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John F. Laker AO  
CHAIRMAN

13 August 2009

Ms Sophie Dunstone  
Senior Research Officer  
Parliamentary Joint Committee on Corporations  
and financial Services  
PO Box 6100  
Parliament House  
CANBERRA ACT 2600

Dear Ms Dunstone,

#### PARLIAMENTARY INQUIRY INTO FINANCIAL PRODUCTS AND SERVICES

We refer to your letter of 30 July seeking a response to comments made about the Australian Prudential Regulation Authority (APRA) in submissions to the above inquiry.

We have reviewed the submissions available on the Committee's website as at 6 August 2009. Of the 254 submissions, we identified only seven that contain reference to APRA and of this seven, only three contain adverse comments about APRA's performance. Of the remaining four:

- one advocates that regulatory bodies such as APRA and ASIC be given greater regulatory powers and resources – this is a matter for Government;
- one suggests ASIC should develop a similar supervisory methodology to APRA – this is a matter for ASIC; and
- two make only general references to APRA in the context of the broader regulatory framework.

The three submissions that include criticism of APRA appear to have misunderstood APRA's role. APRA's primary purpose is to ensure that the financial institutions it regulates remain financially sound and able to meet their commitments to their beneficiaries. In the context of banking, APRA's role is to protect the depositors of authorised deposit-taking institutions (ADIs) from the risk that they might lose their deposits due to the failure of an ADI.

To provide this protection, APRA supervises ADIs in such a way as to ensure that, across the spectrum of their activities, risk-taking is conducted within reasonable bounds and risks are well managed. APRA cannot, and should not, seek to stop ADIs or other regulated financial institutions from incurring occasional losses in the normal course of their business – this is essential if Australia is to have a competitive and innovative financial system. APRA's aim is to ensure that any losses incurred can be absorbed by the capital resources of the institution concerned.

APRA is, of course, interested in many of the particular issues being considered by the Committee and it has been examining recent events to see what they can tell about the quality of risk management within the ADIs involved. However, nothing has emerged to suggest that there is any material risk that these ADIs might be unable to meet their obligations to depositors.

Under Australia's 'twin peaks' regulatory model, matters relating to conduct of business and disclosure (particularly for borrowers) fall within ASIC's jurisdiction. APRA has no mandate for business conduct or consumer matters and does not get involved in dealings with individual customers or groups of customers.

Yours sincerely,

A handwritten signature in blue ink, reading "John Laker". The signature is fluid and cursive, with a large loop at the start of the first name.