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Review of the Australian Prudential Regulation Authority Annual Report 2015 (First Report)

House of Representatives
Standing Committee on Economics

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Chair's foreword

At the recent public hearing with APRA in March, the committee was updated on the state of the Australian financial sector and on APRA's recent activities and priorities for 2016.

It is pleasing that Australia's financial system remains sound in the face of recent volatility. The committee agrees with APRA's view that complacency must be avoided and it will continue to monitor any future changes and subsequent APRA responses.

In the banking sector, APRA states that its activities will continue to be strongly influenced by the Financial System Inquiry (FSI) recommendation for 'unquestionably strong capital ratios'. We will monitor and scrutinise APRA's planned framework to achieve this over the next few years.

APRA's measures to reinforce sound residential mortgage lending practices, announced in its letter to all authorised deposit-taking institutions (ADIs) in December 2014, are of particular interest to the committee. We will continue to scrutinise whether the objectives of these measures are being achieved.

The committee will also examine at future hearings the outcomes of the higher mortgage risk weights for larger banks that APRA is implementing from July of this year.

The governance of APRA-regulated institutions is a major focus for APRA and is of continuing interest to the committee. APRA informed the committee that a good corporate 'culture' within the entities that it supervises protects against poor outcomes and is therefore a key area of its focus. APRA also stated that this emphasis reflects its prudential mandate.

In the superannuation sector, APRA advised that board appointments, strategic planning, performance assessment processes, and conflict management, were priorities in 2016. APRA also indicated that it is consulting on changes designed to improve governance standards for superannuation funds which it intends to introduce at a future date. The committee looks forward to future updates from APRA on the implementation of these standards and their impact.

The committee was also advised by APRA that it has been engaging with the Directors of ADIs and insurers to make certain that they understand their obligations under the prudential framework.

APRA indicated that it would release a road map later this year for its new prudential oversight of the private health insurance industry. The committee will seek advice from APRA on the progress of this framework at future hearings.

On behalf of the committee I would like to thank the Chairman of APRA, Mr Wayne Byres, and his colleagues for appearing at the public hearing on 18 March 2016. The committee looks forward to continuing discussions with APRA on its regulatory activities and on prudential issues in the Australian financial sector.

David Coleman MP
Chair



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Membership of the Committee

Chair	Mr David Coleman MP (from 11 March 2016) Mr Craig Laundry MP (to 18 February 2016)
Deputy Chair	The Hon Ed Husic MP
Members	Mr John Alexander OAM MP Mr Scott Buchholz MP Mr Pat Conroy MP Mr Kevin Hogan MP Mr Craig Kelly MP Mr Craig Laundry MP (to 24 February 2016) Ms Clare O'Neil MP Mr Clive Palmer MP Ms Fiona Scott MP (from 2 March 2016)

Committee Secretariat

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Terms of reference

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



List of abbreviations

ADI	Authorised deposit-taking institution
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
FSI	Financial System Inquiry
GST	Goods and services tax
IRB	Internal ratings-based
LVR	Loan-to-value ratio
NSFR	Net stable funding ratio
OTC	Over-the-counter
PHIAC	Private Health Insurance Administration Council
RBA	Reserve Bank of Australia
SMSF	Self-managed superannuation fund

