded to deteriorating conditions in the group risk market over the past few years. In May 2015, APRA provided the industry with its analysis of the information requested. Unsurprisingly, the information provided indicated that those insurers who comprehensively analysed and identified deteriorating market conditions earlier generally fared better than those who had been slow to act.

APRA is of the view that a strong risk management framework, an effective risk appetite statement and an appropriate use of the Internal Capital Adequacy Assessment Process (ICAAP) were vital and valuable tools in assisting insurers to monitor and respond to the experience in the group insurance market. Overall, APRA observed that the success of the insurer's response to the worsening market conditions reflected the effectiveness of enhanced oversight by the board.

APRA also identified that there appeared to be room for improvement in integrating actions taken, and in particular changes to best estimate assumptions, in response to poor experience with reconsideration of capital buffers and triggers.

In the past year, APRA has further strengthened the coordination of its supervisors across the life insurance and superannuation sectors. This is intended to help ensure that life insurers, reinsurers and superannuation fund trustees are working together to identify and resolve the issues affecting the group risk market. Throughout, APRA's message to life insurers and reinsurers has been that boards must ensure they understand adequately the risks they incur in group insurance business, and that risk management processes are adequate for the uncertainties in this line of business.

Individual business

During the year APRA continued to closely monitor individual business experience across life insurers and to discuss areas of deterioration with insurers. While individual lump sum risk business recorded a profit for the period to 30 June 2015, this positive result was offset by a significant worsening of experience for disability income products.

The life insurance industry has indicated to APRA that analysis and studies of individual disability income experience are underway but as yet few firm conclusions have been reached as to the underlying causes of the deteriorating experience in this class of business. APRA will continue to engage with life insurers to ensure the industry identifies and takes action to address the causes of this deterioration.

Stress testing

APRA's first industry-wide stress test for life insurers commenced in 2014/15. Eight life insurers, representing approximately 70 per cent of the industry by premiums and assets, will participate in the stress test. APRA's objectives for the test are to:

- make a quantitative assessment of the resilience of selected insurers to adverse scenarios;
- support insurers to develop further their stress testing capabilities; and
- support APRA's ongoing task of identifying current and emerging risks.

During 2015, APRA has engaged collectively and individually with the eight insurers to discuss the overall stress-testing program and insurers' capability to undertake APRA's stress test. The actual stress test scenario will be finalised and provided to the eight selected insurers with a view to their returning the stress test results to APRA in late 2015, for APRA analysis in the early part of 2016. APRA will provide feedback to the eight selected insurers, and industry more broadly, at the conclusion of the exercise.

Appointed Actuaries

During 2014/15, APRA continued to engage with the Actuaries Institute (AI) and Financial Services Council (FSC) to consider feedback on the role of the Appointed Actuary in the life insurance industry. This has arisen due to the perception in some quarters that the role of Appointed Actuaries may have evolved in such a way as to become narrower and overly compliance-focused.

Both the AI and FSC commissioned work to consider a range of issues in this regard. APRA sees the role of the Appointed Actuary as vital to a healthy industry. Accordingly, APRA has commenced a corresponding review of prudential requirements that affect Appointed Actuaries. The APRA review will take on board the work already done by the AI and FSC, as well as further submissions that may be received. The goal of this review is to ensure the Appointed Actuary role continues to have the wide-ranging perspective on the business and financial strength of a life insurer that is envisaged by their responsibilities under the *Life Insurance Act 1995*.

Superannuation

Bedding down of recent reforms

Much of APRA's supervisory activity over the 2014/15 year in relation to superannuation were directed towards review of the industry's efforts to implement a range of recent reforms, including MySuper and the APRA prudential standards introduced in 2013. APRA has been, in particular, reviewing the robustness of the approach being taken by Registerable Superannuation Entities (RSE) licensees to ensure ongoing compliance, particularly with the enhanced obligations for RSE licensees offering MySuper products. APRA's regular programme of prudential reviews have been focused

on ensuring that the prudential standards have been appropriately adopted, and that superannuation trustees are giving appropriate consideration to the better practices identified in prudential guidance. APRA supervisors were also closely engaged with the industry on implementation of the revised data collection requirements, including providing detailed feedback to promote improvements in data quality and understanding of new requirements.

Governance and risk management

Over the course of 2014/15, APRA stepped up its engagement with boards to ensure that the industry embraces the spirit and the intent of the new *Prudential Standard SPS 510 Governance*. In assessing the implementation of this standard, APRA seeks to observe evidence that trustee directors are actively engaged and informed in their duties and have a sound understanding of material issues confronting the funds under their oversight. Trustees should be proactively involved in all aspects of key decision-making and contribute independently and constructively to the board's collective decision-making. Boards should be able to demonstrate their strong oversight of policies and processes implemented by management and the manner in which they satisfy themselves that these are operating effectively.

A review of remuneration disclosure during the year indicated a number of anomalies and errors in remuneration reporting to APRA. The disclosure of director and executive remuneration is an important element of the enhanced transparency obligations of the superannuation industry, and APRA will continue to monitor disclosure of director and executive remuneration to ensure it is complete and accurate.

APRA has continued its close attention to risk governance in superannuation. The introduction of *Prudential Standard SPS 220 Risk Management* from 1 July 2013 imposed a requirement on boards to develop and implement a robust risk management framework. While many RSE licensees have taken steps to meet APRA's expectations, industry practices continue to evolve, particularly in terms of how RSE licensees define and achieve a robust risk culture. APRA has noted that some RSE boards have yet to develop a sound understanding of the differences between risk management and compliance.

APRA's supervision activities also found there is scope for boards to further enhance risk appetite statements to achieve more balance between qualitative and quantitative assessment of risk. APRA expects boards to ensure that risk appetite and risk tolerance form part of a board's strategic considerations, planning and decision-making and are embedded in an RSE's operations.

The focus on governance-related matters will continue in 2015/16 and beyond.

Conflicts of interest

During 2014/15, APRA concluded a thematic review to assess the industry's progress towards implementation of the requirements of *Prudential Standard SPS 521 Conflicts of Interest*. The review revealed significant differences in the quality of management of conflicts across the industry and the need for many RSE licensees to improve their practices.

In March 2015, APRA issued a letter to the industry which outlined the findings from the review and APRA's expectations of RSE licensees in relation to management of conflicts. The review indicated that RSE licensees with a less robust risk culture and Risk Management Framework (RMF) tended to adopt a minimalist approach to implementing the prudential requirements, rather than seeking to genuinely meet the spirit and intent of the new standards. As one example, some RSE licensees were taking a very narrow interpretation of conflicts management, where the focus centred only on the directors and there was little evidence of consideration of conflicts beyond those individuals (e.g. other responsible persons or where the conflict arose because of a relationship between the RSE licensee and a related service provider).

Other weaknesses highlighted by the thematic review were poor recognition of related party conflicts, poor conflicts management practices (including registers which were deficient or out of date) and a lack of challenge or review from other independent or expert parties. Overall, the review indicated that implementation of the requirements is still in its early stages and further steps need to be taken by many RSE licensees to improve their conflicts management practices to meet the requirements of the prudential standard.

Insurance in superannuation

During 2014/15 APRA also undertook a review of insurance in superannuation focused on changes superannuation trustees have implemented in order to meet the requirements of *Prudential Standard SPS 250 Insurance in Superannuation* (SPS 250). This review examined the adequacy of governance practices in relation to the provision of insurance benefits to superannuation fund members and the manner in which RSE licensees have been responding to the challenges presented by the current environment and implementation of the new insurance governance prudential requirements.

The review indicated that the industry has made substantial progress in implementing the requirements in SPS 250 and related guidance, and in addressing the broader market pressures with a view to improving the sustainability of insurance arrangements.

However, insurance data management was identified as one of the weakest areas during the thematic review, with detailed, accurate and timely insurance data generally lacking across the superannuation industry. APRA is encouraging RSE licensees to actively consider their current and future insurance data needs and develop a data management framework to support sound data management processes.

SPS 250 requires trustees to maintain records of sufficient detail so that a prospective insurer can properly assess the insured benefits made available. This data must be available for a minimum period of five years, and the requirement must be met in full by 1 July 2016. Trustees appear to still have considerable work to do to meet this requirement and APRA has been urging insurers to engage with trustees on this issue to ensure that appropriate data requirements are specified and data is captured comprehensively and in a timely fashion.

The review also indicated that the insurance management frameworks developed to meet the requirement under SPS 250 tended to be compliance focused, and RSE licensees needed to ensure that the framework is better integrated within their business operations. In addition, the review identified the need for greater scrutiny of insurance benefit design to ensure sustainability and its appropriateness for the members of the RSE licensee's funds. APRA expects that reviewing and, where appropriate, refining insurance benefit design will be an ongoing area of focus.

Investment governance

The superannuation industry has been giving considerable attention the implementation of *Prudential Standard SPS 530 Investment Governance* (SPS 530). APRA's supervisory reviews have indicated that many RSE licensees have embraced the new standard and have taken steps to improve their practices to meet the enhanced expectations set out in the prudential standard. In this regard, boards have generally improved their approach to setting investment objectives, implementing investment strategies and monitoring performance of strategies against objectives. Weaknesses continue to exist in some funds, however, including a lack of understanding of underlying investments, an over-reliance on service providers and significant weaknesses in their investment governance and risk management frameworks. In terms of investment strategies themselves, APRA's supervisory attention focused particularly on RSE licensees, understanding of the risks associated with the larger allocation to overseas assets that has occurred in recent years, and the increasing use of lifecycle investment strategies, and ensuring these were being effectively managed.

APRA's supervisors continued to be involved in assessing outsourcing and offshoring arrangements, as trustees look for greater efficiency and return in administration and investment arrangements. More recently, a number of larger entities have moved to bring some operations in-house and APRA has been involved in assessing the risk management approach taken and the adequacy of resources required for such arrangements. There is a need for the industry, when undertaking significant change programs such as these, to be diligent in ensuring there is no lessening of the quality or timeliness of these activities during and after they are brought in-house. In particular, investment selection and governance requires careful ongoing attention in this regard. A focus on governance at the investment option level has resulted in closer attention to platform providers and other multi-option funds, including reporting and monitoring of the options provided and the governance practices adopted by RSE licensees in making options available to members and removing them when they do not continue to meet trustee selection criteria. The requirement to undertake portfolio stress testing is relatively new to the industry and more work is needed to fully and effectively implement this requirement.

Liquidity management

A range of factors necessitate sound liquidity management by RSE licensees, including the transition of an increasing number of members from the accumulation to the retirement phase, the outflow of funds to the self-managed sector, the growing allocation to illiquid assets such as infrastructure in funds' investment portfolios, and the requirement for rollovers to be processed within three days. APRA's review work has indicated that many RSE licensees appear to have difficulty defining a 'liquidity event' and appropriately considering the liquidity profile of different assets in their liquidity stress test assumptions and modelling.

There is considerable variation in the liquidity management practices adopted by RSE licensees and, in some cases, inadequate understanding of what is expected to meet the requirements in the prudential standard in this area. APRA commenced a liquidity stress-testing thematic review in 2014/15 to gain greater insights into liquidity management and stress testing practices, and to assess these against the requirements and expectations set out in SPS 530. Some of the areas of focus for this review include the linkages between the results of liquidity stress testing and liquidity contingency planning and investment decision-making processes.

Superannuation reporting standards

APRA's superannuation policy-related work in 2014/15 largely focused on refinements to the suite of superannuation reporting standards released over the previous two years. In April 2015, APRA released a consultation package which included a discussion paper and 31 superannuation reporting standards. Twenty six of these reporting standards contained minor amendments which incorporated material previously published by APRA on its website in the form of Frequently Asked Questions. The remaining five reporting standards included more substantial proposed changes and were released for consultation: these related to reporting on investment and disclosure-related reporting. The 26 reporting standards which were the subject of minor revisions were released as final in June 2015 given the minor nature of these changes.

Developments relating to other agencies, including consultation by the Australian Securities and Investments Commission (ASIC) on disclosure requirements and consultation by the Australian Bureau of Statistics (ABS) on its ongoing data

requirements, also influence APRA's reporting standards. As a consequence, APRA will continue to work with ASIC and the ABS on the five reporting standards which were the subject of consultation, with these reporting standards expected to commence in 2016.

Fraud risk management

In June 2015, APRA issued *Prudential Practice Guide SPG 223 Fraud Risk Management*. It provides guidance on APRA's expectations for the treatment of fraud risk in an RSE licensee's risk management framework. The guide outlines sound practices in relation to the management of fraud risk, both internal and external, throughout an RSE licensee's business operations. It highlights the need for RSEs to have a comprehensive fraud risk management framework as part of their overall risk management framework.

Cross-industry activities

Governance, risk management and boards

In October 2014, APRA released *An Aid for Directors of ADIs and Insurers*. The purpose of this Aid was to assist directors' understanding of the additional responsibilities and duties that come with being on the board of an APRA-regulated entity. This release was prompted, in part, by feedback received by APRA in recent years that, in some areas, APRA requires board involvement in matters which are more appropriately the responsibility of management. That was not APRA's intent.

When releasing the Aid, APRA noted its intention to review its requirements of boards to ensure they are communicated in a way that properly recognises the respective roles of the board and management. As the Aid notes, '*APRA does not expect that, in meeting these additional obligations, the board takes on responsibilities that fall within the province of management under generally accepted practice*'. APRA also noted it will make amendments to some of the existing suite of prudential standards as opportunities permit.

After considerable consultation, APRA issued *Prudential Standard CPS 220 Risk Management (CPS 220)* and the associated guidance CPG 220 Risk Management in December 2014. The standard came into effect on 1 January 2015. It consolidated and enhanced APRA's prudential risk management requirements (which had previously been spread across a range of standards) with increased emphasis on sound governance, robust risk management practices and the need for attention

to the institution's risk culture. The standard also harmonised requirements across the banking and insurance industries, applying to all ADIs, general and life insurers, and authorised non-operating holding companies (authorised NOHCs). The superseded *Prudential Standard GPS 220 Risk Management* and *Prudential Standard LPS 220 Risk Management* were revoked.

Crisis management

A number of activities were undertaken in 2014/15 to test the readiness of APRA-regulated institutions, APRA and the member agencies of the CFR to respond to a financial failure or crisis in an APRA-regulated entity.

The implementation of *Prudential Standard APS 910 Financial Claims Scheme* continued throughout 2014/15 and is expected to be completed by the end of 2015. ADIs were required to test that they could provide a file in the correct format to APRA's paying agent, the RBA, to ensure that FCS payments could be made if required. This initial payment file testing has now been completed.

APRA's ADI stress-testing exercise (see above) highlighted the need for further development of institutional recovery plans. It identified that, in considering actions to rebuild capital in the stress scenario, links to recovery plans were not made or were inconsistent. In light of this, and to incorporate lessons learnt from its readiness exercise, APRA has continued to develop its supervisory framework for recovery planning. The work is focused on exploring ways to enhance institutional recovery plans and to engage with ADIs to review and enhance their recovery planning practices. Some of these lessons will, over time, have applicability to other regulated industries.

APRA continued its work on resolution planning along with the members of the CFR. The work primarily involved exploring resolution options for a distressed ADI, including identifying areas where enhancements to APRA's crisis management powers may be required. APRA has also continued to work closely with New Zealand agencies on trans-Tasman crisis management arrangements, under the auspices of the Trans-Tasman Council on Banking Supervision.

APRA also undertook both internal (for different APRA-regulated industries) and cross-agency

(for ADIs) simulation exercises to test its capacity to respond to crisis scenarios. These activities generated enhanced analysis tools and processes, improved internal and external communications, and identification of legislative and other barriers to dealing effectively with institutions in severe distress. The strengthening of APRA's preparedness for financial failures in institutions has been identified as a strategic priority for 2015/16.

Financial conglomerates

In August 2014, APRA released a framework for the supervision of conglomerate groups (the 'Level 3 Framework'). The release was intended to allow relevant stakeholders, and most significantly the eight directly affected conglomerate groups, to be brought up to date with APRA's latest thinking, and to make submissions on the matter to the FSI if they wished to do so.

In light of the FSI's review of the regulatory regime more broadly, and specific consideration of issues such as corporate structures and ring fencing, APRA concluded it was appropriate to await the final recommendations of the FSI and the Government's response to them before deciding on the effective implementation date, and the final form, of the framework.

Shared computing services and cyber security

In response to feedback from industry representatives, APRA prepared an information paper outlining prudential considerations and key principles in relation to outsourcing involving shared computing services, including 'cloud computing'. This was published in July 2015.

The paper used the term 'shared computing services', whether labelled cloud or otherwise, to differentiate arrangements which involve the sharing of IT assets (including hardware, software and/or data storage) with other parties from those where IT assets are dedicated to a single APRA-regulated entity. The paper also outlined weaknesses that APRA had identified as part of its ongoing supervisory activities, reflecting that risk management and mitigation techniques are yet to fully mature in this area. In particular, it is not readily evident that 'public cloud' arrangements have reached a level of maturity commensurate with usages having an extreme impact if disrupted.

Utilisation of shared computing services by APRA-regulated entities is expected to continually evolve, along with the maturity of the risk management and mitigation techniques applied. Hence, APRA continues to encourage ongoing dialogue with industry to ensure prudent practices are in place and risks are adequately mitigated when regulated entities seek the advantages that shared computing services may provide.

Cyber-security has also been an area that has continued to attract APRA's attention. A number of factors are escalating the risks to regulated entities with respect to cyber-attacks, including greater use of digital channels and increasing capabilities of individuals and entities seeking to achieve illegitimate financial gain, political/social change or intelligence gathering. APRA will continue to engage with the financial industry to ensure appropriate risk management capabilities are in place with respect to cyber-attack prevention, detection and response.

ICAAP reports

The internal capital adequacy assessment process (ICAAP) encapsulates a regulated institution's strategy, policies, procedures, systems, controls and personnel for ensuring adequate capital is maintained over time. This includes plans for how target levels of capital are to be met, and the means available for sourcing additional capital where required.

APRA undertook a detailed review and peer comparisons of the ICAAP reports during the year. The objective was to identify examples of better practice and potential areas for improvement and to communicate these findings to the industry. Most of the ICAAP reports reviewed were of a reasonable standard but there were some areas where entities fell short of APRA's expectations in their content and quality. These included the comparison of actual versus planned ICAAP outcomes, descriptions of changes in risk profile, commentary on drivers of future capital needs and the use of stress-testing outcomes in decision-making processes.

Private health insurers

In the 2013/14 Commonwealth Budget, the Government announced that APRA would take on additional responsibilities for the prudential supervision of private health insurance. The transfer formally took effect on 1 July 2015, following passage a week earlier of the *Private Health Insurance (Prudential Supervision) Act 2015*.

Over 2014/15, APRA engaged in preparations for this new responsibility. APRA's key objective was to provide for a seamless transition of current requirements administered by the Private Health Insurance Administration Council (PHIAC), so that substantially similar requirements continued to have effect following the transfer of supervision responsibilities. To that end, APRA:

- released in March 2015 a discussion paper outlining its proposed approach to the future prudential and reporting arrangements for private health insurers. The paper was accompanied by draft prudential standards, APRA rules and reporting standards;
- held a number of industry consultation sessions in both Sydney and Melbourne to explain APRA's proposals and receive industry feedback; and
- released in June 2015 a response to submissions and final prudential standards, APRA rules and reporting standards, for implementation on 1 July 2015.

Details of PHIAC's activities are contained in the PHIAC 2014/15 Annual Report.

STATISTICAL ACTIVITIES

As the central repository of statistical information on the Australian financial system, APRA collects and publishes data from prudentially regulated and other financial institutions to support its primary mission, as well as its ancillary mission as a national statistical agency for the Australian financial sector.

Data collections for APRA's primary mission

APRA regularly updates its reporting standards and prudential data collections to ensure they remain aligned with changes in the regulatory framework. For example, as part of the introduction of the LCR in Australia (see above), APRA released seven reporting forms to allow ADIs to report their liquidity position under the new standard. These forms came into effect from 1 April 2014.

As well as introducing new and revised reporting requirements, APRA delivered a number of improvements during the year that reduced the reporting burden on institutions. APRA's review of the ADI and RFC data collection highlighted that a reporting form - *ARF 324.0 Lending and Funding*

Statistics - was not required by APRA or other users of the data, including the RBA and ABS, on a monthly basis. APRA was therefore able to reduce the reporting burden on ADIs by reducing the reporting frequency from monthly to quarterly. This relieved the major banks of the obligation to submit up to 500 data items each month.

With the aim of reducing reporting burden while maintaining the collection of high-quality and timely data, APRA also introduced a significant number of new data validation rules within APRA's electronic data collection system, Direct to APRA (D2A). These new rules helped institutions identify and fix data errors and explain anomalies at the time they submit data to APRA; they also ensure that submitted data are immediately fit for use by APRA supervisors. During the year, APRA also removed or relaxed nearly 300 validation rules that were no longer effective at identifying errors.

Statistical publications to assist primary mission and fulfil ancillary mission

In response to users' desire for more statistics to be publicly available, APRA delivered several improvements to its regular statistical publications during the year. Following consultations, APRA introduced the new *Quarterly My Super Statistics* report in October 2014. Subsequently, APRA continued to expand this publication for each of the next three quarters by including information on fees and costs as well as the segmentation of most statistics by fund type. The publication of these statistics provides a central source of information on MySuper products and supports the broader transparency objectives of the Stronger Super reforms.

In May 2015, APRA released a discussion paper on proposed changes to its annual superannuation statistical publications. The proposals reflect recent changes to the superannuation reporting framework and follow the analysis of the revised annual collection that was submitted in October 2014.

During the year, APRA also continued consultation on its proposal to determine certain data submitted by regulated institutions non-confidential and therefore publicly accessible. Following consultation, APRA determined certain data from RSE licensees, general insurers, life insurers and friendly societies to be non-confidential. These decisions were made on the

basis that the public benefit from disclosure of the data clearly outweighs any detriment to commercial interests that the disclosure may cause. APRA intends to expand its statistical publications to include these additional data items over time. Where it was not clear on current evidence that the public benefit of disclosure outweighs commercial detriment that disclosure may cause, APRA did not make a determination on the confidentiality of the data.

Data collections for other agencies to fulfil ancillary mission

As part of its ancillary role as a national financial sector statistics agency, APRA collects data from regulated and unregulated institutions to assist the RBA, ABS and ASIC to fulfil their roles. Approximately one third of ADI and RFC reporting forms are collected by APRA primarily for use by the RBA and ABS. Much of the data are shared between agencies to reduce unnecessary reporting burden on institutions. APRA also collects some data to fulfil international reporting expectations to organisations such as the Bank for International Settlements.

ENFORCEMENT ACTIVITIES

APRA's supervisory approach is aimed at identifying and evaluating potential risks in regulated institutions at an early stage, and ensuring that these are appropriately mitigated before they could pose any threat to the viability of the institution.

APRA is also empowered by legislation to take enforcement action when necessary to enforce the prudential standards. As a prudential regulator, APRA uses its formal enforcement powers less than traditional law enforcement agencies, preferring instead to focus on risk management practice and prevention measures. However, should an institution be unwilling or unable to take necessary corrective action, APRA will use its enforcement powers to protect the interests of depositors, policyholders and superannuation fund members.

During 2014/15, APRA's enforcement resources have mostly focused on supporting frontline supervision teams in the early identification of emerging risks to minimise or remove the need for more intrusive intervention at a later stage. APRA continues to develop and strengthen its network of information sharing with other regulators and law enforcement agencies to ensure that its supervisors have access to, and can assess the impact of, any relevant information on their regulated institutions.

During the year APRA entered into a Memorandum of Understanding (MoU) with the Australian Crime Commission, which will enhance APRA's assessment of risks posed by criminal activities to the APRA-regulated industries.

DOMESTIC LIAISON ACTIVITIES

APRA has strong working relationships with Australia's key financial regulatory agencies – the RBA and ASIC. APRA also maintains a close and cooperative working relationship with the Australian Treasury. The four agencies also cooperate on a multilateral basis through their shared membership of the Council of Financial Regulators (CFR). Beyond the members of the CFR APRA also has active engagement with a range of other domestic bodies (see table below). These engagements are typically guided by a Memorandum of Understanding which, while not legally binding, signifies a commitment to cooperate and share relevant information, and establishes the practical arrangements by which this will occur.

Date of MoU	Agency
February 2015	Australian Crime Commission
December 2014	Workcover Authority of NSW
July 2014	Australian Federal Police
December 2013	Australian Taxation Office
November 2013	Commonwealth Treasury
November 2012	Motor Accident Insurance Commission of Queensland
May 2012	Motor Accident Authority of NSW
May 2010	Australian Securities and Investments Commission
April 2010	Workcover TAS
September 2008	Council of Financial Regulators MoU on Financial Distress Management
December 2007	Australian Securities and Investments Commission and APRA Breach Notification Agreement
June 2007	Australian Bureau of Statistics
February 2007	Australian Transactions Report and Analysis Centre
November 1999	Australian Competition and Consumer Commission
October 1998	Reserve Bank of Australia

APRA also liaises with professional and industry associations for each industry sector that APRA regulates.

List of agencies and organisations with whom APRA met during 2014/15

Public Sector	Private Sector
Attorney-Generals Department	Actuaries Institute
Auditing and Assurance Standards Board	Association of Superannuation Funds of Australia
Australian Accounting Standards Board	Australian Bankers' Association
Australian Crime Commission	Australian Custodial Services Association
Australian Competition and Consumer Commission	Australian Financial Markets Association
Australian Federal Police	Australian Institute of Superannuation Trustees
Australian Securities and Investments Commission	Australian and New Zealand Institute of Insurance and Finance
Australian Taxation Office	Banking and Finance Sector Group
Australian Transactions Report and Analysis Centre	Corporate Superannuation Association/Corporate Super Association
Commonwealth Treasury	Customer Owned Banking Association
Council of Financial Regulators	Financial Planning Association of Australia
Department of Foreign Affairs and Trade	Financial Services Council
Financial Reporting Council	Industry Super Australia
Heads of Commonwealth Law Enforcement Agencies	Insurance Council of Australia
Motor Accident Authority of NSW	Law Council of Australia
Private Health Insurance Administration Council	Risk Management Association Australia
Reserve Bank of Australia	
Motor Accident Insurance Commission of Queensland	
Workcover NSW	

INTERNATIONAL ACTIVITIES

APRA's international core business activities take two main forms:

- liaison with overseas home and host supervisory agencies on the activities of internationally active firms, including through participation in supervisory colleges; and
- participation in global standard-setting bodies to ensure relevant characteristics of the Australian financial system are taken into account in how international standards evolve.

APRA now has formal bilateral information sharing arrangements in place with 27 overseas regulatory agencies after the signing of MoUs with the US Commodity Futures Trading Commission in April 2015 and the China Insurance Regulatory Commission in June 2015. APRA is one of 54 signatories to the IAIS Multilateral MoU arrangements which now cover agencies supervising insurers which write over 60 per cent of global premiums. APRA also participates in institution-specific multilateral arrangements to support the sharing of confidential information in supervisory colleges involving internationally-active financial institutions, including those headquartered in Australia.

APRA's engagement with international agencies and standard setting bodies is summarised in the lists below.

International organisations APRA was a member of during 2014/15

- Basel Committee on Banking Supervision
- Executive Meeting of East Asia and Pacific Central Banks (Working Group on Banking Supervision)
- Financial Stability Board (Standing Committee on Supervisory and Regulatory Cooperation)
- International Association of Deposit Insurers
- International Association of Insurance Supervisors
- International Credit Union Regulators Network
- International Forum of Insurance Guarantee Schemes
- International Organisation of Pension Supervisors
- Trans-Tasman Council on Banking Supervision

International organisations APRA liaised with or assisted during 2014/15

- ASEAN Insurance Training & Research Institute
- Asian Forum of Insurance Regulators
- Asia-Pacific Economic Cooperation
- Association of Financial Supervisors of Pacific Countries
- Financial Stability Institute
- Integrated Financial Supervisors Conference
- International Actuarial Association
- International Monetary Fund
- Organisation for Economic Cooperation and Development
- World Bank

In addition to these activities, APRA also receives visits from international delegations for a range of core business and other purposes. Over 2014/15 APRA received visits from 63 international delegations involving 20 countries, most commonly from Indonesia, China and Korea. This was a material decrease from recent years and in part reflects a tightening of criteria used to decide which visits to accommodate. Interest areas focused on Australia's retirement income arrangements and supervision of superannuation funds, APRA's risk-based supervisory model, and requirements to establish operations in Australia.

Technical assistance

APRA undertakes limited, targeted technical assistance, primarily in the Asia-Pacific region, in support of 'whole of Government' engagement with development partner countries. The activities provide valuable interaction with the countries involved, including in respect of Australian institutions operating in those jurisdictions. Since APRA is funded by levies on the institutions it supervises, it is considered inappropriate for more than incidental amounts of these funds to be used for technical assistance purposes. Consequently, most of these activities are funded under programs agreed with agencies responsible for administering international aid, particularly the Department of Foreign Affairs and Trade (DFAT), but also the International Monetary Fund (IMF).

As APRA has very limited staff resources available for these activities, it favours multilateral initiatives and can only assist in relation to a small number of the requests it receives. All such activities are subject to postponement or cancellation in case of core business priorities. As well as strengthening the prudential frameworks and activities of the partner agencies involved, these activities offer APRA valuable staff development and retention benefits.

In Indonesia, the engagement is with the integrated regulator Otoritas Jasa Keuangan (OJK) and the Bank of Indonesia. During 2014/15, this focused on risk-based prudential supervision including risk-rating procedures and conglomerates, primarily through APRA hosting six internships. APRA also hosted three short visits by senior OJK staff. Over 2014/15, APRA hosted a total of 25 interns and other visitors from Indonesia.

In the Pacific over 2014/15, APRA supported several training programs under the multilateral Government Partnerships for Development (GPDF) with local and visiting Pacific prudential regulators. Over the past year, the on-site training programs ranged across banking and other credit intermediaries, general insurance and provident funds.

Subject to core business commitments, APRA provides resources to multilateral agencies such as the IMF for missions involving prudential advisory activities. Over 2014/15, APRA staff were involved with IMF missions to Chile and Myanmar to advise respectively on conglomerate supervision and the licensing of international banks. Involvement in these missions was also conducted on a cost-recovery basis.

APRA also plays its part in supporting the training activities of various regional groups in the Asia Pacific region such as SEANZA and SEACEN. Over the year APRA provided speakers to six regional Conferences and in April 2015 sponsored a Conference in Sydney for the APEC Financial Regulatory Training Initiative on Capital Planning and Stress Testing.

CHAPTER FIVE / APRA'S RESOURCES AND RISK MANAGEMENT

'APRA continues to maintain a workforce that comprises a strong blend of supervisory and industry expertise. This is essential for a supervision-led regulator such as APRA, which relies heavily on the judgement and experience of its staff to achieve sound prudential outcomes.'

APRA'S RESOURCES AND RISK MANAGEMENT

FINANCIAL RESOURCES

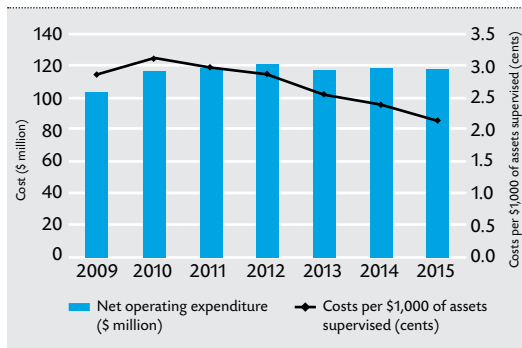
APRA's income is sourced primarily from annual levies on supervised institutions. APRA's expenditure is directed towards APRA's ongoing supervisory and enforcement activities, as well as implementing and enhancing Australia's prudential regulatory framework.

APRA's expenditure

APRA's operating expenditure has changed little over the past five years. Total operating expenditure for the 12 months to 30 June 2015 was \$117.3 million against a budget of \$122.4 million. The under-expenditure related mainly to a lower-than-budgeted average staffing level, no general remuneration increases being paid to staff as a consequence of delays in establishing APRA's new workplace employment agreement, savings from productivity and efficiency initiatives, and the deferral of certain activities to 2015/16.

As a result of the limited growth in its budget, APRA's costs relative to the value of assets supervised have continued to decline to approximately 2.1 cents per \$1,000 of assets supervised in 2014/15. This compares with 3.1 cents per \$1,000 of assets supervised in 2010.

Figure 1 - APRA's costs



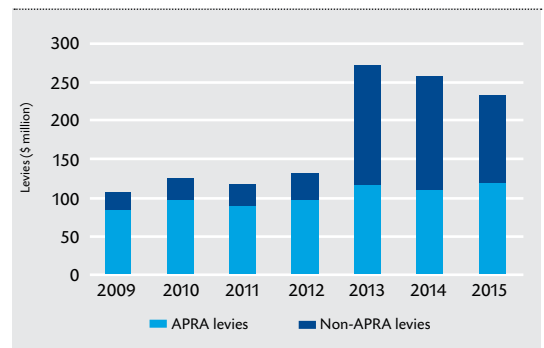
APRA's income

APRA's total income in 2014/15 was \$125.4 million against a budget of \$122.4 million. The income surplus was largely driven by higher than budgeted industry levies collected. The over- or the under-collection of levies in any year is factored into the determination of levies in subsequent years, and so is returned or recouped from industry in this way.

Industry levies are raised according to the *Financial Institutions Supervisory Levies Collection Act 1998* and the *Supervisory Levy Imposition Acts 1998* relevant to each of APRA's regulated industries. Following consultation with industry, the Minister determines the levy rates for each regulated industry prior to the beginning of each financial year. Industry levies are based on the costs incurred in APRA discharging its duties with respect to each sector. The levy rate is applied on the appropriate institution's asset value, subject to a minimum and maximum amount per institution. Exceptions to this are non-operating holding companies and small APRA-regulated superannuation funds, which are levied at a flat rate.

The total levies collected by APRA also cover certain costs attributable to ASIC, the Australian Taxation Office (ATO), the Department of Human Services and the Government's SuperStream initiative. Total levies collected by APRA, including on behalf of these agencies in 2014/15 were \$230.5 million. Levies are also collected to cover the costs of the National Claims and Policies Database (NCPD); in this case a rate is applied to the gross earned premiums of general insurers that contribute to this database. The amount raised for NCPD purposes was \$1.0 million.

Figure 2 - Financial industry levies



On an annual basis APRA releases a Cost Recovery Implementation Statement in order to provide further transparency on the APRA component of the levies collected from industry.

Reserves

APRA had an operating surplus from ordinary activities of \$8.1 million in 2014/15, increasing retained surpluses to \$20.7 million as at year-end. An equity contribution of \$0.1 million to support increased capital expenditure took the contributed equity component of reserves to \$16.7 million, while a revaluation of the make-good provision for APRA's property leases resulted in a \$0.4 million increment to the Asset Revaluation Reserve to \$7.1 million. With these items, total reserves increased to \$50.5 million as at year end, including a \$6.0 million Contingency Enforcement Fund held to meet the costs of any significant, unbudgeted investigation and enforcement activities.

STAFFING RESOURCES

APRA's actual and budgeted headcount has remained relatively stable for a number of years. After a few years of lower employee turnover, however, APRA's turnover increased to 12.5 per cent during 2014/15. APRA's total permanent staffing, which was 602 on a full-time equivalent (FTE) basis at end-June 2014, fell

Figure 3 - APRA's staffing (as at end June)

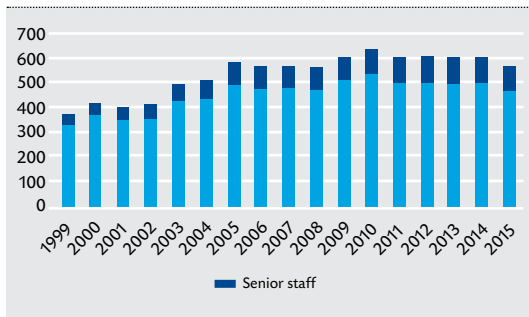
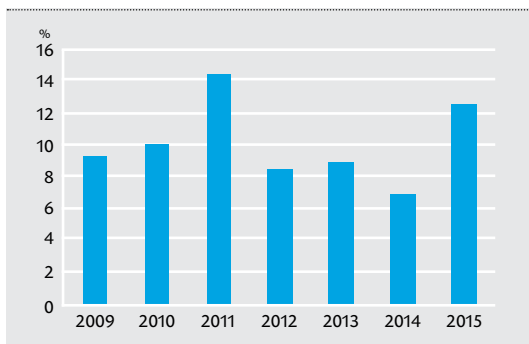


Figure 4 - Voluntary turnover rate



to 565 FTEs by 30 June 2015. This reflected increasing challenges in 2014/15 in competing for high quality staff in the financial sector.

Despite the difficult environment, APRA continues to maintain a workforce that comprises a strong blend of supervisory and industry expertise. This is essential for a supervision-led regulator such as APRA, which relies heavily on the judgement and experience of its staff to achieve sound prudential outcomes. While APRA has been reasonably successful in building and retaining supervisory experience within its staff, raising the level of industry experience has been more difficult. This reflects both lower levels of external recruitment and increasing difficulties in recruitment given more buoyant conditions in the financial sector in recent years.

Figure 5 - Staff supervisory experience levels

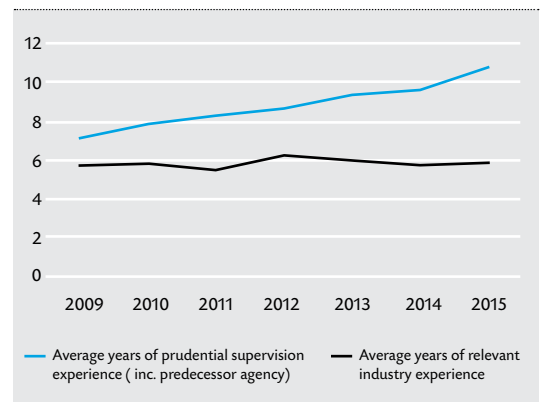
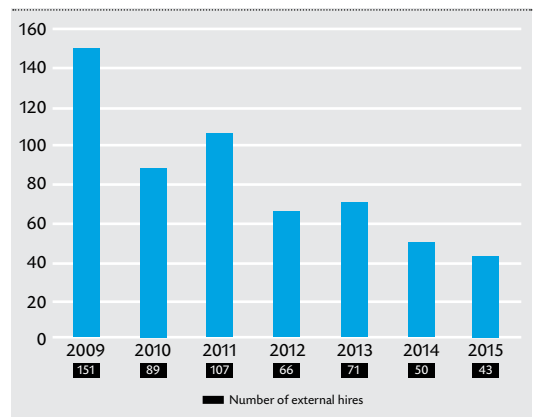


Figure 6 - External recruitment



Developing the capabilities of APRA's staff continued to be a high priority for APRA, with the budgeted expenditure allocated to learning and development activities increased for 2014/15.

APRA maintained its strong focus on providing learning and development opportunities to enhance the leadership and management capabilities of current and future APRA leaders. Learning and development activities also included a wide range of internal and external programmes focused on both building technical skills and assisting staff to apply them effectively.

Support for staff undertaking postgraduate study continued in 2014/15, with 39 staff members participating in the Studies Support Program.

APRA also maintained its well-regarded graduate program, employing eight graduates in 2014/15 as a supplement to general recruitment. As in previous years, the 2015 graduate cadre undertook five weeks of dedicated training on commencement, and these employees will continue to receive targeted development opportunities throughout their first two years of employment with APRA.

Table 1 – Training activities

Training by type (%)	2014	2015
Internal technical training and seminars	61	63
External training	35	33
Management training	4	4
Studies support		
Employees undertaking formal post-graduate studies	51	39
Key training metrics		
Training spend per employee	\$2826*	\$3283
Per cent of staff provided with training (%)	100	100
Training sessions per employee	8.7	8.1
Training days per employee	3.6	4.0
Number of internal classroom courses offered	416	370

* The 2014 figure has been restated for this Report to align with the revised methodology adopted for 2015 which uses the average staffing level, rather than headcount.

RISK MANAGEMENT

Risk management, internal audit and compliance

APRA has specialist independent functions which provide support and assurance to the APRA Members. In early 2015, APRA separated its Internal Audit and Risk Management functions in order to strengthen its governance framework. In July 2015, APRA appointed a dedicated Chief Risk Officer to develop a strengthened team focused on enhancing the effectiveness of APRA's internal risk management and quality assurance activities.

Risk Management is responsible for APRA's Enterprise Risk Management (ERM) framework. This framework includes a clear statement of APRA's risk appetite and covers material risks to APRA's mandate and objectives, each captured in a defined category. APRA's Executive General Managers are individually and, in some cases, collectively allocated responsibility for the ownership of key risks as well as ongoing review, management and reporting of each risk within the ERM framework. Risks are reassessed periodically. APRA's Executive Board and both the Risk Management Committee and Audit Committee are provided with consolidated risk reports on a regular basis.

In 2014/15, APRA reviewed and updated its Risk Appetite Statement to ensure that it remains relevant and effective. APRA also continued its liaison with peer regulators on developments in ERM frameworks, as part of its practice of incorporating good practices developed by similar agencies where appropriate.

Internal Audit conducts a broad-ranging and robust program of internal audits each year. The program is developed following consultation with APRA's senior executive, and an assessment of APRA's strategies and key risks. The risk-based program covers specific aspects of APRA's supervisory and operational processes and its financial systems. Audit reviews identify and rate risks, and make recommendations aimed at improving APRA's internal control environment and processes.

APRA has an ongoing focus on fraud risk management, and has in place a fraud control framework that is consistent with Government requirements. All relevant internal audits assess whether potential fraud exposures are appropriately addressed by APRA's processes and controls. Online fraud awareness training is required to be completed by all staff annually and APRA management provides formal attestations in relation to reporting of any identified fraud on a six-monthly basis. There were no incidents of internal fraud reported for the year 2014/15.

APRA has a range of external accountabilities and, to ensure compliance, applies a comprehensive APRA-wide compliance framework based upon the relevant International Standard – *AS/ISO 19600:2015 Compliance management systems*. This framework includes a broad range of compliance attestations by senior management. Monitoring and ongoing development of this framework is the responsibility of the APRA Secretary.

Further details on aspects of APRA's governance are provided in Chapter 2 – Governance and in Chapter 8 – Statutory Report.

CHAPTER SIX / APRA'S PERFORMANCE

'APRA's objective is to maintain a low (but not zero) incidence of failure of supervised institutions...APRA therefore aims to identify likely failures early enough so that corrective action can be initiated to prevent the failure, or appropriate wind-up or other exit strategies can be undertaken to minimise losses to beneficiaries.'

APRA'S PERFORMANCE

The APRA Act tasks APRA with administering legislation that provides for prudential regulation of financial institutions. Those laws are the industry-based Acts – the *Banking Act 1959*, the *Insurance Act 1973*, the *Life Insurance Act 1995* and the *Superannuation Industry (Supervision) Act 1993* – which charge APRA to protect the interests of depositors, policyholders and superannuation fund members.

APRA'S ROLE AS A PRUDENTIAL REGULATOR

In performing and exercising its functions and powers, APRA must balance the objective of financial safety with considerations of efficiency, competition, contestability and competitive neutrality and in doing so promote financial stability. APRA's 2014 *Statement of Intent* noted that APRA does not seek to establish a regulatory regime that targets a zero rate of failure amongst financial institutions. A great deal of APRA's policy development work is therefore directed towards establishing an appropriate balance between financial safety and other considerations, including regulatory costs.

Office of Best Practice Regulation

APRA complies with the Australian Government's best practice regulation process, administered by the Office of Best Practice Regulation (OBPR). This process involves a rigorous cost-benefit analysis of the impact of any proposed new regulation (as well as potential alternatives) on different groups in the Australian community and on the community as a whole, culminating in publication of a Regulation Impact Statement. Adhering to OBPR processes provides an important foundation on which APRA can assess whether it has achieved an appropriate balance across the objectives of its mandate, and provides for open and transparent consideration of stakeholder views, including the publication of stakeholder submissions and APRA response papers. During 2014/15 APRA was fully compliant with the OBPR principles in its policy development activities.

Regulatory cost savings

In February 2015, APRA released an update on its regulatory cost savings project. This project, which was commenced in the previous year, sought to identify opportunities for regulatory cost savings

for regulated industries. In undertaking this project APRA sought to first identify specific, quantifiable options for potential cost savings, and then proceed with those options that could be implemented without compromising the soundness of the prudential framework. The project is consistent with the Government's broader agenda for reducing compliance costs for business and the community.

In the February update, APRA sought submissions from industry on a range of proposals set out in the paper. Further ideas on other quantifiable cost savings that would not compromise the soundness of the prudential framework were also sought. A number of submissions were received from industry participants and have been assessed and prioritised for action. APRA continues to progress identified cost saving options and is open to further ideas from industry and other interested parties. APRA expects to provide a further public update in due course and regularly reports to the Treasury on its progress.

APRA continues to develop its performance assessment and accountability framework in coordination with Federal Government initiatives to promote improvements in regulator accountability more generally. There has also been an international effort by prudential regulators to improve the way in which they assess their supervisory performance since the global financial crisis. During 2014/15, APRA participated in an international review group which assessed best practices adopted by supervisory agencies to determine the impact of their supervisory activities and publicly account for their regulatory performance. This work will provide useful input for APRA's own efforts in this area.

Regulator Performance Framework

During the year, the Australian Government established the Regulator Performance Framework (RPF) to assess regulators' performance when interacting with business, the community and individuals while carrying out their functions. The RPF principally relates to regulatory burden arising from the administration of regulation rather than the process for, and outcomes of, regulatory policy-making.

Under the RPF, regulators such as APRA are required to establish metrics to support an assessment of their activities against the framework. In April 2015, APRA undertook a consultation on draft metrics with industry stakeholders, and published its final metrics in June 2015.

APRA'S ROLE AS A PRUDENTIAL SUPERVISOR

Indicators of financial failures/losses

Given APRA's role to protect the interests of depositors, policyholders and superannuation fund members (which APRA refers to collectively as its beneficiaries), two important indicators of APRA's performance are:

- The Performing Entity Ratio (PER) – the PER is an indicator of the incidence of failure amongst regulated institutions. It is determined as the number of regulated institutions that met their commitments to beneficiaries in a given year divided by the total number of regulated institutions. The higher the percentage, the lower the incidence of failure.
- The Money Protection Ratio (MPR) – the MPR is an indicator of the incidence of loss in the financial sector. It is determined as the dollar value of liabilities to beneficiaries held in Australia in regulated institutions less any prudential losses to beneficiaries in a given year, divided by the total dollar value of liabilities to beneficiaries in Australia in regulated institutions. Again, the higher the percentage, the lower the incidence of loss.

Table 1 - Performing Entity Ratio (PER) and Money Protection Ratio (MPR)

Financial year	Number of failures ¹	Losses (\$million)	Number of institutions ²	Protected Accounts ³ (\$million)	Annual PER %	Annual MPR %
1999	4	11	4,473	\$886,640	99.91	100.00
2000	3	308	4,407	\$993,369	99.93	99.97
2001	8	5,341 ⁴	4,350	\$947,923	99.82	99.44
2002	6	140	3,803	\$1,006,845	99.84	99.99
2003	5	19	3,252	\$1,066,480	99.85	100.00
2004	1	0 ⁵	2,744	\$1,207,241	99.96	100.00
2005	0	0	2,099	\$1,347,813	100.00	100.00
2006	0	0	1,596	\$1,546,338	100.00	100.00
2007	1	0 ⁵	1,244	\$1,832,609	99.92	100.00
2008	0	0	1,129	\$1,923,369	100.00	100.00
2009	0	0	1,028	\$2,048,163	100.00	100.00
2010	1	1	965	\$2,231,887	99.90	100.00
2011	4	72	832 ⁶	\$2,462,275	99.52	100.00
2012	0	0	780 ⁶	\$2,650,832	100.00	100.00
2013	0	0	724 ⁶	\$2,972,844 ⁷	100.00	100.00
2014	0	0	673 ⁶	\$3,313,942 ⁷	100.00	100.00
2015	0	0	661	\$3,623,012	100.00	100.00

1 In the case of superannuation, failures refer to the number of funds affected and include failures due to employer sponsors.

2 The number of institutions excludes Small APRA Funds, representative offices of foreign banks and non-operating holding companies.

3 Protected Accounts is an estimate of the funds protected by APRA as defined by relevant legislation and is less than the total assets held by APRA-regulated institutions, which were \$5,487.8 billion at end-June 2015.

4 Includes HIH Group's estimated \$5.3 billion loss incurred by creditors and policyholders, based on liquidator's advice to creditors in April 2002.

5 Losses incurred, due to the failure of an employer sponsor in a superannuation fund, were less than \$0.5 million. In the 2004 case, the superannuation fund was not included in the PAIRS/SOARS database.

6 Number of institutions has been revised from APRA's 2014 Annual Report where better source data has become available.

7 Protected accounts has been revised from APRA's 2014 Annual Report in line with resubmissions received during the year.

Since APRA's inception in 1998, the annual PER has averaged 99.92 per cent and the annual MPR, which is dominated by the losses associated with HIH Insurance in 2001, has averaged 99.96 per cent.

Indicators of risk identification and rectification

APRA's objective is to maintain a low (but not zero) incidence of failure of supervised institutions while not impeding continued improvements in efficiency or hindering competition within the broader industry. APRA therefore aims to identify likely failures early enough so that corrective action can be initiated to prevent the failure, or appropriate wind-up or other exit strategies can be undertaken to minimise losses to beneficiaries.

APRA's risk assessment and response systems – the Probability and Impact Rating System and the Supervisory Oversight and Response System or PAIRS and SOARS respectively – are critical tools for identifying institutions that are higher risk of failure. Monitoring outcomes for these institutions is an important indicator of the extent to which APRA identifies material risks and achieves rectification of problem issues or, where appropriate, facilitates orderly exit from the industry.

Of the 14 institutions that began the financial year in APRA's two highest categories (Mandated Improvement and Restructure), one institution exited the industry, and one institution moved to an improved supervision stance. As a result of one new institution being added to the Mandated Improvement population during the year, 13 remained in those categories at year end.

The PAIRS/SOARS framework was introduced in 2003. Over the 12 years since, a total of 234 institutions have been in Mandated Improvement and/or Restructure at the same time. Of that total, 45 institutions have returned to Normal or Oversight supervision stance, 170 have exited without loss to beneficiaries and 6 institutions have failed (4 of which moved through both Mandated Improvement and Restructure during that period). The remaining 13 have remained in either the Mandated Improvement or Restructure SOARS category.

While it is not possible to compare these outcomes with what would have happened had APRA not intervened, the overall direction of movement of institutions in these two supervisory stances, and the relatively low proportion of failures, is consistent with timely and effective intervention on APRA's part.

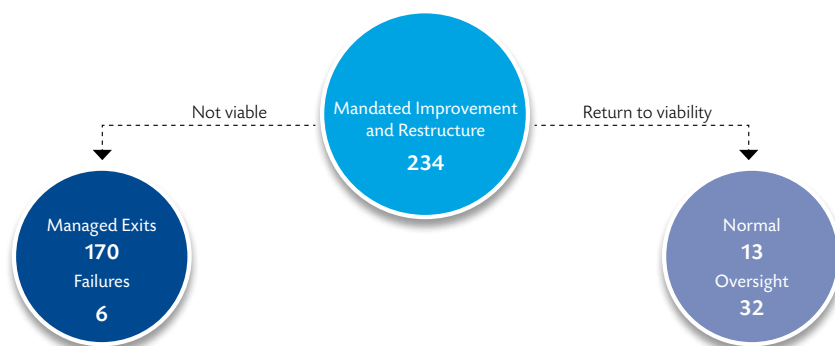
APRA'S ROLE AS A NATIONAL STATISTICAL AGENCY

APRA is the central repository of statistical information on the Australian financial system. It collects and publishes data from prudentially regulated and other financial institutions to support its core mission, and also its ancillary mission as national statistical agency for the Australian financial sector.

Data collections for APRA's primary mission

To support APRA's core prudential mission, APRA collects a broad range of financial and risk data that are essential input to its supervision of regulated

Figure 1 - Outcome for institutions in Mandated Improvement/Restructure, 2003–2015



institutions. Almost all of APRA's data collections are legal requirements of institutions under the *Financial Sector (Collection of Data) Act 2001* and APRA's reporting standards. Accordingly, APRA closely monitors the timeliness and quality of submissions. For regulated institutions, APRA targets a rate of 95 per cent of returns submitted by the statutory due date with the remainder to be submitted within the following week. Over 2014/15, 96 per cent of submissions were received by the due dates and over 99 per cent were submitted within a week of the due dates.

Statistical publications to assist APRA's ancillary mission

In fulfilling its ancillary mission as a national statistical agency for the Australian financial sector, APRA publishes as much of the data it collects as are useful, subject to APRA's confidentiality obligations in industry-level and individual institution-level publications. By publishing these statistics, APRA promotes understanding of the industries it regulates and assists research, public discussion and well-informed decision-making by regulated institutions, policy-makers, other regulators, market analysts and researchers. APRA observes international statistical standards in developing, producing and managing its statistics (except in the few cases where doing so would conflict with APRA's primary role as a

prudential regulator). By acting consistently with these standards, APRA helps protect commercially sensitive information provided by institutions, whilst providing statistics that are useful and trustworthy and meet the needs of users.

APRA'S ENGAGEMENT WITH STAKEHOLDERS

APRA Stakeholder Survey

During 2015, APRA conducted its fourth biennial Stakeholder Survey of regulated institutions and of other industry representatives. These stakeholder surveys assist APRA's understanding of the impact and effectiveness of its supervision and other activities. The survey is an important tool by which APRA monitors and reports on its performance.

The 2015 survey, which was conducted by Australian Survey Research (ASR), collected responses from regulated institutions and from industry representatives. ASR noted that, when compared with the three previous surveys, stakeholders' perceptions of APRA have remained reasonably consistent and demonstrate that '*regulated institutions continued to support APRA's mission, prudential framework, its staff and its approach to supervision*'.

Table 2: Statistics key performance indicators

	Target	Year end June 2014	Year end June 2015
Number of forms expected per quarter		13,161	16,605
Proportion of (quarterly) forms submitted and validated by due date	≥ 95%	97%	96%
Proportion of (quarterly) forms submitted and validated within 1 week of due date	≥ 99%	98%	99%
Number of statistical publications released		51	44
Proportion of statistics publications released according to pre-disclosed timetable	100%	100%	100%
Number of requests for customised statistics		164	189
Proportion of requests for custom statistics fulfilled as agreed	≥ 95%	97%	97%

The table below provides the results for the top five and bottom five rated items from the survey of regulated institutions.

Highest scoring items (n=287)	2013 mean	2015 mean
APRA staff demonstrate its value of integrity	4.5	4.7
APRA staff demonstrate its value of professionalism	4.4	4.5
A single supervisory team responsible for all group companies is an appropriate way to supervise groups*	4.3	4.4
APRA is effective in communicating the findings of supervisory visits to your institution	4.2	4.4
The APRA supervisory team responsible for your organisation has a good understanding of your organisation	4.2	4.3
Lowest scoring items (n=287)	2013 mean	2015 mean
APRA provides clear advice when your institution has difficulties understanding APRA's reporting requirements	3.9	3.6
The D2A Help Desk is helpful when your institution has difficulties using D2A	3.9	3.6
Using Standard Business Reporting (SBR) reduces the time and effort required to meet reporting obligations to APRA	NA	3.4
D2A is easy to use when lodging data with APRA	3.6	3.3
Changes to APRA's prudential framework considers the costs of regulation imposed on industry	2.6	2.6

Scale legend: 1=strongly disagree, 2=disagree, 3=neutral, 4=agree, 5=strongly agree

* This item was only asked of group entities that comprise institutions across more than one industry.

Also through ASR, APRA conducted for the first time a supplementary survey of board directors of ADIs and insurance companies. For these directors, the highest rated item in the survey was 'Meetings between APRA and my institution's board are of value to the board', whilst the lowest rated item was 'The workload that APRA requirements create for my institution's board is reasonable'. ASR commented that '*overall, the results of this survey were positive. On average, directors endorsed APRA's framework, guidance material and supervision. A vast majority indicated that APRA's standards had a positive impact on their risk management practices*'.

As with previous stakeholder surveys, APRA will use the results of the 2015 surveys as important input into its strategic and business planning and in setting supervisory priorities. APRA published the results of all three surveys on its website in July 2015.

Mechanisms for engagement

APRA engages with a variety of stakeholders which include regulated institutions, industry bodies, government departments, other regulatory agencies, media and the general public. In communicating its

Activity during 2014/15	Total
Policy consultations conducted	16
Policy papers issued (for above consultations)	36
Information letters issued to industry	36
Presentations at formal speaking engagements	87
Media releases issued	35
Statistical publications released	44
Enquiries received by the Statistics Unit	617
Enquiries received through the APRAinfo call centre	12,635
Parliamentary hearings attended	6
Submissions to formal inquiries	4

various policy, statistical and other announcements to these stakeholders, APRA uses a diversity of communication channels, as shown in the table above.

For further information on APRA's engagement with Government, other regulatory agencies and industry associations, see Domestic Liaison in Chapter 4.

APRA'S 2015-2019 CORPORATE PLAN

APRA adopts a rolling approach to planning which allows a specific focus on APRA's priorities for each financial year within the broader context of a Corporate Plan that establishes strategic objectives over a four-year planning horizon. This approach also provides flexibility for adjustment each year in response to internal and external factors that reshape APRA's operating environment.

APRA's 2015-2019 Corporate Plan was published in August 2015. APRA's four-year plan identifies six strategic objectives, as well as setting out the specific initiatives APRA will undertake to meet each, as follows:

1. To protect beneficiary interests by responding in a timely and effective manner to significant risks at both institution and industry levels;

2. To maintain a robust prudential framework that sets requirements for prudent behaviour regulated institutions, founded on relevant international standards where appropriate;
3. To materially strengthen APRA's readiness for financial failure or crisis;
4. To attract and retain highly skilled and engaged people, supported by strong leaders within a values-aligned culture;
5. To have robust and efficient organisational processes and infrastructure supporting APRA's core functions; and
6. To be accountable for APRA's performance by being transparent in communication, and effective in engagement with stakeholders.

The Strategic Plan forms the basis for APRA's annual Operational Plan, which sets out specific actions and targets in support of each strategic objective, and also for annual divisional business plans. Relevant objectives are also reflected into the individual performance plans of APRA staff. Overall performance against the plan is reviewed on a quarterly basis by APRA's Executive Board.

Performance against the Plan will be addressed in APRA's 2015/16 Annual Report.

CHAPTER SEVEN / FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

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* Administered items are distinguished from departmental items throughout these financial statements by background shading.

STATEMENT BY MEMBERS AND THE EXECUTIVE GENERAL MANAGER - CORPORATE SERVICES

In our opinion, the attached financial statements for the year ended 30 June 2015 comply with subsection 42(2) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), and are based on properly maintained financial records as per subsection 41(2) of the PGPA Act.

In our opinion, at the date of this statement, there are reasonable grounds to believe that the Australian Prudential Regulation Authority will be able to pay its debts as and when they fall due.



MR WAYNE BYRES
Chairman
17 September 2015



MRS HELEN ROWELL
Member
17 September 2015



MR STEVE MATTHEWS
Executive General Manager –
Corporate Services
17 September 2015

STATEMENT OF COMPREHENSIVE INCOME for the year ended 30 June 2015

	Notes	2015 \$'000	2014 \$'000
Expenses			
Employee benefits	4A	88,183	87,795
Supplier expenses	4B	21,827	22,943
Depreciation and amortisation	4C	7,224	7,006
Unwinding of discount for make good provision		66	90
Losses from asset disposals	4D	32	193
Total expenses		117,332	118,027
Less:			
Own-source income			
Own-source revenue			
Rendering of services	5A	3,104	3,831
Rental income		22	12
Other revenue	5B	1,555	1,030
Resources received free of charge	1.5	188	136
Total own-source revenue		4,869	5,009
Total own-source income		4,869	5,009
Net cost of services		112,463	113,018
Revenue from Government	5C	120,534	111,761
Operating surplus/(deficit)		8,071	(1,257)
Other comprehensive income			
Items not subject to subsequent reclassification to profit or loss			
Changes in asset revaluation reserve	6	384	222
Total other comprehensive income		384	222
Total comprehensive income/(loss)		8,455	(1,035)

The above statement should be read in conjunction with the accompanying Notes.

STATEMENT OF FINANCIAL POSITION

as at 30 June 2015

	Notes	2015 \$'000	2014 \$'000
Assets			
Financial assets			
Cash	8A	1,311	1,639
Trade and other receivables	8B	67,833	58,544
Total financial assets		69,144	60,183
Non-financial assets			
Property, plant and equipment	9A,B	5,323	3,997
Intangibles	9C,D	15,524	16,869
Other non-financial assets	9E	2,400	2,637
Total non-financial assets		23,247	23,503
Total assets		92,391	83,686
Liabilities			
Payables			
Suppliers	10A	258	475
Unearned fees and charges	10B	581	483
Other payables	10C	5,340	5,366
Total payables		6,179	6,324
Provisions			
Employee provisions	11A	33,155	32,467
Provision for make good	11B	2,596	2,997
Total provisions		35,751	35,464
Total liabilities		41,930	41,788
Net assets		50,461	41,898
Equity			
Contributed equity		16,657	16,549
Reserves		13,136	12,752
Retained surpluses		20,668	12,597
Total equity		50,461	41,898

The above statement should be read in conjunction with the accompanying Notes.

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2015

	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
	Retained surpluses		Asset revaluation reserve		Contingency Enforcement Fund		Contributed equity/capital		Total equity	
Opening balance										
Balance carried forward from previous period	12,597	13,854	6,752	6,530	6,000	6,000	16,549	12,279	41,898	38,663
Opening balance as at 1 July	12,597	13,854	6,752	6,530	6,000	6,000	16,549	12,279	41,898	38,663
Comprehensive income										
Other comprehensive income	-	-	384	222	-	-	-	-	384	222
Surplus/(deficit) for the period	8,071	(1,257)	-	-	-	-	-	-	8,071	(1,257)
Total comprehensive income	8,071	(1,257)	384	222	-	-	-	-	8,455	(1,035)
Contributions by owners										
Equity injection – appropriations	-	-	-	-	-	-	108	4,270	108	4,270
Sub-total: transactions with owners	-	-	-	-	-	-	108	4,270	108	4,270
Closing balance as at 30 June	20,668	12,597	7,136	6,752	6,000	6,000	16,657	16,549	50,461	41,898

The above statement should be read in conjunction with the accompanying Notes.

STATEMENT OF CASH FLOWS for the year ended 30 June 2015

	Notes	2015 \$'000	2014 \$'000
Operating activities			
Cash received			
Appropriations		117,327	117,598
Rendering of services		4,280	4,808
Net GST received		2,104	2,140
Other		1,535	1,556
Total cash received		125,246	126,102
Cash used			
Employees		(87,539)	(87,973)
Suppliers		(25,007)	(26,982)
Section 74 receipts transferred to Official Public Account (OPA) ¹		(5,815)	(8,425)
Total cash used		(118,361)	(123,380)
Net cash from operating activities	12	6,885	2,722
Investing activities			
Cash used			
Purchase of property, plant and equipment		(2,778)	(352)
Purchase/development of software intangibles		(4,543)	(6,362)
Total cash used		(7,321)	(6,713)
Net cash (used by) investing activities		(7,321)	(6,713)
Financing activities			
Cash received			
Equity injection – appropriations		108	4,270
Total cash received		108	4,270
Net cash from financing activities		108	4,270
Net increase/(decrease) in cash held		(328)	279
Cash at the beginning of the reporting period		1,639	1,360
Cash at the end of the reporting period	8A	1,311	1,639

The above statement should be read in conjunction with the accompanying Notes.

¹ Revenue and receipts from sources other than an appropriation Act are classified as Section 74 receipts.

SCHEDULE OF COMMITMENTS

as at 30 June 2015

	2015	2014
	\$'000	\$'000
By type¹		
Commitments receivable		
Net GST recoverable on commitments	(2,111)	(2,056)
Total commitments receivable	(2,111)	(2,056)
Commitments payable		
Operating leases	9,190	15,374
Other	14,037	7,236
Total commitments payable	23,227	22,610
Net commitments by type	21,116	20,554
By maturity		
Commitments receivable		
Net GST recoverable on commitments		
One year or less	(1,416)	(1,039)
From one to five years	(695)	(1,017)
Total net GST recoverable on commitments	(2,111)	(2,056)
Commitments payable		
Operating lease commitments		
One year or less	6,595	7,108
From one to five years	2,595	8,266
Total operating lease commitments	9,190	15,374
Other		
One year or less	8,985	4,318
From one to five years	5,052	2,918
Total other	14,037	7,236
Net commitments by maturity	21,116	20,554

Leases for office accommodation

Lease payments in Sydney (except for one level) are subject to prevailing market rates. Leases for all other offices are subject to fixed annual increments. Office leases, with current expiry dates shown in brackets, are current for space in Perth (2017), Melbourne (2016), Sydney (2016), Brisbane (2018) and Adelaide (2019).

This schedule does not include a commitment of \$267,834 relating to a Canberra office lease that was transferred to APRA from 1 July 2015.

The above schedule should be read in conjunction with the accompanying Notes.

¹ Commitments are stated inclusive of GST where relevant.

ADMINISTERED SCHEDULE OF COMPREHENSIVE INCOME for the year ended 30 June 2015

	Notes	2015 \$'000	2014 \$'000
Expenses			
Supervisory Levy waivers	17	5	3,228
Total expenses administered on behalf of Government		5	3,228
Less:			
Income			
Levy revenue			
Financial Institutions Supervisory Levies	18A	231,486	260,297
Financial Assistance Levy	18B	–	875
Total levy revenue		231,486	261,172
Net contribution by services		231,481	257,944

The above schedule should be read in conjunction with the accompanying Notes.

ADMINISTERED SCHEDULE OF ASSETS AND LIABILITIES as at 30 June 2015

	Notes	2015 \$'000	2014 \$'000
Assets			
Financial assets			
Receivables	19	373	525
Total assets administered on behalf of Government		373	525
Liabilities			
Liabilities administered on behalf of Government		–	–
Total liabilities administered on behalf of Government		–	–
Net assets administered on behalf of Government		373	525

The above schedule should be read in conjunction with the accompanying Notes.

ADMINISTERED RECONCILIATION SCHEDULE as at 30 June 2015

	2015	2014
	\$'000	\$'000
Opening administered assets less administered liabilities as at 1 July	525	775
Plus: Administered income	231,486	261,172
Less: Administered expenses	(5)	(3,228)
Transfers to/from Australian Government:		
Plus: Appropriation transfers from Official Public Account	24	15
Less: Transfers to Official Public Account	(231,657)	(258,209)
Closing administered assets less administered liabilities as at 30 June	373	525

The above schedule should be read in conjunction with the accompanying Notes.

ADMINISTERED STATEMENT OF CASH FLOWS for the year ended 30 June 2015

	Notes	2015 \$'000	2014 \$'000
Operating activities			
Cash received			
Financial Institutions Supervisory Levies		231,633	257,125
Financial Assistance Levy		–	1,072
Total cash received		231,633	258,197
Cash used			
Refunds for overpayment of Supervisory Levies		–	(3)
Total cash used		–	(3)
Net cash flows from operating activities	20	231,633	258,194
Net increase in cash held		231,633	258,194
Cash at the beginning of the reporting period			
Cash from Official Public Account for:		–	–
– APRA Special Account: Supervisory Levies		24	15
		24	15
Cash to Official Public Account for:			
– Financial Institutions Supervisory Levies		(231,657)	(257,137)
– Financial Assistance Levy		–	(1,072)
		(231,657)	(258,209)
Cash at the end of the reporting period		–	–

APRA administers the collection of Financial Institutions Supervisory Levies and Financial Assistance Levies on behalf of the Government. While the revenues from Financial Institutions Supervisory Levies are in part used to fund the operations of APRA, they are not directly available to APRA for its own purposes. The revenues from the Financial Assistance Levy are not available to APRA for its own purposes. All administered collections are remitted to the Official Public Account. Transactions and balances relating to levies are reported in Note 18: *Administered income*

This schedule should be read in conjunction with the accompanying Notes.

ADMINISTERED SCHEDULE OF COMMITMENTS for the year ended 30 June 2015

APRA had no administered commitments as at balance date (2014: Nil).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 Objectives of the Australian Prudential Regulation Authority (APRA)

APRA's mission is to establish and enforce prudential standards and practices designed to ensure that, under all reasonable circumstances, financial promises made by institutions APRA supervises are met within a stable, efficient and competitive financial system. APRA also acts as a national statistical agency for the Australian financial sector and plays a role in preserving the integrity of Australia's retirement incomes policy. In performing and exercising its functions and powers, APRA is to balance the objectives of financial safety and efficiency, competition, contestability and competitive neutrality and, in balancing these objectives, is to promote financial system stability in Australia.

APRA's activities contributing toward these outcomes are classified as either 'departmental' or 'administered'. Departmental activities involve the use of assets, liabilities, revenues and expenses controlled or incurred by APRA in its own right. Administered activities involve the management or oversight by APRA, on behalf of the Government, of items controlled or incurred by the Government.

APRA's continued existence in its present form and with its present programs is dependent on Government policy and on continuing appropriations from Parliament.

1.2 Basis of preparation of the financial statements

The financial statements and notes are required by section 42 of the *Public Governance, Performance and Accountability Act 2013* and are general purpose financial statements.

The financial statements and notes have been prepared in accordance with:

- the Financial Reporting Rule (FRR) for reporting periods ending on or after 1 July 2014; and
- Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial statements have been prepared on an accrual basis and in accordance with the historical cost convention, except for certain assets and liabilities at fair value. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

The financial statements are presented in Australian dollars and values are rounded to the nearest thousand dollars unless otherwise specified.

Unless an alternative treatment is specifically required by an accounting standard or the FRR, assets and liabilities are recognised in the *Statement of Financial Position* when and only when it is probable that future economic benefits will flow to APRA or a future sacrifice of economic benefits will be required and the amounts of the assets or liabilities can be reliably measured. Liabilities and assets that are unrecognised are reported in the *Schedule of Commitments* or the contingencies note.

Unless alternative treatment is specifically required by an accounting standard, income and expenses are recognised in the *Statement of Comprehensive Income* when and only when the flow, consumption or loss of economic benefits has occurred and can be reliably measured.

1.3 Significant accounting judgements and estimates

No accounting assumptions and estimates have been identified that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next accounting period.

APRA has assessed the value of its non-financial assets as at 30 June 2015 and is satisfied that they reflect the fair value.

1.4 Changes in Australian Accounting Standards

Adoption of new Australian Accounting Standard requirements

No accounting standard has been adopted earlier than the application date as stated in the standard. No new accounting standards, amendments to standards and interpretations issued by the AASB that were issued prior to the signing of the financial statements by Members and the Executive General Manager – Corporate Services and that are applicable in the current period, have had a material financial effect on APRA or are expected to have a future financial impact on APRA.

AASB 1055 Budgetary Reporting applies to reporting periods commencing on or after 1 July 2014 and requires APRA to disclose budgeted information presented to Parliament in the Portfolio Budget Statements. APRA is also required to provide explanations of significant variances between budgeted and actual amounts. The required disclosures have been included at Note 27.

Future Australian Accounting Standard requirements

No new or revised pronouncements were issued by the Australian Accounting Standards Board prior to the finalisation of the financial statements which are expected to have a material financial impact on APRA in future reporting periods.

As a not-for-profit public sector entity, APRA is currently exempt from the requirements of AASB 124 Related Party Disclosures. For reporting periods commencing on or after 1 January 2015, AASB 124 will be extended to apply to all not-for-profit public sector entities and APRA will be required to disclose any related party transactions in accordance with the revised standard. Disclosure of comparative information is not required in the first year of application.

1.5 Revenue

Revenue from Government

APRA is funded primarily through levies imposed on the industries it supervises. These levies, known as the Financial Institutions Supervisory Levies, are administered transactions collected on behalf of the Government and paid into the Consolidated Revenue Fund (CRF). An amount equal to the net levy revenue, less an amount specified by the Minister in an annual determination made under subsection 50(1) of the *Australian Prudential Regulation Authority Act 1998* (APRA Act), is credited to the APRA Special Account as a Special Appropriation, in accordance with subsections 50(2), (3) and (5) of the APRA Act. The amounts specified in the Minister's Determinations are retained in the CRF to cover: the costs of activities of the Australian Taxation Office (ATO) for unclaimed monies, lost member functions and for the implementation of the Stronger Super – SuperStream reforms; the Australian Securities and Investments Commission (ASIC) for consumer protection and market integrity functions; and the Department of Human Services (DHS) for the administration of claims for early release of superannuation benefits on compassionate grounds. The calculation of the Special Appropriation is shown at Note 3.

Amounts appropriated for APRA's outputs for the year (adjusted for any formal additions and reductions) are recognised as Revenue from Government when APRA gains control of the appropriation, except for certain amounts that relate to activities that are reciprocal in nature, in which case revenue is recognised only when it has been earned. Appropriations receivable are recognised at their nominal amounts.

Other revenue

Revenue from rendering of services is recognised by reference to the stage of completion of contracts at the reporting date. The revenue is recognised when:

- the amount of revenue, stage of completion and transaction costs incurred can be reliably measured; and
- the probable economic benefits associated with the transaction will flow to APRA.

The stage of completion of contracts at the reporting date is determined by reference to the proportion that costs incurred to date bear to the estimated total costs of the transaction.

Revenue and receipts from sources other than an appropriation Act are classified as Section 74 receipts.

Receivables for goods and services, which have 30-day terms, are recognised at the nominal amounts due less any impairment allowance. Collectability of debts is reviewed at balance date. Allowances are made when collectability of the debt is no longer probable.

Resources received free of charge

Resources received free of charge are recognised as revenue or gains when, and only when, a fair value can be reliably determined and the services would have been purchased if they had not been donated. Use of those resources is recognised as an expense. Resources received free of charge are recorded as either revenue or gains depending on their nature. The only resources received free of charge by APRA is audit services from the ANAO of \$188,000 (2014: \$135,500).

1.6 Transactions with the Government as owner

Equity injections

Amounts appropriated as 'equity injections' for a year (less any formal reductions) are recognised directly in contributed equity in that year.

1.7 Employee benefits

Liabilities for 'short-term employee benefits' (as defined in *AASB 119 Employee Benefits*) and termination benefits expected within 12 months of the balance date are measured at their nominal amounts. The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability.

All other long-term employee benefits are measured as the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date.

Leave

The liability for employee benefits includes provision for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years is estimated to be less than the annual entitlement for sick leave.

The annual and long service leave liabilities are calculated on the basis of employees' remuneration at the estimated salary rates that will be applied at the time the leave is taken, including APRA's employer superannuation contribution rates, assuming that the leave is likely to be taken during service rather than paid out on termination.

The liability for long service leave has been recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the end of the financial year. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

Separation and redundancy

Provision is made for separation and redundancy benefit payments in cases where APRA has developed a detailed formal plan for the terminations, and has informed those employees affected that it will carry out the terminations.

Superannuation

Certain employees of APRA are members of the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS). The CSS and PSS are defined benefit schemes for the Australian Government. The liability for defined benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course. This liability is reported in the Department of Finance's administered schedules and notes. APRA makes employer contributions to the employees' superannuation scheme at rates determined by an actuary to be sufficient to meet the current cost to the Government of the superannuation entitlement of APRA's employees. APRA accounts for the contributions as if they were contributions to defined contribution plans.

APRA also makes employer contributions to the Reserve Bank Officers' Superannuation Fund and to State-based superannuation schemes for former employees of the Reserve Bank of Australia and State-based regulators respectively. These are defined benefit schemes and the liability for the defined benefits are recognised in the financial statements of the relevant entity.

For all other employees, employer contributions are made to other superannuation (accumulation) funds as nominated by the employee.

The liability for superannuation recognised at the balance date represents outstanding contributions for the remaining days following the last payroll in June 2015.

1.8 Leases

A distinction is made between finance leases and operating leases. Finance leases effectively transfer from the lessor to the lessee substantially all the risks and rewards incidental to ownership of leased assets. APRA has no finance leases. In operating leases, the lessor effectively retains substantially all such risks and benefits.

Operating lease payments are expensed on a straight-line basis that is representative of the pattern of benefits derived from the leased assets.

1.9 Fair Value Measurement

APRA deems transfers between levels of the fair value hierarchy to have occurred between Level 1 and Level 2 if an asset has observable inputs other than quoted prices. An asset moves from Level 2 to Level 3 when inputs are no longer observable and are valued using depreciated replacement cost.

1.10 Cash

Cash is recognised at its nominal amount. Cash includes cash on hand and cash at bank.

1.11 Financial assets

APRA classifies its financial assets as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Financial assets are recognised and derecognised upon trade date.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate.

Impairment of financial assets

Financial assets are individually assessed for impairment at each balance date. Where there is sufficient evidence to suggest that an impairment loss has been incurred, the carrying amount is reduced by way of an allowance account. The loss is recognised in the *Statement of Comprehensive Income*.

1.12 Financial liabilities

APRA classifies its financial liabilities as 'payables'. Financial liabilities are recognised and derecognised upon trade date. Supplier and other payables are recognised at amortised cost. Liabilities are recognised to the extent that the goods or services have been received, and irrespective of having been invoiced.

Other payables are initially measured at fair value, net of transaction costs. These liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over

the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

1.13 Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are not recognised in the *Statement of Financial Position* but are reported in the relevant notes. They may arise from uncertainty as to the existence of an asset or liability, or represent an asset or liability in respect of which the amount cannot be reliably measured. Contingent assets are disclosed when settlement is probable but not virtually certain and contingent liabilities are disclosed when the probability of settlement is greater than remote.

1.14 Acquisition of assets

Assets are recorded at cost on acquisition, except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken. Financial assets are initially measured at their fair value plus transaction costs where appropriate.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and income at their fair value at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. In the latter case, assets are initially recognised as contributions by owners at the amounts at which they were recognised in the transferor entity's accounts immediately prior to the restructuring.

1.15 Property, plant and equipment

Asset recognition threshold

Purchases of property, plant and equipment are recognised initially at cost in the *Statement of Financial Position*, except for purchases costing less than \$5,000, which are expensed in the year of acquisition (other than where they form part of a group of similar items that are significant in total).

The initial cost of an asset includes an estimate of the cost of dismantling and removing the item and restoring the site on which it is located. This is particularly relevant to 'make good' provisions in property leases taken up by APRA where there exists an obligation to restore the property to its original condition. These costs are included in the value of APRA's leasehold improvements with a corresponding provision for the 'make good' recognised. Adjustments to the value of the provision are recognised in the *Statement of Comprehensive Income* as expenses or gains as incurred.

Revaluations

Following initial recognition at cost, property, plant and equipment are carried at fair value, less subsequent accumulated depreciation and accumulated impairment losses. Valuations are conducted with sufficient frequency such that the carrying amount of each class of asset is not materially different, at reporting date, from its fair value. Valuations are undertaken every three years as at 30 June (last valuation in 2014).

Fair values for each class of asset are determined as shown below:

Asset Class	Fair Value measured at:
Leasehold improvements	Depreciated replacement cost
Computer hardware and office equipment	Market selling price and depreciated replacement cost

Revaluation adjustments are made on a class basis. Any revaluation increment is credited to equity under the heading of asset revaluation reserve except to the extent that it reverses a previous revaluation decrement of the same asset class that was previously recognised in the *Statement of Comprehensive Income*. Revaluation decrements for a class of assets are recognised directly in the *Statement of Comprehensive Income* except to the extent that they reversed a previous revaluation increment for that class.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the asset restated to the revalued amount.

Depreciation

Depreciable plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to APRA using, in all cases, the straight-line method of depreciation. Leasehold improvements are depreciated on a straight-line basis over the lesser of the estimated useful life of the improvements or the unexpired period of the lease.

Depreciation rates (useful lives) and residual values are reviewed at each reporting date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate.

Depreciation rates applying to each class of depreciable asset are based on the following useful lives:

	2015	2014
Leasehold improvements	Lesser of 10 years or lease term	Lesser of 10 years or lease term
Computer hardware and office equipment	3 to 5 years	3 to 5 years

Impairment

All assets were assessed for indications of impairment as at 30 June 2015. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset. Where the future economic benefit of an asset is not primarily dependent on the asset's ability to generate future cash flows, and the asset would be replaced if APRA were deprived of the asset, its value in use is taken to be its depreciated replacement cost.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

1.16 Intangibles

APRA's intangibles comprise internally developed software and purchased software for internal use. These assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Software is amortised on a straight-line basis over its anticipated useful life. The useful lives of APRA's software are the lesser of five years or assessed useful life (2014: lesser of five years or assessed useful life).

All software assets were assessed for indications of impairment as at 30 June 2015.

1.17 Taxation

APRA is exempt from all forms of taxation except Fringe Benefits Tax (FBT) and Goods and Services Tax (GST).

Revenues, expenses and assets are recognised net of GST except where the amount of GST incurred is not recoverable from the Australian Taxation Office. Receivables and payables are recognised inclusive of GST.

1.18 Reporting of administered activities

Administered revenues, expenses, assets, liabilities and cash flows are disclosed in the *Administered Schedules* and related Notes. These administered items are distinguished from departmental items throughout these financial statements by background shading.

Except where otherwise stated below, administered items are accounted for on the same basis and using the same policies as for departmental items, including the application of Australian Accounting Standards.

Administered cash transfers to and from the Official Public Account (OPA)

Revenue collected by APRA for use by the Government is administered revenue. Collections are transferred to the OPA maintained by the Department of Finance. Conversely, cash is drawn from the OPA to make payments under Parliamentary appropriation on behalf of the Government. These transfers to and from the OPA are adjustments to the administered cash held by APRA on behalf of the Government and reported as such in the *Schedule of Administered Cash Flows* and in the *Administered reconciliation Schedule*.

Revenue

All administered revenues relate to the ordinary activities performed by APRA on behalf of the Government. These revenues are not directly available to be used by APRA for its own purposes and are remitted to the OPA.

APRA undertakes the collection of certain levies on behalf of the Government. These comprise Financial Institutions Supervisory Levies, Financial Assistance Levies and late payment penalties collected under the *Financial Institutions Supervisory Levies Collection Act 1998*.

Administered revenue arising from levies (including Financial Assistance Levies) is recognised on an accrual basis, in line with the Minister's regulations and determinations. The collectability of debts is reviewed at balance date. Provisions are made when collection of the debt is judged to be less, rather than more, likely.

Expenses

Administered expenses arising from waivers of levy debts are recognised at the time of approval by delegated APRA officials.

Waivers of levies under the *Financial Institutions Supervisory Levies Collection Act 1998* are shown at Note 17, as required by the FRR. Waivers generally occur due to a change of status of a supervised entity during the year, resulting in the annual levy being wholly or partly waived.

Contingent assets and liabilities

There were no administered contingent assets or liabilities in 2015 or in 2014.

1.19 Compliance with statutory conditions for payments from the Consolidated Revenue Fund

The Australian Government continues to have regard to developments in case law, including the High Court's most recent decision on Commonwealth expenditure in *Williams v Commonwealth* [2014] HCA 23, as they contribute to the larger body of law relevant to the development of Commonwealth programs. In accordance with its general practice, the Government will continue to monitor and assess risk and decide on any appropriate actions to respond to risks of expenditure not being consistent with constitutional or other legal requirements.

NOTE 2: EVENTS AFTER THE REPORTING PERIOD

There were no significant events occurring after the balance sheet date that have the potential to significantly affect the ongoing structure or financial activities of APRA.

NOTE 3: CALCULATION OF APRA SPECIAL APPROPRIATION

The APRA Special Appropriation is calculated in accordance with the provisions of s50 of the *Australian Prudential Regulation Authority Act 1998*.

Details are as follows:

	2015	2014
	\$'000	\$'000

Table 1: Summary

Current year levies and penalties (see Note 18A, Table 1)	231,486	260,297
Less: Waivers and doubtful debts (see Note 17)	(5)	(3,228)
Net current year levies and penalties (see Table 2 below)	231,481	257,069
Less: Amount retained in the CRF (see Table 3 below)	(111,900)	(147,543)
Total	119,581	109,526

Table 2: Net current year levies and penalties by levy type

Superannuation funds	131,627	155,498
Authorised deposit-taking institutions	59,171	61,277
Life insurers and friendly societies	14,778	14,241
General insurers	25,905	26,053
Total	231,481	257,069

Table 3: Amounts retained in the CRF by levy type¹

Superannuation funds	(95,200)	(125,443)
Authorised deposit-taking institutions	(10,100)	(13,900)
Life insurers and friendly societies	(2,700)	(3,300)
General insurers	(3,900)	(4,900)
Total	(111,900)	(147,543)

Table 4: Amounts of levy payable to APRA under the APRA Special Appropriation by levy type

Superannuation funds	36,427	30,055
Authorised deposit-taking institutions	49,071	47,377
Life insurers and friendly societies	12,078	10,941
General insurers	22,005	21,153
Total	119,581	109,526

This is represented by:

Special Appropriation	119,581	109,526
Total	119,581	109,526

¹ Including amounts as determined by the Minister in accordance with subsection 50 (1) of the *Australian Prudential Regulation Authority Act 1998*.

NOTE 4: EXPENSES

	2015	2014
	\$'000	\$'000
Note 4A: Employee benefits		
Salaries and wages	71,568	72,596
Superannuation	7,875	7,829
Leave and other entitlements	8,187	7,190
Separation and redundancies	437	87
Other employee benefits	116	93
Total employee benefits	88,183	87,795
Note 4B: Supplier expenses		
Goods and services		
Consultants	1,040	471
Contractors	1,160	1,314
Travel-related	2,195	2,151
Administrative	2,552	2,752
Information, communication and technology	2,616	4,183
Professional services	2,025	1,886
Property	1,697	1,791
Training and conferences	1,820	1,664
Other	16	95
Total goods and services	15,121	16,307
Goods and services are made up of:		
Provision of goods – external parties	1,023	2,582
Rendering of services – related entities	1,629	1,923
Rendering of services – external parties	12,469	11,802
Total goods and services	15,121	16,307
Other supplier expenses		
Operating lease rentals – external parties:		
– minimum lease payments	6,041	6,205
Workers' compensation premiums	665	431
Total other supplier expenses	6,706	6,636
Total supplier expenses	21,827	22,943

NOTE 4: EXPENSES (CONTINUED)

	2015	2014
	\$'000	\$'000
Note 4C: Depreciation and amortisation		
Depreciation:		
Computer hardware	350	624
Leasehold improvements	1,018	1,179
Total depreciation	1,368	1,803
Amortisation:		
Intangibles – computer software	5,856	5,203
Total amortisation	5,856	5,203
Total depreciation and amortisation	7,224	7,006
Note 4D: Losses from asset disposals		
Property, plant and equipment		
Carrying value of assets disposed	–	14
Total losses from asset disposals	–	14
Intangibles		
Carrying value of assets disposed	32	179
Total losses from asset disposals	32	179
Total losses from asset disposals	32	193

NOTE 5: INCOME

		2015	2014
	Notes	\$'000	\$'000
Note 5A: Rendering of services			
Rendering of services – government entities		1,224	1,888
Rendering of services – external entities		1,880	1,943
Total rendering of services		3,104	3,831
Note 5B: Other revenue			
Licence fees from finance sector entities		889	729
Superannuation trustee applications		–	29
Fees from foreign bank representative offices		190	199
Recoveries from RBA for scholarships		–	23
Other		476	51
Total other revenue		1,555	1,030
Note 5C: Revenue from Government			
Appropriations:			
Special Appropriation	3	119,581	109,526
Departmental appropriation		953	2,235
Total revenue from Government		120,534	111,761

NOTE 6: OTHER COMPREHENSIVE INCOME

		2015	2014
		\$'000	\$'000
Changes in asset revaluation reserve			
Net asset revaluation		–	236
Make good revaluation		384	(14)
Total changes in asset revaluation reserve		384	222

NOTE 7: FAIR VALUE MEASUREMENT

The following tables provide an analysis of assets and liabilities that are measured at fair value. The different levels of the fair value hierarchy are defined below.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at measurement date. APRA does not have any Level 1 assets.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

Note 7A: Fair value measurements, Valuation Techniques and Inputs Used

	Fair value measurements at the end of the reporting period using			For Level 2 and 3 fair value measurements		
	2015 \$'000	2014 \$'000	Category (Level 1,2 or 3)	Valuation technique(s) ^{1,2}	Inputs used	Range (weighted average)
Non-financial assets						
Computer hardware and office equipment	542	688	Level 2	Market approach	Adjusted market transactions	
	2,754	144	Level 2	Market approach	Market purchase price	
	87	125	Level 3	DRC	Replaced cost	
					Consumed economic benefit/obsolescence of asset	12.50% - 20.00% (14.29%) per annum
Leasehold improvements	–	101	Level 2	Market approach	Market purchase price	
	635	821	Level 3	DRC	Lease agreement	
	1,305	2,118	Level 3	DRC	Replacement cost (price per square metre)	
					Consumed economic benefit/obsolescence of asset	5.6% - 34.3% (7.1%) per annum
Total non-financial assets	5,323	3,997				
Total fair value measurements of assets in the statement of financial position	5,323	3,997				
Total assets not measured at fair value in the statement of financial position	–	–				

¹ There have been no changes to valuation techniques.

² DRC – Depreciated replacement cost.

Fair value measurements – best use

APRA's assets are held for operational purposes and not held for the purposes of deriving a profit. The current use of all controlled assets is considered their best use.

Recurring Level 3 fair value measurements – valuation processes

APRA conducts an internal management review of asset valuations at least once every 12 months (with a formal revaluation undertaken once every three years). During 2013-14, APRA procured the service of the Australian Valuation Services (AVS) to undertake a comprehensive valuation of all non-financial assets at 30 June 2014.

Recurring Level 3 fair value measurements – sensitivity of inputs

Significant Level 3 inputs used by APRA are derived and evaluated as follows:

Computer hardware, office equipment and leasehold Improvements – Consumed economic benefit/obsolescence of asset

Assets that do not transact with enough frequency or transparency to develop objective opinions of value from observable market evidence have been measured utilising the Depreciated Replacement Cost (or DRC) approach. Under the DRC approach the estimated cost to replace the asset is calculated and then adjusted to take into account its consumed economic benefit/asset obsolescence (accumulated depreciation). Consumed economic benefit/asset obsolescence has been determined based on professional judgement regarding physical, economic and external obsolescence factors relevant to the asset under consideration.

The weighted average is determined by assessing the fair value measurement as a proportion of the total fair value for the class against the total useful life of each asset.

Recurring Level 3 fair value measurements – sensitivity analysis for financial assets

Computer hardware, office equipment and leasehold improvements

The significant unobservable inputs used in the fair value measurement of APRA's leasehold improvements asset class relate to the consumed economic benefit / obsolescence of the asset. A significant increase (decrease) in this input would result in a significantly higher (lower) fair value measurement. There were no significant inter-relationships between unobservable inputs that materially affect fair value.

Note 7B: Level 1 and Level 2 transfers for recurring fair value measurements

There have been no transfers between levels of the hierarchy during the year.

NOTE 8: FINANCIAL ASSETS

	2015 \$'000	2014 \$'000
Note 8A: Cash		
APRA official bank accounts	1,309	1,637
Cash on hand	2	2
Total cash and cash equivalents	1,311	1,639
Note 8B: Trade and other receivables		
Goods and services:		
Goods and services – related entities	44	106
Goods and services – external parties	1,480	1,933
Total receivables for goods and services	1,524	2,039
Appropriations receivable:		
For existing outputs	1,177	280
Special Appropriations	62	214
APRA Special Account	64,130	55,977
Total appropriations receivable	65,369	56,471
Other receivables:		
GST receivable from the Australian Taxation Office	462	128
Other	478	–
Total other receivables	940	128
Total trade and other receivables (gross)	67,833	58,638
Less: impairment allowance account:		
Trade and other receivables	–	(94)
Total impairment allowance account	–	(94)
Total trade and other receivables (net)	67,833	58,544
Receivables are expected to be recovered in:		
No more than 12 months	67,833	58,544
More than 12 months	–	–
Total trade and other receivables (net)	67,833	58,544

NOTE 8: FINANCIAL ASSETS (CONTINUED)

	2015	2014
	\$'000	\$'000
Receivables are aged as follows:		
Not overdue	66,320	58,491
Overdue by:		
– 0 to 30 days	1,467	2
– 31 to 60 days	4	11
– 61 to 90 days	1	7
– more than 90 days	41	127
Total receivables (gross)	67,833	58,638
The impairment allowance account is aged as follows:		
– more than 90 days	–	(94)
Total impairment allowance account	–	(94)
Reconciliation of the impairment allowance account:		
Movements		
Opening balance	(94)	–
Increase/(decrease) recognised in net cost of services	–	(94)
Amounts written off	94	–
Closing balance	–	(94)

NOTE 9: NON-FINANCIAL ASSETS

Note 9A: Property, plant and equipment

	2015 \$'000	2014 \$'000
Computer hardware and office equipment		
– fair value	3,732	1,236
– accumulated depreciation	(350)	(279)
Total computer hardware and office equipment	3,382	957
Leasehold improvements		
– fair value	5,355	5,435
– accumulated depreciation	(3,414)	(2,395)
Total leasehold improvements	1,941	3,040
Total property, plant and equipment	5,323	3,997

No property, plant or equipment is expected to be sold or disposed of within the next 12 months.

Revaluations of non-financial assets

Revaluations are conducted in accordance with the revaluation policy stated in Note 1.15. The latest revaluation was undertaken by an independent valuer in May 2014. The revalued assets were valued as at 30 June 2014.

In 2015, APRA management performed an assessment of changes in the fair value of non-financial assets and concluded that this value is still materially correct.

Note 9B: Reconciliation of the opening and closing balances of property, plant and equipment – 2015

	Computer hardware and office equipment \$'000	Leasehold improvements \$'000	Total \$'000
As at 1 July 2014			
Gross book value	1,236	5,435	6,671
Accumulated depreciation	(279)	(2,395)	(2,674)
Net book value 1 July 2014	957	3,040	3,997
Additions:			
By purchase	2,775	3	2,778
By additional make good provision	–	30	30
Revaluation of make good provision	–	(114)	(114)
Depreciation expense	(350)	(1,018)	(1,368)

NOTE 9: NON-FINANCIAL ASSETS (CONTINUED)

Note 9B: Reconciliation of the opening and closing balances of property, plant and equipment – 2015 (continued)

	Computer hardware and office equipment \$'000	Leasehold improvements \$'000	Total \$'000
Disposals:			
Write-off (at cost)	(279)	–	(279)
Write-off (accumulated depreciation)	279	–	279
Net book value 30 June 2015	3,382	1,941	5,323

Net book value as of 30 June 2015 represented by:

Gross book value	3,732	5,355	9,087
Accumulated depreciation	(350)	(3,414)	(3,764)
Net book value 30 June 2015	3,382	1,941	5,323

Note 9B: Reconciliation of the opening and closing balances of property, plant and equipment – 2014

	Computer hardware and office equipment \$'000	Leasehold improvements \$'000	Total \$'000
As at 1 July 2013			
Gross book value	2,651	7,688	10,339
Accumulated depreciation	(1,079)	(3,788)	(4,867)
Net book value 1 July 2013	1,572	3,900	5,472

Additions:

By purchase	263	137	400
By additional make good provision	–	28	28
Revaluations and impairments recognised in other comprehensive income	78	158	236
Depreciation expense	(624)	(1,179)	(1,803)
Reclassification ¹	(322)	–	(322)
Disposals:			
Write-off (at cost)	(18)	(149)	(167)
Write-off (accumulated depreciation)	8	145	153
Net book value 30 June 2014	957	3,040	3,997

Net book value as of 30 June 2014 represented by:

Gross book value	1,236	5,435	6,671
Accumulated depreciation	(279)	(2,395)	(2,674)
Net book value 30 June 2014	957	3,040	3,997

¹This includes amounts expensed or reclassified as intangibles.

NOTE 9: NON-FINANCIAL ASSETS (CONTINUED)

Note 9C: Intangibles

	2015	2014
	\$'000	\$'000
Computer software:		
internally developed – in progress	2,913	1,822
internally developed – in use	31,988	29,644
purchased – in progress	225	48
purchased – in use	7,815	7,174
accumulated amortisation	(27,417)	(21,819)
Total computer software	15,524	16,869
Total intangibles	15,524	16,869

No intangibles are expected to be sold or disposed of within the next 12 months.

Note 9D: Reconciliation of the opening and closing balances of intangibles – 2015

	Computer software internally developed \$'000	Computer software purchased \$'000	Total \$'000
As at 1 July 2014			
Gross book value	31,466	7,222	38,688
Accumulated amortisation	(16,125)	(5,694)	(21,819)
Net book value 1 July 2014	15,341	1,528	16,869
Additions:			
By purchase	3,610	933	4,543
Amortisation	(5,247)	(609)	(5,856)
Disposals:			
Write-off (at cost)	(175)	(115)	(290)
Write-off (accumulated amortisation)	158	100	258
Net book value 30 June 2015	13,687	1,837	15,524
Net book value as of 30 June 2015 represented by:			
Gross book value	34,901	8,040	42,941
Accumulated amortisation	(21,214)	(6,203)	(27,417)
	13,687	1,837	15,524

NOTE 9: NON-FINANCIAL ASSETS (CONTINUED)

Note 9D: Reconciliation of the opening and closing balances of intangibles – 2014

	Computer software internally developed \$'000	Computer software purchased \$'000	Total \$'000
As at 1 July 2013			
Gross book value	28,398	6,943	35,341
Accumulated amortisation	(13,891)	(5,326)	(19,217)
Net book value 1 July 2013	14,507	1,617	16,124
Additions:			
By purchase	–	543	543
Internally developed	5,269	–	5,269
Amortisation	(4,601)	(601)	(5,202)
Reclassification ¹	314	–	314
Disposals:			
Write-off (at cost)	(2,515)	(264)	(2,779)
Write-off (accumulated amortisation)	2,367	233	2,600
Net book value 30 June 2014	15,341	1,528	16,869
Net book value as of 30 June 2014 represented by:			
Gross book value	31,466	7,222	38,688
Accumulated amortisation	(16,125)	(5,694)	(21,819)
Net book value 30 June 2014	15,341	1,528	16,869

¹ This includes amounts expensed or reclassified as intangibles.

Note 9E: Other non-financial assets

	2015 \$'000	2014 \$'000
Prepayments	2,400	2,630
Lease incentives	–	7
Total other non-financial assets	2,400	2,637
Total other non-financial assets are expected to be recovered in:		
less than 12 months	2,357	2,474
more than 12 months	43	163
Total other non-financial assets	2,400	2,637

NOTE 10: PAYABLES

	2015	2014
	\$'000	\$'000
Note 10A: Suppliers		
Operating lease rentals	257	475
Trade creditors	1	–
Total suppliers payables	258	475

Operating lease rentals payable relate to external parties and are expected to be settled during the lease period.

Note 10B: Unearned fees and charges

Unearned revenue	581	483
Total unearned fees and charges	581	483

Unearned fees and charges are expected to be settled in less than 12 months.

Note 10C: Other payables

Accrued expenses	2,262	2,252
Salaries and wages	2,852	2,653
Lease incentives	179	302
Treasurer's Determination owed to Official Public Account	–	123
Motor vehicle lease liability	47	36
Total other payables	5,340	5,366

Other payables are expected to be settled in:

– less than 12 months	5,220	5,150
– more than 12 months	120	216
Total other payables	5,340	5,366

NOTE 11: PROVISIONS

	2015 \$'000	2014 \$'000
Note 11A: Employee provisions		
Leave	28,278	26,880
Bonus	4,731	5,072
Other employee provisions	146	515
Total employee provisions	33,155	32,467
Employee provisions are expected to be settled in:		
– less than 12 months	13,427	13,825
– more than 12 months	19,728	18,642
Total employee provisions	33,155	32,467
Note 11B: Provision for make good		
Provisions for make good	2,596	2,997
Total provision for make good	2,596	2,997
Provision for make good are expected to be settled in:		
– more than 12 months	2,596	2,997
Total provision for make good	2,596	2,997
		Provision for make good
Reconciliation of provision for make good:		\$'000
Carrying amount 1 July 2014		2,997
Additional provisions made		30
Unwinding of discount or change in rate		(431)
Closing balance 30 June 2015		2,596

At 30 June 2015, APRA leased premises in Sydney, Melbourne, Brisbane, Perth and Adelaide.

In the lease conditions of all locations there is a requirement for APRA, upon expiration of the lease, to restore the premises to the condition they were in at the commencement of the lease. The required level of 'make good' provision is being accumulated for each location over the terms of the various leases.

NOTE 12: STATEMENT OF CASH FLOWS RECONCILIATION

	2015 \$'000	2014 \$'000
Reconciliation of cash and cash equivalents as per Statement of Financial Position to Statement of Cash Flows		
Cash as per:		
Statement of cash flows	1,311	1,639
Statement of financial position	1,311	1,639
Difference	–	–
Reconciliation of net cost of services to net cash from operating activities		
Net cost of services	(112,463)	(113,018)
Add: revenue from Government	120,534	111,761
Adjustments for non–cash items		
Depreciation/amortisation	7,224	7,006
Loss on disposal of assets	32	193
Make good	468	(42)
Changes in assets / liabilities		
(Increase) in net receivables	(9,289)	(1,853)
(Increase) / decrease in other non–financial assets	237	(526)
Increase / (decrease) in employee provisions	688	(113)
(Decrease) in supplier payables	(217)	(208)
Increase / (decrease) in unearned fees and charges	98	(270)
(Decrease) in other payables	(26)	(305)
Increase / (decrease) in other provisions	(401)	97
Net cash from operating activities	6,885	2,722

NOTE 13: CONTINGENT ASSETS AND LIABILITIES

Quantifiable contingencies

APRA has no quantifiable contingencies as at balance date (2014: Nil).

Unquantifiable contingencies

APRA has no unquantifiable contingencies as at balance date (2014: Nil).

Significant remote contingencies

APRA has no significant remote contingencies as at balance date (2014: Nil).

NOTE 14: SENIOR MANAGEMENT PERSONNEL REMUNERATION

	2015	2014
	\$	\$
Short-term employee benefits:		
Salary (including annual leave)	8,014,290	7,874,053
Performance bonuses	416,234	400,321
Allowances	462	816
Total short-term employee benefits	8,430,986	8,275,190
Post-employment benefits:		
Superannuation	1,013,826	936,331
Total post-employment benefits	1,013,826	936,331
Other long-term benefits:		
Movement in annual leave provision	797,944	776,280
Long-service leave accrued	674,198	150,354
Total other long-term benefits	1,472,142	926,634
Total senior executive remuneration expenses	10,916,954	10,138,155

The total number of senior management personnel that are included in the above table are 28 individuals (2014: 28 individuals).

NOTE 15: FINANCIAL INSTRUMENTS

	2015	2014
	Notes	\$'000
	\$'000	\$'000
Note 15A: Categories of financial instruments		
Financial assets		
Loans and receivables:		
Cash	1,311	1,639
Trade receivables	1,524	1,945
Other receivables	478	-
Carrying amount of financial assets	16	3,313
Financial liabilities		
At amortised cost:		
Suppliers	258	475
Other payables	5,340	5,366
Carrying amount of financial liabilities		5,598

The carrying amounts of the financial instruments are a reasonable representation of their fair value.

NOTE 15: FINANCIAL INSTRUMENTS (CONTINUED)

Note 15B: Credit risk

APRA's maximum exposure to credit risk at the reporting date is the carrying amount of the trade receivables reported in the *Statement of Financial Position*. APRA has no significant exposures to any other concentrations of credit risk.

Credit quality of financial instruments not past due or individually determined as impaired

	Not past due nor impaired	Not past due nor impaired	Past due or impaired	Past due or impaired
	2015	2014	2015	2014
	\$'000	\$'000	\$'000	\$'000
Cash	1,311	1,639	–	–
Trade receivables	11	1,892	1,513	147
Other receivables	478	–	–	–
Total	1,800	3,531	1,513	147

Ageing of financial assets that were past due but not impaired for 2015

	0 to 30 days	31 to 60 days	61 to 90 days	90+ days	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Trade receivables	1,467	4	1	41	1,513
Total	1,467	4	1	41	1,513

Ageing of financial assets that were past due but not impaired for 2014

	0 to 30 days	31 to 60 days	61 to 90 days	90+ days	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Trade receivables	2	11	7	33	53
Total	2	11	7	33	53

Note 15C: Liquidity risk

APRA is funded annually by appropriations from Government based on the actual cost of regulation of the financial sector, fee for service activities and other activities that APRA may be required to perform from time to time. In addition, APRA maintains reserves and a Contingency Enforcement Fund. These arrangements, along with strictly controlled cash flow monitoring and forecasting, expose APRA to negligible liquidity risk.

Note 15D: Market risk

APRA is not exposed to any form of currency risk, interest rate risk or other price risk.

NOTE 16: FINANCIAL ASSETS RECONCILIATION

		2015	2014
	Notes	\$'000	\$'000
Financial assets			
Total financial assets as per Statement of financial position		69,144	60,183
Less: non-financial instrument components:			
Other GST receivable	8B	462	128
Appropriation receivable		65,369	56,471
Total non-financial instrument components		65,831	56,599
Total financial assets as per financial instruments note	15A	3,313	3,584

NOTE 17: ADMINISTERED EXPENSES

		2015	2014
		\$'000	\$'000
Waivers			
Supervisory Levy waivers		5	3,228
Total waivers		5	3,228
Levies and late payment penalties waived by levy type			
General insurers		5	–
Superannuation funds		–	3,228
Total		5	3,228

NOTE 18: ADMINISTERED INCOME

		2015	2014
		\$'000	\$'000
Revenue			
Levy revenue			
Note 18A: Financial Institutions Supervisory Levies			
Current year levies and penalties (see Table 1) ¹		231,486	260,297
Total Financial Institutions Supervisory Levies		231,486	260,297
Table 1: Financial Institutions Supervisory Levies revenue by type			
Levy:			
Superannuation funds		131,515	158,640
Authorised deposit-taking institutions		59,171	61,277
Life insurers and friendly societies		14,778	14,241
General insurers		25,910	26,053
Total levies		231,374	260,211

NOTE 18: ADMINISTERED INCOME (CONTINUED)

	2015	2014
	\$'000	\$'000
Late payment penalties:		
Superannuation funds	112	86
Total late payment penalties	112	86
Total current year levies and penalties	231,486	260,297

The financial institutions supervisory levies are set to recover the operational costs of APRA, and other specific costs incurred by certain Commonwealth agencies and departments. The proportion of total current year levies and penalties attributable to APRA is set out in Note 3.

¹ Financial institutions supervisory levies are detailed in the annual consultation paper released by Treasury. In addition, APRA publishes a Cost Recovery Implementation Statement in relation to its component of the financial institutions supervisory levies.

	2015	2014
	\$'000	\$'000
Note 18B: Financial Assistance Levy		
Current year levies	-	-
Other – recoveries	-	874
Total Financial Assistance Levy	-	874
Late payment penalties:	-	1
Total late payment penalties	-	1
Total current year levies and penalties	-	875

NOTE 19: ADMINISTERED FINANCIAL ASSETS

	2015	2014
	\$'000	\$'000
Financial assets		
Receivables		
Financial Institutions Supervisory Levies	63	215
Financial Assistance Levy	310	310
Total receivables	373	525
Receivables were aged as follows:		
Not overdue	63	215
Overdue by:		
– more than 90 days	310	310
Total receivables	373	525
There is no impairment allowance in 2015 (2014: Nil).		

NOTE 20: ADMINISTERED STATEMENT OF CASH FLOWS RECONCILIATION

	2015	2014
	\$'000	\$'000
Reconciliation of cash as per Administered schedule of assets and liabilities to Administered statement of cash flows		
Cash as per:		
Administered statement of cash flows	–	–
Administered schedule of assets and liabilities	–	–
Difference	–	–
Reconciliation of net cost of services to net cash from operating activities:		
Net cost of services	231,481	257,944
Changes in assets / liabilities		
Decrease in net receivables	152	250
Net cash from operating activities	231,633	258,194

NOTE 21: ADMINISTERED CONTINGENT ASSETS AND LIABILITIES

Unquantifiable administered contingencies

APRA is responsible for the administration of the Financial Claims Scheme (FCS). The FCS provides depositors of authorised deposit taking institutions (ADIs) and claimants of general insurers (GIs) with timely access to their funds in the event of a financial institution failure.

Under the *Banking Act 1959* the scheme provides a mechanism for making payments to depositors under the Government's guarantee of deposits in ADIs. Payments are capped at \$250,000 per account-holder per ADI. As at 31 December 2014, deposits eligible for coverage under the Scheme were estimated to be \$766 billion, compared to \$722.8 billion as at 31 December 2013, reflecting overall deposit growth in the financial system.

Under the *Insurance Act 1973* the scheme provides a mechanism for making payments to eligible beneficiaries with a valid claim against a failed GI. It is not possible to estimate these claims.

In the very unlikely event of an ADI or GI failure, any payments made under the FCS would be recovered through the liquidation of the failed institution. If there was a shortfall in the amount recovered through the liquidation of the failed institution, a levy could be applied to the relevant industry to recover the difference between the amount expended and the amount recovered in the liquidation.

Under the FCS, any payments to account-holders with protected accounts or eligible claimants would be made from APRA's FCS Special Account. Under the legislation, initial amounts available to meet payments, in the event of activation, are up to \$20 billion per institution and up to \$100 million for administration.

It is not possible to estimate the amounts of any eventual payments that may be required in relation to either the ADI FCS or GI FCS and as such no amount is included in this note.

NOTE 22: APPROPRIATIONS

Note 22A: Annual appropriations ('recoverable GST exclusive')

Annual 2015 Appropriations

	<i>Appropriation Act</i>	<i>PGPA Act</i>	Total appropriation \$'000	Appropriation applied in 2015 (current and prior years) \$'000	Variance ¹ \$'000	Section 51 determinations
	Annual appropriation \$'000	Section 74 \$'000				
Departmental						
Ordinary annual services	953	5,815	6,768	5,871	897	-
Other services						
Government equity contribution	108	-	108	108	-	-
Total departmental	1,061	5,815	6,876	5,979	897	-
Administered						
Other services						
New administered outcomes	-	-	-	-	-	-
Total administered	-	-	-	-	-	-

NOTE 22: APPROPRIATIONS (CONTINUED)

Note 22A: Annual appropriations ('recoverable GST exclusive') (continued)

Annual 2014 Appropriations

	<i>Appropriation Act</i>	<i>PGPA Act</i>	Total appropriation \$'000	Appropriation applied in 2014 (current and prior years) \$'000	Variance ¹ \$'000	Section 51 determinations
	Annual appropriation \$'000	Section 74 \$'000				
Departmental						
Ordinary annual services	2,235	6,285	8,520	8,966	(446)	-
Other services						
Government equity contribution	4,270	-	4,270	4,270	-	-
Total departmental	6,505	6,285	12,790	13,236	(446)	-
Administered						
Other services						
New administered outcomes	-	-	-	-	-	-
Total administered	-	-	-	-	-	-

¹The variance between the total appropriation and the appropriation applied is made up of the prior year appropriation receivable applied in the current year less the current year appropriation receivable.

There were no determinations under section 51 of PGPA Act that constitute a permanent loss of control in 2015 or in 2014.

Note 22B: Unspent annual appropriations ('recoverable GST exclusive')

Authority	2015 \$'000	2014 \$'000
Departmental		
Appropriation Act (No. 1) 2014-15	1,177	-
Appropriation Act (No. 1) 2013-14	-	280
Appropriation Act (No. 2) 2012-13	-	3,197
Total	1,177	3,477

NOTE 22: APPROPRIATIONS (CONTINUED)

Note 22C: Special appropriations applied ('recoverable GST exclusive')

Authority	Type	Purpose	Appropriation applied	
			2015 \$'000	2014 \$'000
Australian Prudential Regulation Authority Act 1998 – section 50, Departmental	Unlimited	To provide an appropriation for levy money received that exceeds the amount determined by the Minister under section 50(1) of the <i>Australian Prudential Regulation Act 1998</i> .	119,609	109,782
Total			119,609	109,782

NOTE 23: SPECIAL ACCOUNTS

	APRA Special Account (Departmental) ¹		Financial Claims Scheme Special Account (Administered) ²		Lloyd's Deposit Trust Special Account ³	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Balance brought forward from previous period	57,614	54,124	835	242	2,000	2,000
Increases:						
Departmental						
Special appropriation for reporting period	119,609	109,782	–	–	–	–
Appropriation Act No.1	5,871	8,966	–	–	–	–
Appropriation Act No.2	108	4,270	–	–	–	–
Total departmental increases	125,588	123,018	–	–	–	–
Administered						
Special appropriation for reporting period	–	–	–	593	–	–
Total administered increases	–	–	–	593	–	–
Available for payments	183,202	177,142	835	835	2,000	2,000
Decreases:						
Departmental						
Payments made – employees	(87,539)	(87,973)	–	–	–	–
Payments made – suppliers	(22,903)	(25,452)	–	–	–	–
Payments made – purchase assets	(7,321)	(6,103)	–	–	–	–
Total departmental decreases	(117,763)	(119,528)	–	–	–	–

NOTE 23: SPECIAL ACCOUNTS (CONTINUED)

	APRA Special Account (Departmental) ¹		Financial Claims Scheme Special Account (Administered) ²		Lloyd's Deposit Trust Special Account ³	
	2015	2014	2015	2014	2015	2014
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Administered						
Repayments made from the Special Account	-	-	-	-	-	-
Total administered decreases	-	-	-	-	-	-
Total balance carried to the next period	65,439	57,614	835	835	2,000	2,000

¹ Appropriation: *Public Governance, Performance and Accountability Act 2013*, section 80.

Establishing Instrument: *Australian Prudential Regulation Authority Act 1998*, section 52.

Purpose: To pay the costs and other obligations incurred by APRA in the performance of its functions or the exercise of its powers; to pay any remuneration or allowances payable to persons appointed or engaged under the APRA Act; and to make any other payments that APRA is authorised or required to make under the APRA Act or any other law of the Commonwealth.

² Appropriation: *Public Governance, Performance and Accountability Act 2013*, section 80.

Establishing Instrument: *Australian Prudential Regulation Authority Act 1998*, section 54A.

There were no transactions debited or credited to the Financial Claims Scheme Special Account in the current reporting period.

Purpose: To meet account-holders' entitlements under Subdivision C (Payment of account-holders with declared ADI) of Division 2AA of Part II of the *Banking Act 1959*; meet persons' entitlements under Division 3 (Early payment of claims) of Part VC of the *Insurance Act 1973*; pay APRA's agents or delegates amounts equal to the entitlements the agents or delegates meet on APRA's behalf or in the performance of APRA's delegated functions; and repayment of principal, interest and other costs connected with the borrowings under Division 2 of the APRA Act.

³ Appropriation: *Public Governance, Performance and Accountability Act 2013*, section 78.

Establishing Instrument: *Financial Management and Accountability Determination 2006/26*.

Purpose: To disburse amounts in accordance with section 92Q of the *Insurance Act 1973*.

Responsibility for the administration of the Lloyd's Deposit Trust Special Account was transferred from the Department of Treasury to APRA with effect from 26 May 2008.

The market valuation as at 30 June 2015 for Lloyd's inscribed stock is \$2,034,920 (2014: \$2,076,800).

NOTE 24: ASSETS HELD IN TRUST

Monetary assets

Lloyd's inscribed stock is held by APRA in trust. Responsibility for the administration of the Lloyd's Deposit Trust Special Account was transferred from the Department of Treasury to APRA with effect from 26 May 2008. The purpose is to disburse amounts in accordance with section 92Q of the *Insurance Act 1973*.

	2015	2014
	\$'000	\$'000
Lloyd's inscribed stock		
Total amount held at the beginning of the reporting period	2,000	2,000
Receipts	95	95
Payments	(95)	(95)
Total amount held at the end of the reporting period	2,000	2,000
Total	2,000	2,000

The market valuation as at 30 June 2015 for Lloyd's inscribed stock is \$2,034,920 (2014: \$2,076,800).

Non-monetary assets

APRA has no non-monetary assets held in trust.

NOTE 25: REPORTING OF OUTCOMES

Net cost of outcome delivery

APRA is structured to meet the following outcome:

Outcome 1: To enhance public confidence in Australia's financial institutions through a framework of prudential regulation which balances financial safety and efficiency, competition, contestability and competitive neutrality.

	2015	2014
	\$'000	\$'000
		Outcome 1
Departmental		
Expenses	117,332	118,027
Own-source Income	4,869	5,009
Administered		
Expenses	5	3,228
Own-source income	231,486	261,172
Net (contribution) of outcome delivery	(119,018)	(144,926)

NOTE 26: COST RECOVERY SUMMARY

	2015	2014
	\$'000	\$'000
Expenses		
Departmental	2,269	2,501
Total expenses	2,269	2,501
Revenue		
Departmental	2,269	2,501
Total revenue	2,269	2,501
Receivables		
	1,332	1,650
Receivables are aged as follows:		
Not overdue	–	1,650
Overdue by:		
- 0 to 30 days	1,332	–
Total receivables	1,332	1,650

Cost recovered activities:

- Statistical information provided to RBA
- Statistical information provided to ABS
- Assessment of models-based capital adequacy requirements for ADIs - Basel II

NOTE 27: BUDGETARY REPORTS AND EXPLANATIONS OF MAJOR VARIANCES

The following tables provide a comparison of the original budget as presented in the 2014-15 Portfolio Budget Statements (PBS) to the 2014-15 final outcome as presented in accordance with Australian Accounting Standards for the entity. The Budget is not audited.

Variances are considered to be 'major' based on the following criteria:

- the variance between budget and actual is greater than 10%; and
- the variance between budget and actual is greater than 2% of the relevant category (Income, Expense, Asset, Liability and Cash Flow totals); or
- an item below this threshold but is considered important for the reader's understanding or is relevant to an assessment of the discharge of accountability and to an analysis of performance of an entity.

Note 27A: Departmental budgetary Reports

	Actual	Budget estimate	
		Original	Variance ¹
Statement of comprehensive income for the year ended 30 June 2015	2015 \$'000	2015 \$'000	2015 \$'000
Expenses			
Employee benefits	88,183	90,786	(2,603)
Supplier expenses	21,827	23,097	(1,270)
Depreciation and amortisation	7,224	8,561	(1,337)
Finance costs	66	–	66
Losses from asset disposals	32	–	32
Total expenses	117,332	122,444	(5,112)
Less:			
Own-source income			
Own-source revenue			
Rendering of services	3,104	3,980	(876)
Rental income	22	–	22
Other revenue	1,555	1,341	214
Resources received free of charge	188	150	38
Total own-source revenue	4,869	5,471	(602)
Total own-source income	4,869	5,471	(602)
Net cost of services	112,463	116,973	(4,510)
Revenue from Government	120,534	116,973	3,561
Operating surplus/(deficit)	8,071	–	8,071

NOTE 27: BUDGETARY REPORTS AND EXPLANATIONS OF MAJOR VARIANCES (CONTINUED)

Note 27A: Departmental budgetary Reports (continued)

	Actual	Budget estimate	
		Original	Variance ¹
Statement of comprehensive income for the year ended 30 June 2015	2015 \$'000	2015 \$'000	2015 \$'000
Other comprehensive income			
Items not subject to subsequent reclassification to profit or loss			
Changes in asset revaluation reserves	384	–	384
Total other comprehensive income	384	–	384
Total comprehensive income/(loss)	8,455	–	8,455

¹ Material variances are explained in Note 27B.

	Actual	Budget estimate	
		Original	Variance ¹
Statement of financial position as at 30 June 2015	2015 \$'000	2015 \$'000	2015 \$'000
Assets			
Financial assets			
Cash	1,311	1,360	(49)
Trade and other receivables	67,833	62,588	5,245
Total financial assets	69,144	63,948	5,196
Non-financial assets			
Property, plant and equipment	5,323	5,330	(7)
Intangibles	15,524	17,423	(1,899)
Other non-financial assets	2,400	2,102	298
Total non-financial assets	23,247	24,855	(1,608)
Total assets	92,391	88,803	3,588
Liabilities			
Payables			
Suppliers	258	683	(425)
Unearned fees and charges	581	1,394	(813)
Other payables	5,340	3,329	2,011
Total payables	6,179	5,406	773

NOTE 27: BUDGETARY REPORTS AND EXPLANATIONS OF MAJOR VARIANCES (CONTINUED)

Note 27A: Departmental budgetary Reports (continued)

	Actual	Budget estimate	
		Original	Variance ¹
Statement of financial position as at 30 June 2015	2015 \$'000	2015 \$'000	2015 \$'000
Provisions			
Employee provisions	33,155	39,959	(6,804)
Other provisions	2,596	2,900	(304)
Total provisions	35,751	42,859	(7,108)
Total liabilities	41,930	48,265	(6,335)
Net assets	50,461	40,538	9,923
Equity			
Contributed equity	16,657	16,657	-
Reserves	13,136	12,530	606
Retained surpluses	20,668	11,351	9,317
Total equity	50,461	40,538	9,923

¹ Material variances are explained in Note 27B.

NOTE 27: BUDGETARY REPORTS AND EXPLANATIONS OF MAJOR VARIANCES (CONTINUED)

Note 27A: Departmental budgetary Reports (continued)

	Retained surpluses				Asset revaluation reserve				Contingency enforcement				Contributed equity/capital				Total equity			
	A ¹	BE ²		V ⁴	A ¹	BE ²		V ⁴	A ¹	BE ²		V ⁴	A ¹	BE ²		V ⁴				
		O ³	2015 \$'000			2015 \$'000	O ³			2015 \$'000	2015 \$'000			O ³	2015 \$'000		2015 \$'000	O ³	2015 \$'000	2015 \$'000
Statement of changes in equity for the year ended 30 June 2015	2015 \$'000	2015 \$'000	2015 \$'000	2015 \$'000	2015 \$'000	2015 \$'000	2015 \$'000	2015 \$'000	2015 \$'000	2015 \$'000	2015 \$'000	2015 \$'000	2015 \$'000	2015 \$'000	2015 \$'000	2015 \$'000				
Opening balance																				
Balance carried forward from previous period	12,597	11,351	1,246		6,752	6,530	222		6,000	6,000			16,549	16,549		1,468				
Opening balance as at 1 July	12,597	11,351	1,246		6,752	6,530	222		6,000	6,000			16,549	16,549		1,468				
Comprehensive income																				
Other comprehensive income	-	-	-		384	-	384		-	-			-	-		384				
Surplus/(deficit) for the period	8,071	-	8,071		-	-	-		-	-			-	-		8,071				
Total comprehensive income	8,071	-	8,071		384	-	384		-	-			-	-		8,455				
Contributions by owners																				
Equity injection - appropriations	-	-	-		-	-	-		-	-			108	108		-				
Sub-total: transactions with owners	-	-	-		-	-	-		-	-			108	108		-				
Closing balance as at 30 June	20,668	11,351	9,317	606	7,136	6,530	606		6,000	6,000			16,657	16,657		9,923				

¹ A = Actual

² BE = Budget Estimate

³ O = Original

⁴ V = Variance (Material variances are explained in Note 27B.)

NOTE 27: BUDGETARY REPORTS AND EXPLANATIONS OF MAJOR VARIANCES (CONTINUED)

Note 27A: Departmental budgetary Reports

	Actual	Budget estimate	
		Original	Variance ¹
Statement of cash flows for the year ended 30 June 2015	2015 \$'000	2015 \$'000	2015 \$'000
Operating activities			
Cash received			
Appropriations	117,327	116,973	354
Rendering of services	4,280	3,980	300
Net GST received	2,104	–	2104
Other	1,535	1,491	44
Total cash received	125,246	122,444	2,802
Cash used			
Employees	(87,539)	(90,787)	3,248
Suppliers	(25,007)	(21,730)	(3,277)
Section 74 receipts transferred to Official Public Account (OPA)	(5,815)	–	(5,815)
Total cash used	(118,361)	(112,517)	(5,844)
Net cash from operating activities	6,885	9,927	(3,042)
Investing activities			
Cash used			
Purchase of property, plant and equipment	(2,778)	(1,665)	(1,113)
Purchase/development of software intangibles	(4,543)	(8,370)	3,827
Total cash used	(7,321)	(10,035)	2,714
Net cash (used by) investing activities	(7,321)	(10,035)	2,714
Financing activities			
Cash received			
Equity injection – appropriations	108	108	–
Total cash received	108	108	–
Net cash from financing activities	108	108	–
Net increase/(decrease) in cash held	(328)	–	(328)
Cash at the beginning of the reporting period	1,639	1,360	279
Cash at the end of the reporting period	1,311	1,360	(49)

¹ Material variances are explained in Note 27B.

NOTE 27: BUDGETARY REPORTS AND EXPLANATIONS OF MAJOR VARIANCES (CONTINUED)

Note 27B: Departmental Major Budget Variances for 2015

Explanations of major variances	Affected line items (and statement)
	<i>Statement of comprehensive income</i>
Fewer staff and no annual pay increases, as well as some delays to major projects.	Expenses
Less provision of services activity.	Own source income
Minor levies over-collection.	Revenue from Government
	<i>Statement of financial position</i>
Unbudgeted operating surplus in the year, offset by less project driven capital expenditure.	Financial Assets
Project delays driving lower capital expenditure on intangible assets.	Non-financial assets
Higher year-end pay accrual due to the number of days since final pay-run.	Payables
Lower employee provisions due to over-estimated pay-rise budget.	Provisions
	<i>Statement of changes in equity</i>
Operational surplus for the year.	Retained Surpluses
Revaluation of property re-instatement assets.	Asset revaluation reserve
	<i>Statement of cash flows</i>
Smaller draw-down of appropriations required to fund lower capital expenditure.	Operating activities net cash
Project delays driving lower capital expenditure on intangible assets.	Investing activities net cash

Note 27C: Administered Budgetary Reports

	Actual	Budget estimate	
		Original	Variance ¹
Administered schedule of comprehensive income for the year ended 30 June 2015	2015 \$'000	2015 \$'000	2015 \$'000
Expenses			
Supervisory Levy waivers	5	–	5
Total expenses administered on behalf of Government	5	–	5
Less:			
Income			
Taxation/levy revenue			
Financial Institutions Supervisory Levies	231,486	229,159	2,327
Financial Assistance Levy	–	–	–
Total taxation/levy revenue	231,486	229,159	2,327
Net contributions by services	231,481	229,159	2,322

¹ Material variances are explained in Note 27D.

	Actual	Budget estimate	
		Original	Variance ¹
Administered schedule of assets and liabilities as at 30 June 2015	2015 \$'000	2015 \$'000	2015 \$'000
Assets			
Financial assets			
Receivables	373	250	123
Total expenses administered on behalf of Government	373	250	123
Liabilities			
Liabilities administered on behalf of Government	–	–	–
Total liabilities administered on behalf of Government	–	–	–
Net assets administered on behalf of Government	373	250	123

¹ Material variances are explained in Note 27D.

Note 27D: Administered Major Budget Variances for 2015

Explanations of major variances	Affected line items (and statement)
Minor levies over-collection	Administered schedule of comprehensive income Net contribution by services



INDEPENDENT AUDITOR'S REPORT

To the Treasurer

I have audited the accompanying annual financial statements of the Australian Prudential Regulation Authority for the year ended 30 June 2015, which comprise:

- Statement by Members and the Executive General Manager - Corporate Services;
- Statement of Comprehensive Income;
- Statement of Financial Position;
- Statement of Changes in Equity;
- Statement of Cash Flows;
- Schedule of Commitments;
- Administered Schedule of Comprehensive Income;
- Administered Schedule of Assets and Liabilities;
- Administered Reconciliation Schedule;
- Administered Statement of Cash Flows;
- Administered Schedule of Commitments; and
- Notes to and forming part of the financial statements comprising a Summary of significant accounting policies and other explanatory information.

Accountable Authority's Responsibility for the Financial Statements

The Chairman of the Australian Prudential Regulation Authority is responsible under the *Public Governance, Performance and Accountability Act 2013* for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards and the rules made under that Act. The Chairman is also responsible for such internal control as is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These auditing standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Accountable Authority of the entity, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

In conducting my audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the requirements of the Australian accounting profession.

Opinion

In my opinion, the financial statements of the Australian Prudential Regulation Authority:

- (a) comply with Australian Accounting Standards and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and
- (b) present fairly the financial position of the Australian Prudential Regulation Authority as at 30 June 2015 and its financial performance and cash flows for the year then ended.

Australian National Audit Office



Jocelyn Ashford
Acting Group Executive Director
Delegate of the Auditor-General
Canberra
21 September 2015

CHAPTER EIGHT / STATUTORY REPORT

STATUTORY REPORT

STATUTORY REPORTING REQUIREMENTS

APRA reports in accordance with the following Commonwealth legislation and other requirements:

- *Australian Prudential Regulation Authority Act 1998*;
- *Environment Protection and Biodiversity Conservation Act 1999*;
- *Equal Employment Opportunity (Commonwealth Authorities) Act 1987*;
- *Freedom of Information Act 1982*;
- *Public Governance, Performance and Accountability Act 2013*;
- *Work Health and Safety Act 2011*;
- *Commonwealth Fraud Control Framework*; and
- *Requirements for Annual Reports for Departments, Executive Agencies and other Non-corporate Commonwealth Entities*.

AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY ACT 1998 (APRA ACT)

Section 59 of the APRA Act requires APRA to report on:

- the activities of ADI statutory managers within the meaning of the *Banking Act 1959* and persons conducting investigations under Division 2 of Part II and section 61 of that Act;
- the operation of Division 2AA (Financial Claims Scheme for account-holders with insolvent ADIs) of Part II of the *Banking Act 1959*;
- the operation of Part VC (Financial Claims Scheme for policyholders with insolvent general insurers) of the *Insurance Act 1973*;
- the number of times during the year that APRA determined, under subsection 13(1) of the *Financial Sector (Collection of Data) Act 2001*, a reporting standard that is not a legislative instrument; and
- the exercise during the year of APRA's powers under Part 15 of the *Retirement Savings*

Accounts Act 1997 (RSA Act) and Part 29 of the *Superannuation Industry (Supervision) Act 1993 (SIS Act)*.

APRA did not appoint any ADI statutory managers or persons to conduct an investigation under Division 2 of Part II or section 61 of the *Banking Act 1959* during 2014/15. There were no continuing appointments during the year.

There were no schemes in operation under Division 2AA of Part II of the *Banking Act 1959*.

On 15 October 2009, the Minister made a declaration under section 62ZZC of the *Insurance Act 1973* that Division 3 of Part VC of that Act applied in relation to one general insurer¹. No payments were made from the Financial Claims Scheme Special Account in 2014/15 to satisfy claims against this general insurer.

APRA did not determine any reporting standards under subsection 13(1) of the *Financial Sector (Collection of Data) Act 2001* during 2014/15 that were not legislative instruments.

APRA did not exercise its powers under Part 15 of the RSA Act in 2014/15.

APRA exercised its powers under Part 29 of the SIS Act in relation to particular entities or persons as set out on page 111.

ENVIRONMENT PROTECTION AND BIODIVERSITY CONSERVATION ACT 1999

Ecologically-sustainable development and environmental performance

APRA's Environmental Policy Statement reinforces its commitment to operating in an ecologically sustainable manner. APRA actively takes steps to reduce its environmental impact and adopts environmentally-friendly options where practical. Measures include zone-controlled lighting; energy-efficient power management settings on office equipment; recycling of paper, cardboard, office furniture and printer cartridges; reducing waste; and fostering staff awareness of environmental issues including considering the need to print documents.

¹ Australian Family Assurance Limited (in liquidation).

APRA exercised its powers under Part 29 of the SIS Act in relation to particular entities or persons as set out below:

Exemption number	Date	Provision of SIS Act/regulations exempted
A2 of 2014	13/10/2014	r.9.04D(3) and 9.04I(1)
A3 of 2014	29/10/2014	r.9.04D(1)
A4 of 2014	8/12/2014	s.93(4)
A5 of 2014	18/12/2014	s.93(3)
A1 of 2015	17/02/2015	s.93(4)
A2 of 2015	17/02/2015	s.93(4)
A3 of 2015	20/04/2015	r.7.04(3)(a)
A4 of 2015	29/05/2015	s.93(3)

Modification number	Date	Provision of SIS Act/regulations modified
A6 of 2014	15/07/2014	s.29E(6A)(a)
A7 of 2014	01/08/2014	r.6.17(2)(a)(i)
A8 of 2014	20/10/2014	r.6.20A, 6.21(2) 7A.03J, 7A.03K, 7A.12 and 7A.13
A9 of 2014	12/12/2014	r.6.20A, 7A.03J, 7A.03K, 7A.12, 7A.13 and 7A.16
A1 of 2015	13/03/2015	r.6.17(2)(a)(i)
A2 of 2015	28/04/2015	r.1.03

EQUAL EMPLOYMENT OPPORTUNITY (COMMONWEALTH AUTHORITIES) ACT 1987 (EEO ACT)

Workplace diversity program report

APRA has maintained an active approach to meeting its responsibilities under the EEO Act through a comprehensive workplace diversity strategy. Women now occupy 24 per cent of senior positions within the organisation (compared with 16 per cent six years ago) and around 25 per cent of APRA employees come from a first-generation, non-English-speaking background. APRA also encourages staff to balance their work and personal commitments, and to this end offers a range of flexible work arrangements to ensure a culture supportive of a diverse workforce.

APRA's membership of Diversity Council Australia (DCA), an independent, not-for-profit diversity adviser to business, enables it to remain current and consistent with industry benchmarks on workplace diversity.

APRA works with DCA to ensure its Staff Consultative Group and select members of Human Resources are trained in the important role of Contact Officers and are available to provide confidential and impartial assistance to any employees with concerns relating to workplace diversity.

Pointers to APRA's success in fostering a supportive and flexible workplace that values and utilises the contribution of people of different backgrounds, experiences, perspectives and abilities include:

- APRA management support for diversity in the workplace;
- all employees being treated with respect, regardless of their role;
- staff being encouraged to balance their work and personal lives; and
- APRA providing a work environment free of discrimination and harassment.

EEO staff data - staff diversity as at 30 June 2015²

Level	Female	Male	ATSI ³	NESB1	NESB2	PWD
Level 1	18	7	0	6	0	1
Level 2	55	40	0	21	3	0
Level 3	75	72	0	51	5	1
Level 4	78	142	1	54	5	2
Senior	21	69	0	10	3	2
Executive	2	6	0	1	0	0
Total	249	336	1	143	16	6

ATSI Aboriginal and Torres Strait Islander

NESB1 Non-English-speaking background, first generation

NESB2 Non-English-speaking background, second generation

PWD People with disability

² Includes permanent and fixed-term staff but excludes casuals.

³ Staff identifying as ATSI is unchanged between the current and preceding year.

FREEDOM OF INFORMATION ACT 1982 (FOI ACT)

The FOI Act provides the public with a general right of access to documents held by Commonwealth agencies, including APRA. This general right is limited by exceptions needed to protect essential public interests or the privacy and business affairs of those who give information to APRA or the Commonwealth.

In 2014/15, APRA dealt with 73 applications for access to documents under the FOI Act, which included three applications that were on hand from the preceding year. During 2014/15, APRA decided on 70 applications, and there were three that remained on hand as at 30 June 2015. In addition, APRA received five applications for internal review of earlier decisions; all of these decisions were affirmed after review.

During the year, the FOI applications for access were dealt with as follows:

Granted in full	8
Granted in part	1
Access refused	26
Withdrawn	35
Transferred to another agency	0
On hand at 30 June 2015	3
Total	73

Charges collected for FOI requests amounted to \$45, while the estimated cost of handling initial FOI requests, internal and Commissioner reviews, and finalising an Administrative Appeals Tribunal proceeding in 2014/15 was \$84,143.

Information Publication Scheme

Part II of the FOI Act requires APRA to publish information as part of the Information Publication Scheme. APRA's Information Publication Plan shows the information APRA publishes in accordance with the Scheme requirements and is accessible on the APRA website.

WORK HEALTH AND SAFETY ACT 2011 (WHS ACT)

Details of investigations and other matters as prescribed

In compliance with reporting obligations under Schedule 2, Part 4 of the WHS Act, there were:

- no notifiable incidents arising out of the conduct of business of APRA;
- no investigations conducted during the year that related to undertakings carried out by APRA;
- no tests conducted on any plant, substance or thing in the course of such investigations;
- no directions to APRA by an investigator that the workplace not be disturbed; and
- no prohibition or improvements and provisional notices given to APRA.

Work health and safety measures

APRA continued to undertake a number of work health and safety measures during 2014/15 to safeguard the health and safety of its staff and visitors. These measures included:

- availability of comprehensive health assessments for senior staff and staff aged over 40;
- availability of cardiac-risk assessments for all other staff;
- an annual flu vaccination program;
- ergonomic assessments and presentations;
- an employee assistance program;
- provision of first-aid services in all APRA offices;
- the implementation of mental health awareness training for people managers;
- staff-elected WHS Representatives; and
- an active and responsive WHS Committee.

A key initiative in 2014/15 was the establishment of a Mental Health Ambassador program. Two Mental Health Ambassadors, who have been provided with specialist training, will play an active role in APRA's continued education about and promotion of good mental health and wellbeing.

WHS policies including establishment of staff committees and selection of health and safety representatives

APRA has arrangements for consultation on all occupational health and safety issues, including maintenance of the WHS Committee with four staff and four management representatives. The WHS Committee satisfies legislative requirements, including meeting at least every three months and providing all staff with access to minutes of the meetings.

Health and safety outcomes

The number of worker compensation claims submitted by current employees decreased from four in 2013/14 to one in 2014/15. APRA's health and wellbeing program has helped to ensure that personal leave, which includes leave for personal illness and carer's leave, is not taken beyond a reasonable level. In the 2014 calendar year, APRA staff were absent for an average of 5.2 days personal leave per person, down from 5.9 days in 2013. APRA compares favourably to the overall public sector average and 'all-industry' averages on metrics for staff absences.

Statistics requiring the giving of notice under Part 3 of the WHS Act

During the year there were no incidents notified to APRA that required a report to Comcare under Part 3 of the WHS Act.

OTHER REPORTING

Advertising and market research

Under the *Commonwealth Electoral Act 1918* APRA is required to report annually on the amounts paid to advertising agencies, market research and media advertising organisations.

In 2014/15, APRA paid \$54,541 for recruitment advertising, of which \$29,149 was paid to Mitchell and Partners Pty Ltd; and \$65,714 to Australian Survey Research Pty Ltd for three Stakeholder Surveys. APRA did not conduct any advertising campaigns during the financial year.

Auditor-General's activities

The Australian National Audit Office (ANAO) undertook the required statutory financial audit of APRA for 2014/15.

Collective agreements and common law contracts

As at 30 June 2015, 491 staff were covered by the terms of the *APRA Employment Agreement, 2011*. Ninety-one senior staff were covered by common-law agreements.

All staff are appointed under the APRA Act. APRA applies a total remuneration package (TRP) approach whereby all salary, superannuation and 'salary-sacrifice' benefits are included in an employee's TRP.

The TRP pay ranges for non-executive staff as at 30 June 2015 were:

Level	Range
Level 4	\$119,900 - \$199,900
Level 3	\$84,400 - \$140,600
Level 2	\$58,200 - \$97,000
Level 1	\$38,600 - \$64,400

The *APRA Employment Agreement, 2011* expired on 30 June 2014. A new APRA employment agreement in accordance with the *Australian Government Public Sector Bargaining Policy* is currently being negotiated.

Commonwealth Fraud Control Guidelines

The Chairman of APRA certifies that he is satisfied that:

- fraud risk assessments and fraud control plans have been prepared that meet APRA's needs and comply with the Commonwealth Fraud Control Guidelines;
- appropriate fraud prevention, detection, investigation, reporting and data collection procedures and processes are in place; and
- all reasonable measures to appropriately deal with fraud relating to APRA have been taken.

Commonwealth Ombudsman

The Commonwealth Ombudsman did not conduct any investigation into APRA's conduct in 2014/15.

Commonwealth Procurement Rules

The APRA Chairman's Finance Instructions and Financial Policies, and associated operational procedures, ensure that APRA's procurement process complies with the Commonwealth Procurement Rules (CPRs). In particular, they ensure that the core procurement principle of value-for-money is observed.

APRA conducts its procurement processes within the CPRs, including but not limited to:

- conducting open tenders for procurement activities of more than \$80,000 (unless otherwise exempted under the CPRs);
- reporting all procurements over \$10,000 on AusTender; and
- reporting all purchases over \$100,000 on APRA's website.

In 2014/15, APRA had no AusTender-exempt contracts and all APRA competitively-tendered contracts over \$100,000 provided for the Auditor-General to have access to the contractor's premises, as required under the CPRs.

Procurement initiatives to support small business

APRA supports small business participation in the Commonwealth Government procurement market. Small and Medium Enterprises (SME) and Small Enterprise participation statistics are available on the Department of Finance's website:

www.finance.gov.au/procurement/statistics-on-commonwealth-purchasing-contracts/

APRA's procurement activities that support small business are consistent with paragraph 5.4 of the CPRs and include:

- using the Commonwealth Contracting Suite for low risk procurements valued under \$200,000;
- prequalified panels with SME providers;
- payments via electronic systems; and
- meeting the objective of paragraph 5.5 of the CPRs on sourcing over 10 per cent of procurements through SME providers.

Consultancies

APRA's *Chairman's Finance Instructions and Financial Policies*, and associated operational procedures, include specific provisions on consultants.

APRA engages consultants where it lacks specialist expertise or when independent research, review or assessment is required. Consultants are typically engaged to investigate or diagnose a defined issue or problem; carry out defined reviews or evaluations; or provide independent advice, information or solutions to assist in APRA's decision-making.

Prior to engaging consultants, APRA takes into account the skills and resources required for the task, the skills available in-house, and the cost-effectiveness of engaging external expertise. The decision to engage a consultant is made in accordance with legislation, CPRs and internal policies.

During 2014/15, APRA entered into 11 new consultancy contracts involving a total actual expenditure of \$1,413,378. In total there were 16 consultancy contracts active during the 2014/15 year, involving total actual expenditure of \$2,198,960.

Information on the value of contracts and consultancies is available on the AusTender website www.tenders.gov.au.

Consultative arrangements

APRA consults extensively with regulated entities, industry bodies and other interested parties prior to formulating or amending prudential policies or finalising prudential standards.

APRA complies with the Government's policy on best practice regulation. During 2014/15 APRA fully met the requirements of the Office of Best Practice Regulation (OBPR) for Regulation Impact Statements (two in number). In addition, APRA completed 15 preliminary assessments; of these, the OBPR advised that further regulatory impact analysis was required for one.

Courts and tribunals

Over 2014/15, there were no judicial decisions that had or may have a significant effect on APRA's operations, or any court and tribunal decisions relating to enforcement action taken by APRA during the year.

Executive committees

Executive Board

The Executive Board comprises the APRA Members and meets formally on a monthly basis, and more frequently as required, to discuss and resolve the major prudential policy, supervisory and strategic issues.

Members' attendance at Executive Board meetings from 1 July 2014 to 30 June 2015

Member	Meetings	Attended
Wayne Byres (chair)	14	12
Ian Laughlin	14	13
Helen Rowell	14	13

To aid its day-to-day management of APRA, the Executive Board has established a number of Committees and Steering Groups.

Risk Management and Audit Committee

APRA's risk management and audit matters are the subject of oversight by committees as follows:

- from 1 July 2014 until 31 December 2014, a joint Risk Management and Audit Committee; and
- from 1 January 2015, a separate Risk Management Committee and Audit Committee.

Further information on APRA's governance is provided in Chapter 2 - Governance.

Attendance at Risk Management and Audit Committee meetings from 1 July 2014 to 31 December 2014

	No. of meetings	No. attended
Peter Day (chair)	3	3
Fiona Bennett	3	3
Ian Laughlin	3	3

Attendance at Audit Committee meetings from 1 January to 30 June 2015

	No. of meetings	No. attended
Peter Day (chair)	2	2
Fiona Bennett	2	2
Ian Laughlin	2	2

Attendance at Risk Management Committee meetings from 1 January to 30 June 2015

	No. of meetings	No. attended
Fiona Bennett (chair)	2	2
Peter Day	2	2
Ian Laughlin	2	2

APRA Management Committee (AMC)

The AMC is responsible for high-level information-sharing and decisions on routine organisational matters. It meets weekly or more frequently as required.

Policy Development Committee (PDC)

The PDC is responsible for providing guidance and direction on prudential policy and supervisory matters, and meets weekly or more frequently as required.

Enforcement Steering Group (ESG)

The ESG is responsible for ensuring that a whole-of-APRA perspective is brought to potential and actual investigation and enforcement actions; a consistent approach is taken to any significant use of enforcement powers by areas within APRA; and there is effective oversight of ongoing enforcement actions.

Infrastructure Steering Group (ISG)

The ISG is responsible for overseeing the development of APRA's physical and IT infrastructure and its business, financial and resource planning systems.

People and Culture Steering Group (PCSG)

The PCSG is responsible for addressing initiatives on management and leadership, performance management, rewards and recognition, and APRA culture.

Supervision Steering Group (SSG)

The SSG is responsible for overseeing the development and integration of APRA's supervisory approach, systems and tools.

Other committees and groups

Reporting to the above groups and committees are other more focused committees and groups, typically chaired by a General Manager. These include the following:

Industry groups

Reporting to the SSG, there are industry groups comprising representatives of the various divisions of APRA, covering each of APRA's regulated industries:

- ADIs;
- superannuation;
- general insurance; and
- life insurance (including friendly societies).

These groups monitor industry developments so as to identify emerging risks and issues and act as a sounding board for prudential policy issues in the different industries.

A private health insurance industry group is being established for the 2015/16 year.

Licensing Committee

Reporting to the SSG, this Committee provides APRA-wide guidance on issues that need to be considered in licensing submissions and, after consideration of an application, recommends action to the relevant delegate.

International committees

Reporting to the SSG, two committees coordinate APRA's involvement with international bodies – one for banking and one for insurance. Their purpose is to prioritise the allocation of resources for APRA's

involvement in international activities; coordinate consistent and timely responses to issues raised in the relevant international forums; and ensure information from international sources is communicated effectively within APRA.

Work Health and Safety Group

Reporting to the PCSG, this Group focusses on issues to do with the health, safety and wellbeing of staff, and ensures that these are integrated into broader management systems and practices.

Staff Consultative Group

Reporting to the PCSG, this Group facilitates communication and consultation with all APRA staff below the senior management level on the terms and conditions of their employment (including the Human Resources Policy Manual) and the impact of these on APRA's organisational culture and values.

Security Group

Reporting to the ISG, this Group is the key forum for maintaining strategic and operational oversight of APRA's security policy and initiatives, and their implementation. Its main priority is to develop an overarching policy and governance strategy on all security matters affecting APRA and to take the measures necessary to implement the strategy.

Grant programs

The *Commonwealth Grants Rules and Guidelines* require agencies to publish details of grants on their websites within 14 working days after the funding agreement for the grant takes place. Details must remain on the websites for at least two financial years. Grant programs, including discretionary grant programs, that APRA either jointly administered or participated in during 2014/15, including previous recipients of the Brian Gray Scholarship and the University of New South Wales Cooperative Actuarial Scholarship, are available on APRA's website at www.apra.gov.au/AboutAPRA/WorkingAtAPRA/Pages/brian-gray-scholarship-program.aspx, and www.apra.gov.au/AboutAPRA/Pages/grants-and-scholarships.aspx.

Information on grants awarded by APRA during 2014/15 is available at www.apra.gov.au/AboutAPRA/Pages/StatutoryReportingRequirements.aspx.

Indemnities and insurance premiums

APRA Members and officers are covered by the professional indemnity insurance cover of the Commonwealth-managed insurance scheme, Comcover. The generic terms and conditions of the insurance cover provided by Comcover to Commonwealth agencies are available on the Comcover website www.finance.gov.au/comcover. Under the conditions of the cover, APRA is prohibited from disclosing the specific nature and limit of the liabilities covered and the amount of the premium.

Legal Services Directions 2005

The *Legal Services Directions 2005* require Commonwealth agencies to make publicly available information on records of their legal services expenditure for the previous financial year. During 2014/15, APRA's total expenditure on external legal advice and litigation services was \$170,092 (excluding GST).

National Disability Strategy

Since 1994, Commonwealth departments and agencies have reported on their performance as policy adviser, purchaser, employer, regulator and provider under the Commonwealth Disability Strategy. In 2007/08, reporting on the employer role was transferred to the Australian Public Service Commission's State of the Service Report and the APS Statistical Bulletin. These reports are available at www.apsc.gov.au. APRA is no longer required to report on its performance under these various roles.

The National Disability Strategy 2010-2020, which has applied since 2010/11, sets out a 10-year national policy framework to improve the lives of people with disability, promote participation and create a more inclusive society. A high-level two-yearly report will track progress against each of the six outcome areas of the Strategy and present a picture of how people with disability are faring. These reports can be found at www.dss.gov.au.

Parliamentary committees

Avenues through which APRA is accountable to the Parliament include Parliament's *ad hoc* and standing committees, and specific references on legislation or issues of particular interest to parliamentary committees.

During 2014/15, APRA Members and officers made themselves available for public hearings before the:

- House of Representatives Standing Committee on Economics reference on APRA's Annual Report (18 July and 28 November 2014, and 20 March 2015); and
- Senate Economics Legislation Committee (sitting as Senate Estimates) (22 October 2014, 25 February and 3 June 2015).

Copies of Opening Statements of APRA's appearances delivered by APRA Members may be downloaded from APRA's website www.apra.gov.au, and transcripts of APRA's appearances and copies of its submissions to parliamentary committees are available from the Parliamentary website www.aph.gov.au.

Performance pay

APRA has a performance bonus system, designed in consultation with staff and management and covering all eligible employees. For 2014/15, the aggregate bonus pool was \$4.73 million. Under deferred bonus arrangements introduced in the APRA Employment Agreement, 2014/15 bonuses are only paid to eligible staff still in APRA's employ at the payment date.

Privacy Commission

There were no investigations by the Privacy Commissioner under section 40 of the *Privacy Act 1988* during 2014/15. No reports were served under section 30 of the Act. The Privacy Commissioner made no determinations under section 52, nor did APRA seek any under section 73. There were no adverse or favourable comments made by the Privacy Commissioner in respect of APRA's operations.

Privacy inquiries relating to APRA sent by post should be addressed to:

Freedom of Information Coordinator
 Australian Prudential Regulation Authority
 GPO Box 9836
 Sydney NSW 2001

Or by phone: 02 9210 3000; fax: 02 9210 3424; or email: foi@apra.gov.au

Responsible Ministers

During 2014/15 the Hon Joe Hockey MP, Treasurer of the Commonwealth of Australia, had portfolio responsibility for APRA. He was assisted in this role by the Assistant Treasurer, the Hon Josh Frydenberg MP who was appointed from 23 December 2014, and prior to that by Senator the Hon Mathias Cormann, Minister for Finance and Acting Assistant Treasurer.

STAFF STATISTICS

Additional statistics on APRA's staffing are presented in Chapter 5 – APRA's resources and risk management.

Staff by location and full-time/part-time as at 30 June 2015

Location	Full-time	Part-time	Total
Adelaide	4	1	5
Brisbane	13	0	13
Canberra	2	0	2
Melbourne	56	6	62
Perth	5	1	6
Sydney	451	46	497
Total	531	54	585

Staff by division and full-time/part-time as at 30 June 2015

Division*	Full-time	Part-time	Total
Corporate	110	8	118
Diversified Institutions	109	11	120
Policy, Statistics and International	70	11	81
Specialised Institutions	125	11	136
Supervisory Support	117	13	130
Total	531	54	585

* From 1 July 2015 a new organisational structure was introduced.

Full-time equivalent (FTE) staff strength as at 30 June 2015

Employment Type	Total
Permanent	552
Fixed-term	13
Casual	0
Total	565

AGENCY RESOURCES AND EXPENSES BY OUTCOME

Under the *Requirements for annual reports for departments, executive agencies and other non-corporate commonwealth entities*, issued by the Department of Prime Minister and Cabinet, APRA must provide information outlining its various funding sources during the financial year and total expenses for each agency outcome. To this end, APRA's Agency Resource Statement and Expenses by Outcome Statement for 2014/15 are set out below.

Agency Resources Statement

	Actual available appropriation \$'000	Payments made \$'000	Balance remaining \$'000
	(a)	(b)	(a) – (b)
Ordinary annual services¹			
Departmental appropriation	7,048	5,871	1,177
Total	7,048	5,871	1,177
Total ordinary annual services	7,048	5,871	1,177
Departmental non-operating			
Equity injections	108	108	–
Total	108	108	–
Total available annual appropriations and payments	A 7,156	5,979	1,177
Special Accounts			
Opening balance	57,614		
Appropriation receipts	5,979		
Special appropriation receipts	119,609		
Payments made		117,763	
Total Special Account	B 183,202	117,763	65,439
Total resources and payments			
A+B	190,358	123,742	66,616
Less appropriations drawn from annual or special appropriations above and credited to special accounts	7,156	5,979	1,177
Total net resourcing and payments for APRA	183,202	117,763	65,439

¹ This combines Appropriation Bill (No.1) 2014/15, and relevant prior and current year receipts from independent sources.

Expenses by Outcome Statement

Outcome 1: Enhanced public confidence in Australia's financial institutions through a framework of prudential regulation which balances financial safety and efficiency, competition, contestability and competitive neutrality.

	Budget \$'000	Actual expenses \$'000	Variation \$'000
	(a)	(b)	(a)-(b)
Program 1.1: Australian Prudential Regulation Authority			
Departmental expenses			
Departmental appropriation ¹	6,424	6,768	(344)
Special Accounts	115,912	110,456	5,456
Other services (Appropriation Bill No. 2)	108	108	-
Total expenses for Outcome 1	122,444	117,332	5,112
	2013/14	2014/15	
Average staffing level (number)	600	566	34

¹ Departmental appropriation combines 'Ordinary annual services (Appropriation Bill No.1)' and 'Revenue from independent sources'.

LIST OF REQUIREMENTS

The following list of mandatory annual reporting requirements, as outlined in the *Requirements for annual reports for departments, executive agencies and other Non-corporate Commonwealth Entities* approved by the Joint Committee of Public Accounts and Audit, has been annotated with either 'not applicable' or the location of the information in this Report.

Part of Report	Description	Location or applicability
	Letter of transmittal	Page 2
	Table of contents	Page 4
	Index	Pages 124-125
	Glossary	Page 5
	Contact officer(s)	Page 126
	Internet home page address and internet address for report	Page 126
Review by Chairman		Chapter 1
	Overview	Chapter 6
Overview of Authority	Role and functions	Chapter 4 and Chapter 6
	Organisational structure	Page 14
	Outcome and program structure	Chapter 4 and Chapter 6
	Review of performance in relation to programs and contribution to outcomes	Chapter 6
	Actual performance in relation to deliverables and KPIs	Chapter 6
Report on performance	Narrative discussion and analysis of performance	Chapters 4-6
	Trend information	Chapters 4-6
	Discussion and analysis of the Authority's financial performance	Chapter 5 and Chapter 7
	Authority's resource statement and summary resource tables by outcomes	Chapter 8
Corporate governance	Compliance with the <i>Commonwealth Fraud Control Guidelines</i>	Chapter 8
	Statement of the main corporate governance practices in place	Chapter 2

Part of Report	Description	Location or applicability
External scrutiny	Significant developments in external scrutiny	Chapter 6
	Judicial decisions and decisions of administrative tribunals	Chapter 8
	Reports by the Auditor-General, a Parliamentary Committee or the Commonwealth Ombudsman	Chapter 8
Management of human resources	Assessment of effectiveness in managing and developing human resources to achieve the Authority's objectives	Chapter 5
	Statistics on staffing	Chapter 5 and Chapter 8
	Statistics on employees who identify as Indigenous	Chapter 8
	Enterprise or collective agreements, determinations and common law contracts	Chapter 8
	Performance pay	Chapter 8
Assets management	Assessment of effectiveness of assets management	Chapter 8
Purchasing	Assessment of purchasing against core policies and principles	Chapter 8
Consultants	Summary statement detailing consultancy arrangements and confirming that information on contracts and consultancies is available through the AusTender website.	Chapter 8
Australian National Audit Office access clauses	Absence of provisions in contracts allowing access by the Auditor-General	Chapter 8
Exempt contracts	Contracts exempt from the AusTender process	Chapter 8
Financial statements		Chapter 7
Other information	Occupational health and safety (section 74 of the <i>Occupational Health and Safety Act 1991</i>) and Schedule 2 Part 4 of the <i>Work Health and Safety Act 2011</i>	Chapter 8
	Advertising and market research (Section 311A of the <i>Commonwealth Electoral Act 1918</i>) and statement on advertising campaigns	Chapter 8
	Ecologically sustainable development and environmental performance (Section 516A of the <i>Environment Protection and Biodiversity Conservation Act 1999</i>)	Chapter 8
	Grant programs	Chapter 8
	Disability reporting	Chapter 8
	Agency Resource Statements and Resources for Outcomes	Pages 120-121
	Information Publication Scheme statement	Chapter 8

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APRA