

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates

19 – 20 October 2011

Question No: SBT 520 - 521

Topic: Prudential Review

Hansard Page: Written

Senator Bushy asked:

520. What is a Prudential Review in the APRA superannuation context, and what is the check list of tasks in such a review?
521. In relation to Trio and related entities how many such prudential reviews were conducted during the history of this entity/ies?
- a) When did the reviews occur, and what check list items were covered in each?
 - b) Which APRA officers were in charge of these reviews?
 - c) Were the results of the reviews reported to the APRA board?
 - d) When were the results of each review reported to the Government?

Answer:

520. A Prudential Review is typically an on-site risk review conducted by APRA's frontline team responsible for an entity, which centres on key risk areas identified from either prior on-site reviews or off-site reviews. In intensive reviews, the frontline supervision team will have the assistance of a specialist risk team from the Supervisory Support Division as these staff have greater in-depth knowledge in their particular areas of speciality.

The aim of the review is to challenge and test the processes and procedures that are in place that flow from the entity's policies and its risk management framework. APRA seeks to confirm whether or not the framework, policy and procedures are well managed and identify areas for improvement, rectification and, where appropriate, take supervisory action(s) to address any identified weaknesses in the management of the key areas of risk.

There are no set 'checklists' for these reviews as each review is risk-based according to the risk profile of the individual entity. However, APRA's risk-based methodology ensures consistency of approach, as far as practical, in dealing with the different risks encountered industry by industry, entity by entity and within each industry. The key risk areas reviewed are those that form APRA's Probability and Impact Rating System (PAIRS) rating for the entity, which in turn drives the Supervisory and Oversight Response System (SOARS) stance. The entities that have higher supervisory indices (higher PAIRS ratings) require more intensive (and at times intrusive) supervision than those at the lower end of the spectrum of PAIRS ratings. More detail is provided in The APRA Supervision Blueprint, in particular Section 3: APRA's Framework for Prudential Supervision. This is available on the APRA website at:

<http://www.apra.gov.au/AboutAPRA/Pages/Supervision.aspx>.

Further information on PAIRS can be found at:

http://www.apra.gov.au/crossindustry/documents/pairs_nov_2010.pdf

521.

a)

- On 21 January 2001, APRA wrote to Tollhurst Capital Limited advising that off-site analysis of financial statements and supporting documentation had been completed. Tollhurst was also advised that trustee operations, pooled superannuation trusts and superannuation funds would be subject to review in the future. Tollhurst was apprised of the requirements for forthcoming superannuation fund licensing.
- From 6 to 8 April 2004, a prudential review was held with management and a meeting with the Board was held in the week of 19 April 2004. This meeting was chiefly in response to the trustee's application for variation of the Instrument of Approval to bring Professional Pensions PST (PPPST) under its trusteeship (from the trust company). During this review there was broad discussion across a wide area of risks.
- On 14 and 15 November 2005, a prudential review was held which involved meetings with management and trustee directors. The review covered a broad range of risk areas and involved discussion of the trustee's preparations for licensing.
- A prudential review was conducted between 21 November 2006 and 15 December 2006. This involved a review of the administration systems, an investment review and meetings with the Board and management.
- A prudential review was held on 28 August 2008 which examined strategy, risk management, governance, investments and liquidity.
- A prudential review was held on 25 and 26 June 2009 which examined governance, strategy, investments (including valuations) and liquidity.

- b) Members of the APRA frontline supervision team responsible for these superannuation entities and their immediate managers conducted these reviews.
- c) The results of the reviews were elevated to the appropriate levels of management within the delegated authorities of the APRA staff. The results were not elevated to the Board (which did not exist past 30 June 2003) and/or the Members thereafter.
- d) Results of APRA prudential reviews are not reported to Government.