



STATEMENT OF INTENT – AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY

SEPTEMBER 2018

This Statement outlines the response of the Australian Prudential Regulation Authority (APRA) to the Government's *Statement of Expectations – Australian Prudential Regulation Authority* of June 2018, which sets out the Government's expectations for how APRA fulfils its role, balances its objectives and supports the Government's policy priorities. That Statement also outlines expectations for how APRA manages its relationship with the Government, other regulatory agencies, industry and issues of transparency and accountability.

APRA'S ROLE

APRA is an independent statutory authority established for the purpose of prudential supervision of financial institutions and for promoting financial system stability in Australia. Prudential supervision is designed to ensure that entities that make financial promises to consumers, such as banks, insurance companies and superannuation fund trustees, are capable of meeting those promises.

APRA is the prudential supervisor and resolution authority for the majority of the Australian financial services sector. It oversees Australia's authorised deposit-taking institutions (ADIs), general, life and private health insurers, reinsurers, friendly societies and most of the superannuation industry. APRA supervises institutions in the financial sector in accordance with various laws of the Commonwealth.

APRA's mandate is to protect the Australian community by establishing and enforcing prudential standards and practices designed to ensure that, under all reasonable circumstances, financial promises made by institutions it supervises are met within a stable, efficient and competitive financial system. APRA also acts as a central statistical agency for the Australian financial sector, plays a role in preserving the integrity of Australia's retirement incomes policy and administers the Financial Claims Scheme.

In performing and exercising its functions, APRA is required 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 APPROACH

APRA's vision is to deliver a sound and resilient financial system, founded on excellence in prudential supervision. APRA's approach is based on the fundamental premise that the primary responsibility for financial soundness and prudent risk management within an APRA-regulated institution rests with its board of directors and senior management. APRA's role is to promote prudent behaviour by institutions through a robust prudential framework of legislation, prudential standards and prudential guidance, which aim to ensure that risk-taking is conducted within reasonable bounds and that risks are clearly identified and well-managed.

APRA adopts a risk-based approach to prudential supervision that is designed to identify and assess those areas of greatest risk to an APRA-regulated institution (or to the financial system as a whole) and then direct resources and attention to these risks. APRA seeks to ensure that its judgments are accurate, timely and robust and that its responses are targeted and proportionate.

Consistent with the Government's expectations, APRA does not pursue a zero failure objective. APRA cannot eliminate the risk that any institution might fail and it recognises that attempting to do so would impose an unnecessary burden on institutions and the financial system. APRA's aim is to identify likely failure of an APRA-regulated institution early enough so that corrective action can be promptly initiated or an orderly exit achieved. APRA seeks to maintain a low incidence of failure of APRA-regulated institutions while not unnecessarily hindering efficiency, competition or otherwise impeding the competitive neutrality or contestability of the financial system. APRA endorses the view expressed in the Government's *Statement of Expectations* that 'At times, this may not be straightforward and the appropriate balance may require professional judgement.'

The structure of the Australian financial system is evolving rapidly and risks to APRA, the institutions and industries it regulates or financial system stability can emerge quickly. APRA acknowledges the Government's expectation for APRA to ensure it has the required capability and capacity to respond to a rapidly changing operating environment. As such, APRA will continue to focus on maintaining a highly skilled workforce and keep the Government informed of its resourcing needs so that it can be positioned to proactively respond to emerging trends and risks that may impact on its ongoing ability to achieve its mandate.

THE GOVERNMENT'S POLICY PRIORITIES FOR THE FINANCIAL SYSTEM

In undertaking its role and in setting its strategic priorities, APRA will take into consideration emerging trends and risks and the Government's policy priorities for the financial system. APRA will continue to work with Treasury and other stakeholders to implement the Government's policy initiatives for the financial system as outlined in the *Statement of Expectations*.

APRA will continue its support for the Government's policy priority in regards to competition by facilitating an environment where innovation and competition are encouraged and barriers to entry are minimised where this does not conflict with APRA's core objectives.

APRA will also continue to facilitate the improvement of accountability, governance and risk culture within financial institutions.

The implementation of the Banking Executive Accountability Regime (BEAR), which came into effect on July 1, 2018 for the largest banks, is intended to enhance the responsibility and accountability of directors and senior executives within ADIs. APRA will implement and enforce the standards set out in the BEAR legislation, noting that some actions under BEAR are ultimately matters that are determined by the Courts.

APRA will use the powers available to it through recently enacted legislative reforms outlined in the *Statement of Expectations* in order to achieve sound prudential outcomes and minimise financial distress and instability within the financial system including but not limited to crisis management.

APRA supports the Government's commitment to ensuring that the Australian community benefit from greater use of data as a strategic asset. APRA will further develop its data strategy, in consultation with key stakeholders including industry participants and other regulatory agencies, to facilitate greater and more effective use and sharing of data in the oversight of the Australian financial system.

APRA supports the Government's commitment to reducing compliance costs for business and the community and will continue to look for opportunities to reduce red tape and minimise costs while continuing to achieve its core objectives of promoting financial safety and system stability. APRA will also maintain its compliance with Office of Best Practice Regulation (OBPR) requirements by analysing the cost, benefits and impacts of any proposed new regulation.

RELATIONSHIP WITH GOVERNMENT AND RESPONSIBLE MINISTERS

APRA welcomes the Government's recognition and respect for the independence of APRA and its responsibility for prudential supervision, and its acknowledgement that confidence in the regulatory framework requires that APRA is, and is perceived to be, independent in performing its functions and exercising its powers as set out in statute. APRA's effectiveness as a prudential supervisor – its ability and willingness to act – depends crucially on having a clear mandate and operational independence, a robust set of prudential requirements, an active program of risk-based supervision and adequate resources to meet its statutory and strategic objectives.

APRA will continue to consult with Government and relevant stakeholders when making any material changes to the prudential framework and where a proposed exercise of APRA powers would have significant implications for the financial markets or regulated institutions. The outcomes or recommendations of relevant Government-established panels, reviews or inquiries will also be considered.

APRA will continue to provide the Responsible Minister and Treasury portfolio ministers with accurate, considered and timely advice on significant issues in its core areas of business including any substantial problems or disruption in the financial system identified by APRA in the course of performing its functions.

APRA welcomes the opportunity to regularly meet with the Treasurer to discuss APRA's performance, current issues and matters relevant to APRA regulated industries.

RELATIONSHIP WITH TREASURY

APRA will maintain its close relationship with Treasury and continue to provide relevant information to Treasury including information and other material provided by APRA to Ministers.

APRA will also continue to provide advice and recommendations to Treasury in relation to policy and legislative changes that would, in APRA's opinion, improve the regulatory framework or reduce compliance costs for business and the community, without compromising sound prudential outcomes. This will include, in particular, advice on changes required where it is evident that the Australian financial system faces new risks that require prudential oversight to strengthen the resilience and stability of the financial system.

RELATIONSHIP WITH INDUSTRY

APRA seeks to maintain an open and constructive relationship with the institutions it regulates. This is consistent with the emphasis placed on encouraging industry participants to communicate considered and candid views to APRA in the Government's *Statement of Expectations*.

APRA's policy development process will continue to include comprehensive industry consultation to provide for open and transparent consideration of stakeholder views and include the publication of non-confidential stakeholder submissions and APRA's response papers.

APRA will continue to conduct a biennial stakeholder survey of regulated institutions and knowledgeable observers to assist APRA to understand the impact and effectiveness of its activities and identify potential areas for improvement in operations.

APRA will consider opportunities for collaborative partnerships with the private sector if these arrangements can lead to better prudential outcomes.

REGULATORY CO-OPERATION AND COLLABORATION

APRA will continue to work collaboratively with other regulators and government bodies on matters of mutual interest with a view to adopting, wherever possible, a well co-ordinated and integrated approach to overseeing the financial system.

APRA will continue to maintain strong working relationships with Australia's key financial regulatory agencies on a multilateral basis through the Council of Financial Regulators. APRA is also actively building stronger working relationships with other regulatory agencies including the Australian Transaction Reports and Analysis Centre (AUSTRAC) and the Australian Competition and Consumer Commission (ACCC).

APRA will seek to maintain effective and collaborative working relationships with its counterpart prudential regulators in overseas jurisdictions to assist in our prudential oversight of APRA-regulated institutions operating internationally. APRA also intends to retain an active role in relevant international groups and forums for banking, insurance and superannuation, so as to bring an Australian perspective to efforts to strengthen the global financial system and to remain well-briefed on international developments and support effective supervision.

APRA will continue to implement relevant global standards in a manner that is appropriate for Australian circumstances. Consistency with global standards is critical to ensuring the attractiveness of Australian financial institutions to providers of funding and capital. This attractiveness results in greater appetite for, and lower costs of, Australian debt and equity instruments in global markets, and business opportunities that rely on an institution's soundness being readily transparent.

TRANSPARENCY AND ACCOUNTABILITY

APRA strongly supports arrangements for accountability and appropriate transparency in its operations as an independent prudential supervisor.

APRA will continue to highlight in its Corporate Plan key strategic priorities over a rolling four year period and strategic risks that may affect APRA's ability to achieve its mission and strategic objectives. APRA will incorporate performance measures in its Corporate Plan and report on outcomes against each measure in its Annual Report to Parliament to provide a transparent line of sight between the use of resources and the results achieved by APRA.

APRA will continue to report annually against the Government's Regulatory Performance Framework to assess its performance when interacting with business, the community and individuals against a common set of performance indicators.

APRA will continue to release a Cost Recovery Implementation Statement (CRIS) annually to provide further transparency on the APRA component of the levies collected from regulated industries. The CRIS will allow stakeholders to make a better assessment on whether APRA's resources have been allocated appropriately and efficiently.

APRA will continue its commitment to focus on the efficiency of its operations and ensure that it operates in accordance with relevant legislative and Government requirements.

APRA will strive to act in accordance with regulatory best practice in its decision making, policies, processes and communication with stakeholders to maximise effectiveness, efficiency and transparency.

APRA will enhance its transparency by providing regular external communications on key decisions and regulatory outcomes, subject to the secrecy provisions in the APRA Act, with a view to demonstrating how these decisions and intended outcomes align with APRA's statutory objectives and strategic priorities.

CONCLUSION

We welcome and support the Government articulating its expectations of APRA.

In pursuing its statutory and strategic objectives, APRA will continue to support other considerations including the Government's policy priorities and minimisation of compliance costs for business where this does not jeopardise APRA's ongoing ability to meet its core objectives of promoting financial safety and system stability.

APRA is committed to being an insightful, forward-looking, outcomes-focussed, consultative and collaborative prudential supervisor, in line with international best practice.

APRA looks forward to working constructively with the Government to ensure the Australian community continues to benefit from financially sound and capable financial institutions operating in a stable, efficient and competitive financial system.