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Review of the Australian Prudential Regulation Authority Annual Report 2016

House of Representatives
Standing Committee on Economics

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Chair's foreword

On 13 September 2017, the Australian Prudential Regulation Authority (APRA) appeared before the committee as part of the review of the performance and strengths of Australia's financial and banking regulator.

APRA explained its regulatory agenda, in particular its activities to improve the resilience of banking institutions and to improve executive accountability through the Government's proposed Banking Executive Accountability Regime (BEAR). The committee scrutinised APRA on measures to reinforce sound lending practices and ensure that Australian banks remain prudentially strong, and APRA's recent decision to establish a prudential inquiry into the Commonwealth Bank of Australia (CBA).

On 31 March 2017, APRA provided the banks with guidance to 'limit the flow of new interest-only lending to 30 per cent of new residential mortgage lending'. The letter updated APRA's guidance from December 2014, which instructed banks to limit the growth of investor loans to 10 per cent. The purpose of APRA's guidance was to maintain a strong lending environment during an environment of increased risk.

In response, the major banks raised interest rates on both their new and existing loans, even though APRA's guidance was related to new loans and not existing customers. Further, the banks stated publicly that the interest rate increases were a result of APRA's new guidance. For example, on 27 June 2017 the CBA stated 'to meet our regulatory requirements, variable interest only home loan rates for owner-occupiers and investors will increase by 30 basis points.' Similar claims were made by Westpac and the National Australia Bank.

APRA was scrutinised on the extent to which it held the banks to account for the way they implemented the 30 per cent limit on new residential mortgage lending. The ACCC's new roles and powers to investigate interest rate decisions will have a positive impact on competition in the banking sector and in making bank decisions more transparent to Australian consumers. Using these powers, the

ACCC will be able to determine whether or not, in its view, any of the banks have made misleading statements in relation to recent interest rate decisions.

The committee looks forward to the outcomes of the ACCC's investigation on this matter.

The government has responded to the recommendations of the committee's Review of the Four Major Banks, in particular the establishment of the BEAR. The BEAR will set out clear accountabilities and expected standards of behaviour for banking executives, will make it easier for APRA to disqualify executives, and impose financial penalties on Authorised Deposit-taking Institutions that do not meet expectations.

The committee notes that significant changes are proposed to improve governance and transparency in the superannuation industry, and that APRA is supportive of these changes. The committee expects that, once the measures are implemented, APRA's supervision of superannuation funds will be greatly enhanced. The committee will monitor closely APRA's performance in this area in the future.

On behalf of the committee I would like to thank the Chairman of APRA, Mr Wayne Byres, and his colleagues for appearing at the public hearing.

David Coleman MP
Chair



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Membership of the Committee

Chair	Mr David Coleman MP
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Terms of reference

The House of Representatives Standing Committee on Economics is empowered to inquire into, and report on, the annual reports of government departments and authorities tabled in the House that stand referred to the committee for any inquiry the committee may wish to make. The reports stand referred in accordance with the schedule tabled by the Speaker to record the areas of responsibility of the committee.



Abbreviations

ACCC	Australian Competition and Consumer Commission
ADI	Authorised Deposit-taking Institution
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
AUSTRAC	Australian Transaction Reports and Analysis Centre
BEAR	Banking Executive Accountability Regime
CBA	Commonwealth Bank of Australia
CPS 220	Prudential Standard CPS 220 Risk Management
NAB	National Australia Bank
ROE	Return on Equity
RSE	Registrable Superannuation Entity
SM&CR	Senior Manager and Certification Regime (United Kingdom)