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JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

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JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

Monday, 29 March 2004

Members: Mr Charles *(Chair)*, Senators Hogg, Humphries, Lundy, Murray, Scullion and Watson and Mr Ciobo, Mr Cobb, Mr Georgiou, Ms Grierson, Mr Griffin, Ms King, Mr King, Ms Plibersek and Mr Somlyay

Senators and members in attendance: Senator Watson, Mr Charles and Ms Plibersek

Terms of reference for the inquiry:

Review of Auditor-General's reports, Audit Report No. 6, 2003-04

WITNESSES

Committee met at 10.49 a.m.

CHAIRMAN—I declare open today's public hearing, which is the third in a series of hearings to examine reports tabled by the Auditor-General in the financial year 2003-04. This morning we will take evidence on audit report No. 6, *APRA's prudential supervision of superannuation entities*. We will run today's session using a roundtable format. I ask participants to observe strictly a number of procedural rules. Firstly, only members of the committee can put questions to witnesses if this hearing is to constitute formal proceedings of the parliament and attract parliamentary privilege. If other participants wish to raise issues for discussion, I ask you to please direct your comments to me, and the committee will decide whether it wishes to pursue the matter. It will not be possible for participants to respond directly to each other. Secondly, given the length of the program, statements and comments by the witnesses should be relevant and succinct. I emphasise the second word. Thirdly, I remind witnesses that hearings today are legal proceedings of the parliament and warrant the same respect as proceedings of the House itself. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. The evidence given today will be recorded by Hansard and will attract parliamentary privilege. Finally, I refer any members of the press who are present to a committee statement about the broadcasting of proceedings. In particular, I draw the media's attention to the need to report fairly and accurately the proceedings of the committee. Copies of the committee's statement are available from the secretariat staff.

[10.51 a.m.]

BOND, Mr Kim, Performance Audit Services Group, Australian National Audit Office

BOYD, Mr Brian Thomas, Executive Director, Performance Audit Services Group, Australian National Audit Office

COCHRANE, Mr Warren John, Group Executive Director, Performance Audit Services Group, Australian National Audit Office

HALL, Ms Alicia, Performance Audit Services Group, Australian National Audit Office

GRANGER, Ms Jennifer Anne, Second Commissioner, Australian Taxation Office

JACKSON, Mr Mark John, Deputy Commissioner, Superannuation, Australian Taxation Office

CHAPMAN, Mr Keith, General Manager, Diversified Institutions Division, Australian Prudential Regulation Authority

GLENFIELD, Mr Stephen, General Manager, South-West Region, Australian Prudential Regulation Authority

JONES, Mr Ross, Deputy Chairman, Australian Prudential Regulation Authority

VENKATRAMANI, Mr Ramani, General Manager, Diversified Institutions Division, Australian Prudential Regulation Authority

CHAIRMAN—I welcome representatives from the Australian National Audit Office, the Australian Prudential Regulation Authority and the Australian Taxation Office. We are all Australians today! Thank you for coming to talk to us about these important issues. Does APRA have a brief opening statement? If you do, I am going to emphasise the word 'brief'. I mean really brief.

Mr Jones—How brief would you like it?

CHAIRMAN—Not more than a couple of minutes, because we have lots of questions.

Mr Jones—I can easily do it in a couple of minutes.

Senator WATSON—Just so long as it is not so brief that we are not getting all the details that we need and we avoid certain questions as a result of its brevity.

CHAIRMAN—You are slowing him down.

Mr Jones—I will be brief. APRA appreciate the opportunity to appear before the committee, and we would like to comment very briefly about improvements over the past 12 months. In general, the superannuation industry is in very good shape. The licensing of superannuation funds will commence on 1 July this year. That will enable us to take a far more rigorous and detailed health check of the industry over the next couple of years. In our submission we provided comments against each of the five recommendations that the ANAO made in its work during 2003. I think it is worth noting that APRA has either implemented or is well advanced in implementing the five recommendations that were made by the ANAO in their report. From my perspective and from that of other members of APRA's new governance framework, I found the ANAO report was very helpful in identifying a number of areas for improvement. The draft report came in July, two weeks after I began at APRA and it helped to identify a number of areas of improvement that could be made in practices as they were at the time the ANAO carried out the audit report.

A major project has commenced within APRA to develop a more structured and consistent supervision approach across all areas. Although we are not aware of any significant differences in consistency of the outcomes from previous supervision practices, there was certainly a difference in the degree of documentation and, on occasion, in the supervision between different areas. These are things that clearly need to be addressed to achieve outcomes that are both consistent and robust.

Over the past 18 months, APRA has introduced a new risk rating system, a probability and impact rating system, which has been applied to almost all approved trustees and defined benefit superannuation funds. In June 2002, the period under scrutiny, less than one per cent of the almost $330 billion in superannuation under APRA's supervision was accounted for by the small APRA funds, or SAFs. With respect to these SAFs, the focus is on the individual trustee. The SAFs have fewer than five members. They are maintained by an approved trustee, and every approved trustee has been risk rated. We certainly agree that it is important that our small APRA funds are properly regulated, but our experience and that of our predecessors is that, by focusing primarily on the responsible approved trustee and sample testing of SAFs, we are probably getting a good outcome. Where a SAF demonstrates some characteristics that put it at odds with our assessment of the trustee, this could give rise to a different rating or, alternatively and more likely, more work or a re-rating of the trustee itself.

I think to individually rate small APRA funds themselves in a very short period of time, and to continue to endlessly rate them, would probably require a very substantial increase in APRA resources and in all probability would not be justified in terms of cost-benefit. Having made that comment, however, I think it is fully accepted that there needs to be a structured and endorsed framework within APRA for looking at small APRA funds. This will form part of the current project and supervision methodologies and structures, which are in our attachment. The submission that we provided on 22 March provides a commentary on the steps that APRA has taken since the issuing of the ANAO report. My colleagues and I will be very happy to take questions on it.

CHAIRMAN—We will have some. Do you still have the two divisions, the SID and the DID?

Mr Jones—We do.

CHAIRMAN—My understanding is that the supervisory approach in the Specialised Institutions Division has a formalised, systematic approach to supervision and undertaking enforcement actions, whereas DID, the Diversified Institutions Division, is informal and consultative. Can you tell us whether you have taken any action to try to bring those two cultures together?

Mr Jones—Certainly. We still have the two divisions but, after the ANAO report was released, we established a practice and we are now developing—I have put it in our attachment—a new APRA supervision framework project. This is designed to get a consistent supervisory approach between the specialised and the diversified institutions. The objective will be to create a documented APRA supervision framework, with specific sets of industry based procedures, work instructions, resource material and so on. It will be APRA based, rather than diversified versus specialised based. That project is well under way.

CHAIRMAN—Does the difference in culture between the two divisions have any marked effect on outcomes? I am not asking whether the forms are filled in, the boxes are ticked, the reports are on time and they are all audited and all the other stuff but whether the funds perform for their members.

Mr Jones—We can probably say that we are more confident with the quality of the supervision than we were confident with some of the box ticking that you suggested. I have not seen anything that would suggest that the quality of the supervision differs between the two divisions. It was more a case of significant differences in the documentation.

CHAIRMAN—Do you think the documentation provided better results?

Mr Jones—I do not know that the documentation provided better results. The results appear to be fairly consistent. I think what was lacking and what the report indicated was that some of the documentation in the diversified division was probably less useful.

CHAIRMAN—On page 58, figure 3.5 of the report, the number of onsite reviews of superannuation entities, even in 2001-02, was only nine per cent. Has that improved, or has it gone backwards?

Mr Chapman—The issue here is that this comes down to the base figure. If we are talking about our total population of funds, we are talking about 10,000 funds, of which—I cannot remember the actual number—

CHAIRMAN—There are 11,562.

Mr Chapman—We are down to 10,000 now, so the numbers have dropped. On a numerical basis, most of those funds are the small APRA funds that we spoke about in the opening statement. So the number would be about the same. We would not be looking for a significant increase in the percentage of funds reviewed every 12 months, but we are looking at a better process to make sure we get good coverage of those smaller funds that sit underneath an approved trustee.

CHAIRMAN—Would the NAB fall into the 10,000 or 11,000?

Mr Chapman—The NAB would not be in the super fund entities anyway. NAB would be one of the large institutions, not one of the super funds itself.

Ms PLIBERSEK—But the super funds it runs would be counted, wouldn't they?

CHAIRMAN—I hope it is regulated by APRA.

Mr Chapman—The super funds that NAB has would all fall into the number of 11,000 funds.

Mr Jones—Of your 11,000, close on 8,000 of those are small APRA funds.

CHAIRMAN—The report says that corporate funds, industry funds and public sector funds numbered 1,862, with $118 billion worth of assets, retail funds—members joining and purchasing policies—are only 324 but $200 billion. Then there are approved deposit and eligible rollover plus pool superannuation and then small funds. Fair enough.

Mr Chapman—We are trying to achieve a better process of ensuring—I will concentrate on this bit of the picture for the moment—that we are confident that the ratings we apply to those small APRA funds from looking at the trustee is a much more structured and robust system so we have much more confidence that that rating is correct. When looking at the other non-small funds, we have already done a significant amount of work to produce a standard template for staff to use, and it is used both in the Specialised and Diversified Institutions Divisions. The supervision methodology project we are now putting in place is looking at enshrining that into the way that staff go about their day to day work as well as also doing a similar sort of thing for general insurers, life insurers and deposit-taking institutions.

CHAIRMAN—The thing that attracted my attention was DID's more informal and consultative approach. It sounds like culture to me. I just wondered whether they were involved at all in looking at the NAB's banking side of the business as well; whether that approach was taken with the NAB.

Mr Chapman—I can see why the 'culture' view can be held, having worked in both Specialised and Diversified since APRA has been around. I am not sure it is necessarily so much of a cultural issue as a different means of achieving the outcomes. It is quite difficult, if we are talking about a small specialised institution, to obtain additional resources within the framework of the board and governance structure and to look at additional capital to cover things. While there are some elements of culture, some of it is also the type of institution you are looking at. The Diversified Institutions Division does have the National Australia Bank. The approach that has been used for all institutions within Diversified has been less formalised than it has been within the Specialised Institutions Division. The methodology project we now have in place is putting all the practices across the organisation together and, under the aegis of the two executive general managers of those two divisions, producing the best practice elements out of that, which we are then going to roll out and say to staff: 'This is required. This is the way you will approach these institutions.' I think what we will find, though, is not that it varies between divisions but that it will vary depending on the nature of the organisation we are looking at.

There is not a huge amount of difference between the current way that we would look at a Specialised Institutions approved trustee which has 1,500 small APRA funds and the way we

would look at a Diversified Institutions approved trustee with 1,500 approved APRA funds. What is different is the formalisation of the documentation around that process. Mr Jones mentioned that we have not seen any evidence that the outcomes are significantly different from people using different processes, but it is much more difficult in Diversified Institutions to be able to say to somebody, 'Show me in your process how you went about doing this,' than it is in Specialised Institutions at the present time.

CHAIRMAN—Can you tell me, history wise, if we have had any real problem with superannuation funds not complying tax wise, bordering into fraud? I ask the question because there is one helluva lot of money involved.

Mr Jackson—Tax looks at superannuation funds in two ways: one is their tax compliance status and the other is their regulatory compliance status. The regulatory compliance status is restricted to SMSFs, which are non-APRA funds. The large funds are part of the large case, large business law, in the tax office and are part of the normal risk assessment procedures in that line, which sweep across large corporates regularly. So there is a fairly high level of scrutiny of those large funds.

The SMSF funds, of which there are quite a large number—currently about 270,000—have been the subject of a major education campaign since the transition into the self-managed funds scheme in 1999. That education campaign has borne quite significant fruit. We conducted some benchmarking work on the 2001-02 financial year returns and found that for those who had been the subject of the education work the compliance status was quite high both in income tax and regulatory responsibilities.

CHAIRMAN—That is good to hear.

Mr Jackson—For those funds that were established prior to the commencement of that process, the compliance status was not so high, and we have moved, since the results of that benchmarking became available, to ramp up our compliance activities, including lodgment enforcement and field audits. We are working with the industry associations and the professional accounting bodies to ensure the quality of the independent audits of those funds are done appropriately. I think last year we did about 1,000 audits that we ran off as management data. We followed up about 5,000 qualifications that external auditors found in self-managed funds, and we enforced lodgment of—I do not have the previous compliance program with me but I think it was—30,000 or 40,000 funds, and we have another 20,000 on our lodgment program for this year. So we are moving progressively from an educative campaign with the transition to the self-managed fund arena to a far more balanced process with audit and lodgment activities under way.

CHAIRMAN—Do many of the small funds fall over?

Mr Jackson—No, there is not a very high rate of wind-up of those small funds.

CHAIRMAN—And major funds?

Mr Jackson—Not to my knowledge. From an income tax or a regulatory perspective; what sort of perspective do you mean—that they liquidate?

CHAIRMAN—Yes.

Mr Jackson—My understanding is there are not very many of those.

Ms PLIBERSEK—The question is not really whether they wind up or not; it is whether they provide any sort of real income in 30 years time, isn't it?

CHAIRMAN—I suppose that is true, too.

Ms PLIBERSEK—They do not have to go bust; they do not have to liquidate—

Mr Jackson—As far as I am aware, they comply with their tax obligations. Whether their investment decisions are appropriate is really not a matter for us to comment on.

Ms PLIBERSEK—No—what I am trying to say is that the fact that they do not liquidate does not give you a true perspective of whether they are performing.

CHAIR—A lot of liquidations would imply fraud to me.

Mr Venkatramani—On a broader framework, both APRA and the ATO work regularly together, given that the legislative framework is the same, but for a few exceptions applying to SMSFs. So we have issued a number of public announcements on issues which affect both our regulated population as well as the ATO. There is a constant framework of cooperation between ATO and APRA. We talk about issues, interpretations and educating the industry ahead of a problem.

Ms PLIBERSEK—Mr Jones, you mentioned the new APRA risk rating system. Can you describe that to me?

Mr Jones—We have developed a more sophisticated risk rating system, and that comes with an appropriate response in terms of the regulatory strategies that we adopt. This is an APRA-wide approach. It tries to measure likelihoods. So we try to devote our resources according to the likelihood of failure and the relative size of the entity, the objective being to be proactive and devote more resources early on. So there is a supervisory response that hangs off the rating. What happens is that you would adjust the supervisory stance, making it stronger, if you had some concerns about the entity.

Ms PLIBERSEK—What factors contribute to the rating? What do you check for?

Mr Venkatramani—Basically, the approach is one of looking at the various risks which affect the entity. I must emphasise that the process applies not only to super funds but across the entire regulated population—all industries. We look at a whole range of risks, like operational risk, market and trading risk, credit risk, governance risk, legal and regulatory risk, compliance risk. Then we look at a whole range of factors which could either mitigate or control these risks, like senior management, audit, actuarial work, internal audit work, the board, governance aspects. Finally, depending upon the industry, we look at issues like capital, the continued availability of capital and the quality of the earnings stream. Some of these may not be applicable across the super industry—capital, for example. But that is the broad framework.

Within that, what the frontline supervisor is required to do is to analyse this in the light of the available information and, if the information is not sufficient, go back to the institution and rate that on two basic parameters: one is size and the other is the probability of default on the financial promises being made to beneficiaries, policy holders, depositors and fund members.

Based on that, we basically arrive at what is called a supervisory stance. That could be 'normal supervision', which means we visit them at the regular intervals, look at the returns and ask questions. It could be an 'oversight more', which is a heightened form of supervision, where things which are put to us and issues on which they come to us for regulatory approval or discretion will be looked at with greater suspicion, scepticism, cynicism—or whatever you may call it. Then, at the next level, it will be a 'mandated improvement', where APRA actually says, 'You need to do the following things.' The final level is 'restructure', where we say, 'We think you need to do a lot of things but we do not have confidence in your ability to do it, so move over; we will get it done.' In super, for instance, that could be something like replacing a trustee et cetera.

So it is a kind of graded granular system. But I must emphasise that this is not something which we are only doing now. All that this process does is to take what is there and make it much more granular, much more transparent, and also use it as an internal training tool for staff who come on board. There are internal processes where this is QAed—questioned. Our decisions are not simply decisions. Depending upon how high the risk rating is, they have to go through an internal process of being debated by APRA officers, and higher level institutions have to go all the way to the members before being signed off. That is how the risk rating is done.

Ms PLIBERSEK—That is good. That is what I wanted to know.

Mr Jones—So, in terms of our actions, by the time they are at 'restructure', effectively APRA has replaced the people who are looking after the institution. Up until restructuring, as long as you are still in 'mandated improvement', for example in superannuation, you may still be controlling the fund as an AT, approved trustee, but you are being told quite clearly by APRA what to do. Maybe in certain circumstances we replace the trustees and in certain other circumstances we actually take enforcement action as well.

Ms PLIBERSEK—Are you doing a lot at those last two levels, the mandated improvement and restructure?

Mr Jones—It seems to be fairly consistent. I do not think there has been any particular trend upwards.

Ms PLIBERSEK—About how many would you do a year? How many times would you be required to intervene in that way?

Mr Jones—I would say about five per cent of the portfolio sits in 'mandated improvement' or 'restructure' at any given time. It is fairly fluid, particularly mandated improvement—'You have 90 days to do this' and they either do that and move back out of that area, or they do not do it and it gets accelerated up the scale from there. One of our most extreme sanctions would be to go for disqualification of trustees.

Senator WATSON—How often do you publish—

Mr Jones—We publish them each year. I could get you the actual numbers. I am not sure where we are up to this year. It is not a large number. We also take enforceable undertakings sometimes. So, rather than go through the actual disqualification process, under certain circumstances a trustee or a former trustee may come in and give us an undertaking to stay out of the industry for 10 years.

Senator WATSON—Can you give us the figures on both categories?

Mr Jones—I can get them for you.

Ms PLIBERSEK—The Superannuation Working Group recommended some years ago that the prudential standards for superannuation investment should be clarified or codified. Do you think what you are talking about here does that?

Mr Jones—This is primarily our approach to the existing framework. What this is really designed to do is to improve our skills in supervision.

Ms PLIBERSEK—What moves have you made towards a clearer codification of the prudential standards?

Mr Venkatramani—To supplement that, as you would know, we are embarking on a licensing and recertification process for super funds. As part of that process, we are clarifying a whole range of issues, including investments, ethics and propriety of trustees, standards, et cetera. Again, that is not completely brand-new ground. We are taking over existing circulars. We need to respond to what is happening out in the market, the risks we are finding at our supervisory reviews and issuing clarifications. In the past we have done that, as I said, working with the ATO, for example, to clarify what sort of approach to take to investing in instalment warrants, et cetera, what constituted an investment strategy and what kind of clarification or information we would expect to see in a typical strategy. So we are doing that as part of this exercise.

Ms PLIBERSEK—Can I ask the ATO to answer some of the questions we were talking about earlier in regard to the prudential standards.

Mr Boyd—Essentially at the time of our audit, as we state on page 29, the Superannuation Working Group had made some recommendations. The government responded. So we essentially asked APRA where that process was up to. At that time, which was April 2003, the advice to us was that in regard to 'the recommendations regarding investment management outsourcing and operational risk management, APRA has provided draft operating standards dealing with these matters to Treasury as the first step in the development of the consultation process'. At the time we had finished our audit work that process had not yet been completed.

Ms PLIBERSEK—So are you saying that the process is still being worked on now?

Mr Glenfield—The consultation papers were released, and I think the closing date for comment is tomorrow—the 31st.

Ms PLIBERSEK—And they have gone to the ATO, have they?

Mr Jackson—I have not seen those papers, no.

Mr Venkatramani—They are available for industry comment by all the various professional bodies, the industry bodies and individual participants. It is available on the web site, and as Stephen pointed out, we have provided a window of opportunity for industry to comment.

Ms PLIBERSEK—But ANAO, would you expect the ATO to make comment on that as well?

Mr Boyd—I would expect, given the regulatory framework, the tax office's regulator to have some interest in it.

Ms PLIBERSEK—Could you follow up and check whether some other part of your organisation has got that in hand?

Mr Jackson—Yes, we will do that.

Senator WATSON—I want to address the issue of capital adequacy of superannuation funds. Is that a concern? Is there a big variation between the capital adequacy according to the size of superannuation funds? A lot of them do not seem to have a lot of capital behind them for major events.

Mr Glenfield—The existing rules and laws as they stand provide for three different forms of capital: one with a minimum of $5 million, one with $100,000 plus custodian and one with a guarantee. APRA does not have the right to amend any of those.

Senator WATSON—That appears to be a weakness, doesn't it? If you can see that a fund is inappropriately structured, to say that you have not any right to give an adverse report seems to me—

Mr Glenfield—We can make a recommendation. We went through this process and put our views forward during the Mercer committee but those views were not accepted.

Senator WATSON—That is not to say that that is going to be the view of this committee.

Mr Chapman—The real issue is that the structure of a super fund can have no capital itself. The fund cannot have any capital because it is a trust fund where members have a proportional share, ignoring defined benefit funds. The requirements that Mr Glenfield outlined are those applying to approved trustees only. With regard to corporate trustees, we have no ability to require anybody else to have any form of capital within the legislative framework. Certainly the availability of capital is one of the things that we look at in our supervision stance. That might be why you have that impression of the cultural difference and the difference in approach.

If you have a small approved trustee which has a $10 company it is very hard to persuade them that they should put in another $100,000 to upgrade their computer system. If you have a large approved trustee which has plenty of capital sitting behind it because it is owned by a large

corporate group that persuasion-consultation process which is used tends to use persuasion-consultation to get more capital put into the trustee operations to be able to support the business. There are dramatic differences between the types of institutions and their ability to get resources and capital to help the funds run properly. One of the draft discussion papers looks at the issue of adequacy of resources. We will be looking at that for all funds, albeit we do not have any legislative requirements other than for public offer approved trustees.

Senator WATSON—It seems an obvious oversight. What were the reasons given by the Mercer committee in rejecting this approach?

Mr Venkatramani—From memory, I suspect it was largely because most super funds are accumulation funds. If there is any capital, it has to come from the members. The cost of capital and how it could be funded is a serious issue. We have been told that the current regime will continue so we are trying to clarify how best we can work the current system. For example, with the help of the AGS we are in the process of clarifying how the guarantee process can be made more robust within the rules of the law. We are also talking on a slightly different plane about defined benefit funds where there could be, if you like, hidden capital in the form of actuarial reserves and cushions. We are talking to the Institute of Actuaries to make sure that those processes are made more robust. We have accepted what has been told to us—that is, no capital, no change—and we are trying to work the system as best we can.

Senator WATSON—Does this lack of a legislative requirement or oversight still remain a concern for APRA in terms of capital adequacy?

Mr Jones—I do not think that that is so much the case. It is more the case that we deal with the rules that apply.

Senator WATSON—Let us not hide behind deficient rules. If you are aware of a deficiency, this is the committee that you have to bring it before.

Mr Jones—As my colleague said, we certainly put forward our views once before and we are quite willing to—

Senator WATSON—We want you to put them before this committee.

Mr Jones—We could do that. We could provide this committee with a submission, if that is what you would like.

Senator WATSON—I think we would appreciate that. There is a lot of money tied up in members' funds and we want to make sure that it is secure in the event of a major blow-up, cost acquisition or something like that.

Mr Jones—Certainly. We share a common objective.

Senator WATSON—That is encouraging.

Mr Chapman—One of the issues that we have to be careful with here is who needs to have the capital. That has always been one of the vexed questions in this. So much of the super is

outsourced. You have large players on the custodian side of things holding the assets and large players on the administration side. In lots of cases but certainly not all cases there is lots of capital surrounding the fund even though the trustee itself might not have the capital. It is quite a tricky area, which is one of the challenges in working out what the capital rules might be for this.

Senator WATSON—We noticed that you have had a very significant reduction in lost funds—from 7,500 to 1,934. On closer examination we find that APRA has effectively transferred the problem to the Australian Taxation Office. The Australian Taxation Office has now acquired over 4,000 of the lost or lazy funds but you have taken the credit for getting your numbers down quite significantly. While it is good to see the numbers come down, if we look for the reasons, a major factor in bringing that down has been that the statistics have just been transferred to another agency. Is that true, Mr Jackson?

Mr Jackson—It is true that the transfer of funds from the ATO to APRA regulation is less than the transfer of funds from APRA to the ATO regulation. The reasons for that are hard to say. People make a lot of choices about where they prefer to be regulated. Those funds will now form part of our normal regulatory regime.

CHAIRMAN—Your are a lot cheaper than APRA, mate! It is like chalk and cheese.

Senator WATSON—Having got these 4,000 funds, what changes in your audit or other processes have you undertaken to try to identify this new bonus you have been given? 'Obligation' might be a better word.

Mr Jackson—We have not given any particular differential treatment to that group. The growth in self-managed funds has been running at around 2,500 a month so a couple of thousand here or there from APRA over a period of time probably has not changed the overall dynamics for us. We are dealing with a large group of funds which require appropriate educative and enforcement activities. We work with that group as a whole.

Mr Chapman—This is not a smoke and mirrors effort by APRA to reduce our numbers.

Senator WATSON—No. It is a fact of life.

Mr Chapman—Unfortunately when parliament put the Wallis reforms in place, we ended up with the funds that were not self-managed funds. It is the way the definition worked. These people who have transferred to the tax office did not do that because we told them that that is where they are going to go. They did that because they finally found out what the rules are and made a conscious decision, either for the chairman's reasons that it is cheaper or from the point of view—

CHAIRMAN—And the grand finale.

Mr Chapman—The flip side of that is that, while it is cheaper, they have to run the funds. From the perspective of the small APRA funds a lot of people say, 'It is worth my while to pay the extra money to be a small APRA fund because then I do not have to be the trustee and I do not have the responsibility of doing the accounts,' and so on.

Mr Jones—I can quite happily say here today that those 1,900 have all been traced.

Senator WATSON—They have all been traced?

Mr Jones—Yes, as of last week.

Senator WATSON—Well done.

Mr Jones—We finally resolved the last 394 of them last week.

CHAIRMAN—Are they still funds?

Mr Jones—Most of them were not, and that was the thing—most of the 2,000 were not funds. Many of them had wound up but had not informed APRA; some had gone to the tax office. The difficulty we had was that we started off with an appalling database and we had no way of tracking them down. For the final 400 of them we ran an extensive advertising campaign in national newspapers last year and then went through the process of removing the trustees when there was no response and so on.

Senator WATSON—I turn now to the correlation between APRA funds and people claiming tax deductions. Has that exercise been taken out? How many funds were found to be claiming tax deductions when the status of the funds was dubious?

Ms PLIBERSEK—Do you mean the lost and lazy funds?

Senator WATSON—No, any funds. I am just talking about it as a process to ensure that the responsibilities between two organisations—APRA and the Australian Taxation Office—are being regulated. Superannuation funds enjoy considerable tax advantages. I just want to make sure what has been the position in terms of a reconciliation between funds claiming tax status and funds of dubious status.

Mr Jackson—Superannuation funds lodge tax returns like any other organisation. Our processes around the lodgment of returns are based on self-assessment and a subsequent risk treatment. That risk treatment would, as part of its questioning, look at the complying status or otherwise of a fund and give us some confidence that complying status is appropriate. In that sense, the tax treatment of funds is no difference to the tax treatment of any other entity.

Senator WATSON—But, in a sense, one would suspect that the funds that are difficult to identify may also not necessarily be lodging tax returns and hence that is one of the reasons. Have you looked into that aspect? Do you have a special person or section looking at this, trying to trace these funds that have been identified as lost or transferred and a reconciliation process that focuses on ensuring that these people have been complying with their tax requirements in terms of lodging a fund and providing comprehensive data to the tax office? If they are falling by the wayside, as it were, in terms of APRA then it is highly likely that there is going to be a problem tax wise.

Mr Jackson—Not necessarily. We have an extensive process around the lodgment of returns.

Senator WATSON—But the question I am asking is: do you have a dedicated officer or a process whereby these funds—which Mr Jones tells us have been identified for some reason—are followed up to ensure that they have also been meeting their tax obligations?

Mr Jackson—We do not have a special officer who follows up that particular group of funds.

Senator WATSON—Don't you think it would be a good idea? I guess it is not necessary to have a special officer, but certainly having a process whereby it is routinely looked at would be a good idea.

Mr Jackson—I guess there are all sorts of reasons that people choose to move between tax office regulation—

Senator WATSON—That is where people make a deliberate choice. But we have gone from over 7,000 people and got them down to quite a respectable level, and now we can identify the lot. I am asking: has the tax office taken this on board in a meaningful way and does it have processes to ensure that the tax obligations for these sorts of people are automatically checked in some way?

Mr Jackson—No, we do not have that group separated out and we do not deal with them separately.

Senator WATSON—Do you think it would be a good idea in terms of checking up on compliance?

Mr Jackson—It all comes back to risk assessment. We deal in large numbers.

Senator WATSON—I would suggest that this is an area of high possible risk. If people have been delinquent for some reason in one area, it would appear that they may well be negligent or lazy in meeting some of their tax obligations.

Mr Jackson—Yes, I guess that is possible. We will have a look at that and see if they do warrant different treatment. Those who have moved to regulation with the tax office, either as a new entrants or transfers across, do receive significant advice and assistance from us. So there is a chance that they would have acted on that advice, understood it and moved forward. However, I will take your comments on board and have a look at our benchmarking to if that particular demographic stands out as behaving differently in some way. It has not emerged from our risk analysis.

Mr Boyd—At paragraph 2.13 of the audit report we did comment on reducing that original number of 7,500. In fact, the final sentence in that paragraph notes that APRA did find that a significant proportion of the lost funds had not been lodging taxation returns with the ATO.

Senator WATSON—That proves my point.

Mr Jackson—Yes, I guess it proves a point. There are always people who will not lodge returns and there are those who lodge late, and we work very hard to get those lodgments up as far as is possible.

CHAIRMAN—Can we join that group voluntarily, without penalty?

Mr Jackson—No, I do not think so. In a system that has millions and millions of taxpayers of various kinds—

CHAIRMAN—Good ones and bad ones.

Mr Jackson—there is a cost benefit for us in terms of how we deal with that. We are always making judgments around where the risk lies and where we should dedicate our resources. If you are suggesting that this particular group that has transferred across from APRA regulation to tax regulation warrants a separate look in that they may be less reliable lodgers than others, I am happy to have a look at that, but it has not emerged from our analysis to date.

Ms Granger—We do follow up on lodgments. The question is: which are the most critical ones? I think we followed up in this area something like close to 100,000 lodgments—and not just in small managed super funds but right across super. Again next year we will target the most significant risk ones. Mr Jackson is not saying that we do not do any; it is the focus on how far down that list we go. It would be low risk, of course, if a fund has gone out of business for many years—which is one of the examples that APRA gave. So it is going to depend on the circumstances of a particular fund.

Mr Jones—Senator, perhaps I could just allay your concern a little bit more. The majority of the 2,000 funds that have been wound up in the past few months in all probability had no assets in them, so I do not think much tax is being missed out.

Senator WATSON—On Thursday night in the adjournment debate I gave a big tick to APRA for the way it had handled the National Australia Bank; Dr Laker did refer to it in his report to the Senate estimates committee. I think you handled that very well.

Mr Jones—Thank you.

Senator WATSON—Do you have any comment on the head of the audit committee's refusal to resign?

Mr Jones—I think APRA's view on this is that it is something that the organisation needs to resolve, and I would imagine that is something that they will do.

Senator WATSON—Did you comment on that aspect in your report?

Mr Jones—We did not make a specific comment on that, no.

Senator WATSON—Are you surprised that there has not been a resignation?

Mr Jones—I think there have been a number of resignations.

Senator WATSON—There have been a number of resignations, but I am referring to a person who is in charge of the audit committee and has the risk-taking area under that stewardship. Were you surprised in the fallout of events that there wasn't a resignation?

Mr Jones—I do not think it is really for APRA to comment. We conducted our report, we did an investigation and we gave them a list of, I think, about 75 recommendations.

Senator WATSON—Was that one of them? Did any of your recommendations touch on that?

Mr Jones—No; none of our recommendations recommended the removal of a particular director.

Senator WATSON—But they were critical of some of the directors' involvement or lack of involvement or expertise or lack of professional handling of some of the risks that the National Australia Bank faced.

Mr Jones—I think that is true. Our primary issue is to ensure that the organisation now follows through on our recommendations, but the actual governance and the composition of the board I think are largely up to the shareholders rather than APRA at this stage.

Senator WATSON—You have suggested, or required, some pretty strong action in terms of capital adequacy. It would appear that the write-off of some of the software which has been accumulating large costs in their balance sheet might be less than it would otherwise have been as a result of your capital adequacy requirements.

Mr Venkatramani—In relation to specific constituents of a bank's or indeed any other institution's capital, APRA would look at the robustness of the treatment. Given that our capital adequacy internal targets are, for example, what Basel or the statutory minima will dictate, we do take into account the robustness. Beyond that, we do not stipulate accounting treatment, because they are often governed by accounting standards. The prudential treatment of capital, or indeed any other accounting treatment, need not fully align with what the accountants or auditors would require. While we have concerns about them, we simply give them a lesser weight and therefore effectively beef up the required capital. So instead of trying to look at each individual component and passing a judgment, we say, 'That sounds okay; that sounds a little bit dodgy,' and therefore we would probably add an additional cushion. In the example where we nominated a figure, that figure was worked out as a result of our comfort or lack of comfort about individual accounting treatments. That is a fairly broad answer, but it is very difficult to go into specifics at this stage.

Senator WATSON—We all know that one can improve the bottom line by taking developmental costs such as software enhancements off the balance sheets and then writing them off for a long period of time. Do you accept what accountants might say is a pretty flexible and very liberal approach in the way banks in particular can write off these developments?

Mr Venkatramani—No. We have very recently modified our requirements on capitalised costs: what we would accept and what we would not accept from the prudential point of view as opposed to an accounting or an auditing perspective. That guideline has been issued to authorised deposit takers as to what we would accept by way of capitalised expenses.

Senator WATSON—What has been the reaction from the accounting profession?

Mr Chapman—It is not directly relevant to the accounting profession.

Senator WATSON—They seem a bit lax on this issue, don't they?

Mr Chapman—Accounting standards are probably going to change dramatically anyway when the new international accounting rules come through. Maybe I can describe it differently. In an ideal world, accounting standards and prudential standards would align perfectly, and we would all agree that all these things were real assets and should be counted.

Senator WATSON—So you are suggesting—and Mr Jones is nodding—that there is a little bit of difference between accounting standards and prudential standards.

Mr Chapman—Yes. Capitalised expenses are a good example. We took the view that these really should not be counted as assets that are available for prudential regulation and capital purposes, and they should be written out for prudential regulation. That does not mean they should not be recognised in the accounting standards sense. That is a different question. But while there is that broad approach that we would like prudential regulation to match accounting standards, where we do identify individual instances where they might meet the broad parameters within our standards and also accounting standard, we will then, as Ramani said, look at individual—sanctions is not the right word—decisions in relation to the institution concerned to say, 'In this case we want you to hold an additional buffer because this is there.' But in most cases, in 99.999 per cent of cases, that is a marginal issue. You might be talking about $3 million or $4 million and the capital base might be $200 million.

Senator WATSON—Mr Jones, would you like to comment? I noticed you were nodding when I asked the question.

Mr Jones—I would simply comment that I can see there is the potential for a difference between what a prudential regulator wants and what an accountant may want in terms of reflection of different objectives.

Senator WATSON—Have you taken this up with the Accounting Standards Board? Have you taken it up with the accountants themselves, or the accountancy bodies, and expressed your concerns?

Mr Venkatramani—Our approach to pressing the prudential objective is to clarify what we want through our standards and guidance. But having said that, as Keith pointed out, this harmonisation project for accounting standards across the world has given us a fresh opportunity to talk to the accountants and, indeed, with other professionals involved—for example, with life insurance companies and with the actuarial profession—to clarify what we would accept and not accept in terms of prudential requirements.

Senator WATSON—Mr Jones, could you tell us the nature of those discussions and what has possibly come out of those discussions. Have you made progress?

Mr Jones—At the moment, given that we are not quite certain of the timing and whether or not the accounting standards will be introduced, it is still in the negotiation stage. Negotiation is not even the correct word; probably consultation is closer.

Senator WATSON—Okay. What about your relationships with the accountants in terms of the difference between accountancy and prudential standards? After all, you have the responsibility of looking after these people's moneys. The theory behind a write-off is all very well but we have to look at the practical application in a situation. Particularly where we hear that a bank may not proceed to a write-off, which it had otherwise intended, as a result of capital adequacy, I would imagine this would be a matter of some concern—even though it might affect the bottom line of the NAB.

Mr Jones—Certainly if there were significant differences between what a prudential regulator believed was necessary for a good understanding of the prudential issues regarding an entity and the standards that the accounting bodies were introducing there may be concerns. But I do not know that we are at that stage.

Senator WATSON—We are not necessarily at that stage but we could well be at that stage—is that a good way of interpreting it?

Mr Jones—I do not think so. I do not know that that is necessarily the case. I do not know at this stage.

Senator WATSON—You are softening your approach since I first asked the question.

Mr Jones—It is trying to second-guess when we are not quite certain where the accounting standards are likely to be.

Senator WATSON—All right. We are talking about accounting standards. What about accounting practices?

Mr Chapman—Is that a broad question about whether we are comfortable that the auditors of APRA-regulated entities are doing a good job?

Senator WATSON—That is right; absolutely. It is bringing it down to the here and now of what companies are producing and how you view those write-offs or lack of write-offs, particularly in the light of one particular bank that has to make a significant adjustment to its capital adequacy—maybe it might even have to raise money; maybe it can do it internally. But one commentator suggested this may be to the detriment of writing-off some software developments that had previously been capitalised. So far as I am concerned there would be a lack of consistency: we were going to write this off, there has come a blip and, yes, it could affect the bottom line, but because we are concerned to see that it will not have too major an impact on the bottom line we will change our process or our procedure in terms of our write-offs.

Mr Jones—Are you concerned about what you consider to be inappropriate accountancy practices?

Senator WATSON—What I am saying is there does seem to be a reluctance by some of these big players to write off in a timely manner some of their capitalised costs. Whether they get a full tax deduction in that year is another matter. But I am concerned to make sure that we have harmonisation between the regulatory aspects of the prudential side of parliament's oversight

compared with the practice in the commercial world which is dominated by accountants and accountancy standards.

Mr Venkatramani—APRA would accept as a principle that, as Keith pointed out, that would be ideal. But, having said that, we do recognise that the prudential perspective is all that we can push. Accounting standards—

Senator WATSON—This is an important piece—

Mr Venkatramani—We do that, but I want to explain how we do that. In terms of accounting standards, the game is bigger than merely APRA. As you know, it is the move to harmonise accounting standards across the world. All we can do is talk to the various accountants and say, 'This is the reason that we are not prepared to follow what you are prepared to do on an accounting standard.' Having said that and with reference to the other institutions that are here, all regulatory returns still have to be prepared in accordance with other rules, which are not necessarily accounting rules. There is a process where we require those regulatory returns to be externally audited and the board to attest that those returns have been prepared in accordance with our rules.

Whilst we do not like divergence and would like to minimise it by talking to the professional bodies concerned, there is no point in talking to individual accounting firms because they would simply point to their accounting standards. There are divergences which we will not accept. We would simply say, 'This is the way we will treat them for prudential purposes. Please produce your prudential returns on this basis: please have them audited and please let us have an attestation from the board that these returns have been prepared according to other requirements rather than accounting requirements.'

Senator WATSON—That is very good. Well done. How many of those letters have you sent out to institutions?

Mr Chapman—Those letters?

Senator WATSON—Have you sent out those advices which you have just enunciated very articulately? How many of those have gone out to your clients?

Mr Chapman—Sorry; I am a bit lost. Is your question: have we written to all APRA-regulated institutions explaining this difference between—

Senator WATSON—No. You believe there could be a significant difference between your clients not meeting your high regulatory standards and companies saying that they meet accounting standards. There is a gulf there. I am saying: how many people have you advised of your concerns in this area?

Mr Jones—I think everyone is aware of our concerns because every one of our regulated entities knows that they have to meet our prudential concerns.

Mr Chapman—It would be impossible to answer how many we have specifically written to.

Senator WATSON—But there has been no specific enforcement action?

Mr Chapman—No. It will be done on a case by case basis as individual institutions are supervised and concerns raised.

Senator WATSON—And you are not sure how many people you have notified?

Mr Chapman—We could tell you how many we have visited and how many letters have gone out but it would be impossible for us to tell you how many of those thousands of letters have an accounting issue in them.

Senator WATSON—Because they have other issues apart from this?

Mr Chapman—Yes. We also have a liaison process with key audit partners as well. For example, we have a group of general insurance audit partners with whom we have a liaison meeting three of four times a year to go through broad issues.

Senator WATSON—I have a question for the Australian National Audit Office. What follow-up have you undertaken in relation to your recommendations on risk management assessments? That is what you formed a number of your recommendations on. Dr Laker indicated to us earlier that you have been making major changes in terms of meeting the audit recommendations. What follow-up have you undertaken to ensure the progress of those risk management assessments?

Mr Cochrane—We have not been back to APRA since we completed the report. It will have to take place some time in the future. But we were happy to hear that the five recommendations have been implemented and that there is a more structured, consistent approach across the risk rating and so forth. That is something we would look at when we go back to APRA.

Senator WATSON—So basically a lot of the issues that you raised are almost 12 months old now, although they appeared in your report of September 2003, in light of what APRA have done under their new management or what was set in train before they came in. Is that right?

Mr Cochrane—Yes. As was said before, the report has been useful and recommendations have been implemented. That is pleasing to hear.

Senator WATSON—What further progress have APRA made in this issue since Dr Laker reported to the Senate in February 2004?

Mr Jones—With regard to recommendation 1 in the ANAO report, we now believe that we have completely met that recommendation, as of last week. The other recommendations, which require changes to the risk based supervisory strategy and so on, are ongoing and have been put in place. I am quite confident that all of the recommendations are being worked through. I found the process extremely useful. I arrived at APRA in July, and this report arrived in July as well.

Senator WATSON—So we now have risk rating assessments for all your clients?

Mr Jones—We always had risk rating assessments. What we now have is a new and improved risk rating methodology, via what is known as PAIRS and SOARS supervisory methodology. We

are now going through and, using the PAIRS and SOARS methodology in our normal cycle in superannuation funds, risk rating those.

Senator WATSON—So you have undertaken the risk management assessment. How has that been reflected in your audit activity? You provided the structure; you have got the risk assessment. I am now asking: how has that been reflected in your field audit work?

Mr Venkatramani—In terms of the risk based assessment, as we explained earlier, under approved trustees, which have a number of small APRA funds, we have taken the view that as a first base the approved trustee rating must apply. If there are indications within a small APRA fund which would give us additional risk signals or would make the broad application of the approved trustee risk assessment to the small APRA fund, then quite clearly we would go back to that small APRA fund and revisit the risk rating. That might mean either affirmation or changing. Having done that, that immediately leads to what we call a supervisory stance. Every risk assessment says either this is normal supervision, oversight supervision, mandated improvement or restructure. Underlying each one of those stances, there is a suite of activities which we undertake; for example, increase the frequency of, let us say, the operational risk visit, the credit risk visit, or send a bunch of actuaries to look at actuarial evaluation processes.

This is an ongoing process. This does not happen only once a year. Anything happening to a regulated institution, either because we get the information through a return or through market activity or they acquire a new business, our front-line supervisors are supposed to look at their PAIRS rating and the supervisory stance. The larger the institution and the riskier the institution, the escalation process goes all the way up to the chair of APRA, who says, 'This is what we need to do.' And there is an internal debating process or a quality assurance process for a higher level institution or a systemically important institution. The process is: risk assessment leads to your supervisory stance, but that is continually reviewed based on market information and regulatory returns.

Mr Chapman—Perhaps another way to answer your question, Senator, is that when Mr Jones was describing the PAIRS framework earlier—and this is a micro example of some of the things that have happened—one of the criteria is, for example, asset and counterparty risk. That is one of the risk assessments we make. As we roll out PAIRS and we start to see that maybe superannuation in that category averages a 2 score and banks average a 3 score, that starts to say to us, 'Hang on; there is something here we need to look at a bit more in this sector' because of the scores that are coming through for people's assessments. The PAIRS system has changed the work somewhat, because staff are now specifically focusing on their ability to make an assessment against that risk criteria they have to make a score in the PAIRS system for. With general insurers, for example, if you had asked them 10 years ago they would have said, 'We have no asset counterparty risk at all.' Of course they do, because it depends what sort of fixed interest investments they invest in.

So to look at that we would been looking more at that sort of element of general insurance operations than we have in the past. So it has worked very well for us in terms of which particular areas we really do not know a great deal about for this industry—and there are some of those—and also in terms of how we should go about it and how we can we translate that knowledge across the four industries we supervise now. So things have changed. PAIRS has helped that, because it has put in a more structured format, but other things would have changed

that anyway. If you find a problem with people who use particular administrators for superannuation, you would immediately have gone and looked at those funds anyway. So it is purely another means of flagging an area we need to put some regulatory effort into. The other advantage of PAIRS from our perspective is that it enables us to make a much more logical and accountable, for want of better terminology, resource allocation. So it might be that there are 50 small things which have some difficulty but there is one really big thing which has got some problems. This gives us a much more structured process to make a resource allocation, where we are going to put our resources.

Senator WATSON—Does that account for the fact that your field activity has dropped in the last couple of years?

Mr Chapman—There are a number of different answers to that. One of them is that—and this is another issue that the ANAO report helped us to focus on a bit more—nobody actually has a consistent view of what a field activity is. So some of the numbers that people might quote as not being field activities are actual field activities. I think you would also find that we have a better data system now. So, whereas previously we might not have been able to find out something without going and looking at it, we now have a better data collection process and a better analysis system internally so we can actually do some of that risk assessment off site. That is really what it is all about. You can go and look at a hundred super funds and work out which ones are the riskiest, but if you have a hundred sets of reasonable data you can work out which four are the ones you need to go and focus on.

Senator WATSON—So you say that because you have better data you are having to make fewer field visits?

Mr Chapman—We are able to target the institutions we think are most at risk.

Senator WATSON—I think the chairman may have a question to ask.

CHAIRMAN—It is about time to go.

Senator WATSON—I see. Do you think we should come back to this?

CHAIRMAN—Do you have a million questions?

Senator WATSON—I have a couple more questions. My next one is to the Australian Taxation Office. You have heard how the improved risk assessment and the APRA regulation of superannuation funds has been enhanced. Can you give us an assurance that you have stepped up your regulatory activity, apart from your taxation compliance work?

Mr Jackson—I can give you that assurance. We have been through, as I mentioned earlier, a major benchmarking project. That was completed less than 12 months ago. That is allowing us to accurately target the indicators of risk across the SMSF marketplace. We have listed in our compliance program activities for this year which include 100-plus seminars and presentations, enforcement of lodgment of 20,000 returns, detailed field audits for 1,000 funds, reviewing high-risk trustees, a task force to look at promoters and so on. All of those are aimed at ensuring compliance with both income tax and regulatory regimes for SMSFs.

The commissioner has been saying in speeches recently that we are moving to rebalance our approach in this area. We have been focusing very heavily on education. We try to contact the trustees of all new registering funds. We do not always get to trustees; often you end up with the accountant, who knows what you are trying to tell him anyway usually. But we do now provide a kit to all new trustees which sets out in fairly simple terms what their responsibilities are. We have also been working very actively with the professional associations—the ICAA, CPA and so on—to ensure that the standard of independent audit that is conducted of self-managed funds is up to scratch. That work continues. I would expect to see improved outcomes of audits in the future. So we carry out a range of activities across both the direct interaction with clients, our risk analysis processes and the intermediaries involved.

Senator WATSON—Earlier APRA was at pains to suggest their enhancement of supervision. An issue that did arise was in terms of differences or a lack of a consistent supervisory approach in all divisions. Can you assure us that that is now being dovetailed?

Mr Jones—Within APRA or between APRA and the ATO?

Senator WATSON—Within APRA. You have given us assurances of a more consistent and higher level approach to your supervisory activities. In terms of ensuring a supervisory enforcement can you advise us in terms of your enforcement action that consistency has been reflected by the enforcement people? While, in theory, you have this consistent approach between your two divisions—

Mr Chapman—We are moving towards that; we have not yet achieved it.

Senator WATSON—in terms of people on the ground, in terms of implementation of this supervisory enforcement, can you advise us that you now have a consistent approach to all your clients? Some people within the risk management assessment category having the same risk arrangement were not necessarily having a consistent supervisory approach. That was a criticism from, I think, Audit.

Mr Jones—I think that is a legitimate comment, and certainly that is what we have been working on via this project. In terms of enforcement—and maybe we use language a little differently—we are actually taking enforcement action. We are extremely consistent in our enforcement action regardless of which division the regulated entity came out of.

Senator WATSON—Are people on the same risk assessment categorisation to ensure that the enforcement is identical for all people on the same risk assessment category? You now have all these very nice risk assessment categories, but I now want to ensure that the enforcement process applicable to people within each category is consistently applied.

Mr Glenfield—That is being dealt with by the committee that Ramani spoke about earlier. We now have APRA-wide committees that look at the risk assessments that are done, the supervisory stance and the actions that will be undertaken under each of those stances for a particular group of, say, superannuation funds. We have our committee meeting where we line up funds of like risk characterisation in front of the group and we look at the supervisory stance of each. If it is not consistent we move to a form of consistency. So we are addressing it in that fashion.

Senator WATSON—I think the committee has an assurance that, following all these reviews, the operations of APRA are generally sound and effective. That is a positive matter that came out of the audit report, which we accept.

CHAIRMAN—I thank you all for appearing before the committee today.

Resolved (on motion by **Ms Plibersek**):

That this committee authorises publication, including publication on the parliamentary database, of the proof transcript of the evidence given before it at public hearing this day.

Committee adjourned at 12.08 p.m.