

# STATEMENT OF EXPECTATIONS – AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY

1. This Statement sets out the Government's expectations for the Australian Prudential Regulation Authority (APRA). It outlines the Government's expectations for how APRA fulfils its role, balances its objectives and responds to changing circumstances in the context of the Government's policy priorities. It also outlines expectations for how APRA manages its relationship with the Government, other agencies and regulators, and issues of transparency and accountability.
2. The Government recognises and respects the independence of APRA and its responsibility for prudential regulation, as provided by the *Australian Prudential Regulation Authority Act 1998* (APRA Act). To maintain confidence in the regulatory framework, it is imperative that APRA acts, and is perceived to act independently in performing its functions and exercising its powers as set out in statute.
3. APRA was established to administer regulatory frameworks that reflect Government policies and priorities relating to a sound and effective Australian financial system. The Government therefore expects that APRA takes into account the Government's policy priorities in performing its role and discharging its responsibilities.
4. APRA is expected to reply to this Statement with its own Statement of Intent.

## APRA'S ROLE

5. APRA is responsible for the prudential regulation of, and developing prudential policy for, authorised deposit-taking institutions; general insurance, life insurance and friendly societies, private health insurance and reinsurance companies; and most of the superannuation industry.
6. APRA administers the Financial Claims Scheme and, as a national statistical agency for the Australian financial sector, collects and publishes data from prudentially regulated and other financial institutions.
7. Consistent with the APRA Act, APRA is to balance the objectives of financial safety and efficiency, competition, contestability and competitive neutrality and, in balancing these objectives, is to promote financial system stability in Australia.

## BALANCING OBJECTIVES FOR THE FINANCIAL SYSTEM OF THE FUTURE

8. The Government recognises the importance of having sound and strong financial institutions for the ongoing health of the financial system and its ability to support sustainable economic growth.
9. The Government expects APRA to focus on preventative aspects to safeguard Australia's financial system.
10. The Government acknowledges that, in performing its role, APRA is required to balance several objectives. At times, this may not be straightforward and the appropriate balance will require professional judgement.

11. The Government regards competition in the system as a key policy priority. The Government expects APRA to facilitate an environment where innovation and competition are encouraged and barriers to entry are minimised.
12. The Government also expects APRA to publicly communicate how it has balanced its regulatory responsibilities and objectives in acting to promote financial system stability in Australia.
13. The Government recognises that prudential regulation cannot and should not seek to guarantee a zero failure rate of prudentially regulated institutions or provide absolute protection for market participants. A regulatory approach with such intensity would remove the natural spectrum of risk that is fundamental to well-functioning markets, and ultimately reduce the efficiency and growth of the Australian economy. The prudential regulation regime should operate to maintain a low incidence of failure of regulated entities while not unnecessarily hindering efficiency, competition, or otherwise impeding the competitive neutrality or contestability of the financial system.

## **RESPONDING TO CHANGING CIRCUMSTANCES**

14. In achieving its statutory objectives, the Government recognises that APRA's priorities are subject to review and change over time in response to changes in the structure of the financial system, the Australian economy and financial markets. In its annual Corporate Plan, APRA should identify any relevant risks and opportunities that may affect its ability to achieve its mission, and articulate clearly how its strategic priorities address and reflect these risks and opportunities.
15. APRA has capacity to employ staff under the APRA Act. APRA Members are required to uphold and promote the APRA Values as determined by the APRA Chair. All APRA employees are required to adhere to the APRA Code of Conduct. The Government expects APRA to continue examining and shaping its workforce and capabilities to anticipate and respond to changing circumstances. The Government expects APRA to report annually on its outlook for the financial system and the approach it will take to prepare for and manage its capabilities and actions consistent with that outlook. APRA will also continue to be required to comply with the APS Workplace Bargaining Policy in relation to APRA employees.
16. The Government will continue to determine APRA's total budget funding. Consistent with the Australian Government Charging Framework, APRA will work with the Government to undertake annual consultation on the cost recovery levies necessary to recover APRA's costs and will release an annual Cost Recovery Implementation Statement (CRIS). The Government expects that the CRIS will increase the transparency of APRA's costs, and strengthen its accountability to stakeholders by enabling them to better assess whether resources have been allocated appropriately and efficiently.

## **THE GOVERNMENT'S POLICY PRIORITIES FOR THE FINANCIAL SYSTEM**

17. The Government's financial system agenda seeks to position Australia's financial system to best respond to the challenges and opportunities of the future. This agenda aims to:
  - improve accountability and risk culture within financial institutions;

- strengthen the resilience and stability of the financial system, while stimulating innovation and competition within it;
  - improve the efficiency and transparency of the superannuation system;
  - empowering consumers of financial products and ensuring they are treated fairly; and
  - strengthen regulator capabilities and accountability.
18. The Government expects that APRA will continue to work with Treasury and other stakeholders to implement the initiatives in the Government's financial system agenda and stay abreast of emerging fields and trends.
  19. The Parliament has recently enacted legislation to implement the Government's Banking Executive Accountability Regime (BEAR), which enhances the responsibility and accountability of authorised deposit-taking institutions (ADIs), and their directors and senior executives. The Government expects APRA to give priority to its implementation, with a focus on institutions having remuneration structures, incentives and accountability mechanisms in place that are consistent with maintaining their prudential standing and reputation expected by the community. The Government also expects APRA to monitor, and where necessary and appropriate, take action to strengthen the governance, accountability and risk culture of all of its regulated entities.
  20. The Government welcomes APRA's implementation of the Financial System Inquiry's recommendation for 'unquestionably strong' capital ratios. The Government expects APRA to maintain its commitment to ensuring that ADIs are 'unquestionably strong' and continue to monitor conditions in the sector, taking actions to address risks to financial stability as necessary.
  21. The Parliament has recently enacted legislation introduced by the Government to strengthen APRA's crisis management powers in relation to banks and insurers (implementing a recommendation of the Financial System Inquiry). In this context, the Government expects APRA to act swiftly and effectively to resolve a bank or an insurer in crisis, therefore minimising the effects of an institution's financial distress on consumers, the financial system and the economy more broadly.
  22. Further recently-enacted legislation provides APRA with new reserve powers over non-ADI lenders to be used by APRA should the lending activities of non-ADI lenders be materially contributing to instability in the Australian financial system. The Government expects that APRA will use these powers in a measured and proportional way, balancing financial stability outcomes and the impacts on industry appropriately.
  23. The Government is committed to improving the efficiency and transparency of the superannuation system and delivering better member outcomes, with a particular focus on the default MySuper segment. The Government welcomes APRA's efforts that seek to ensure trustees improve outcomes for their superannuation fund members and expects APRA to continue with activities designed to lift standards and governance in the superannuation industry.

24. As announced in the 2017-18 Budget, the Government will relax the 15 per cent ownership restriction in the *Financial Sector (Shareholdings) Act 1998* (FSSA) as part of ongoing efforts to reduce regulatory barriers to entry to the financial sector and foster competition within it. In this context, , the Government welcomes APRA's review of its approach to licensing ADIs, supports the phased licensing approach and expects APRA to continue to focus on reducing regulatory barriers to foster competition whilst maintaining safety and stability. The Government believes this reform will make it easier for new entrants to become licensed and boost competition in the sector.
25. The Government also expects APRA to continue to develop strategies that address the need for a more innovative approach to regulation while maintaining safety and stability in an environment of digital disruption and financial disintermediation.
26. The Government is committed to ensuring that Australia is positioned to benefit from the greater use of data. Increased data has the potential to boost innovation and help Australia to remain globally competitive. The Government expects APRA, together with other relevant regulators, to facilitate the greater sharing of Government data, taking into account privacy concerns and other legislative responsibilities. Over time, APRA is expected to develop a data policy that is consistent with the Government's commitment to facilitate more effective use of data in the financial services sector, to better serve consumers' needs and empower consumers to obtain the best value from financial sector entities.

## **THE GOVERNMENT'S REGULATORY REFORM PROGRAM**

27. The Government is committed to reducing red tape and compliance costs for business and the community as part of broader regulatory reforms that encourage innovation and competition, and enhance productivity and economic growth. The Government acknowledges the role APRA has played in implementing the Government's Regulatory Reform Agenda, including its contributions towards reducing red tape. The Government expects APRA to continue to look for opportunities to reduce red tape and contribute more broadly to the Government's renewed regulatory reform agenda.
28. The Government also expects APRA to comply with the Government's Regulatory Impact Analysis requirements for all regulatory proposals. These include using the Regulatory Burden Measurement framework when considering the impacts of regulation on business and the community and costing proposals before they are introduced.
29. APRA should act in accordance with regulatory best practice in its decision making, policies, processes and communication with stakeholders to maximise effectiveness, efficiency and transparency, and minimise compliance costs. The Government expects APRA to regularly review its policies and procedures to identify improvements to achieve best practice in these areas.
30. APRA is subject to the Regulator Performance Framework, which requires regulators to make an annual assessment of their performance in the administration of regulation.
31. The Government's preference is for principles-based regulation, which identifies the desired outcomes and allows industry participants to achieve the outcomes in their own way, rather than prescribing a specific approach. A principles-based approach is more flexible and is likely to accommodate change within the economy, allow for

innovation and enterprise and reduce compliance costs by allowing regulated entities to determine the best way to meet regulatory objectives.

#### **RELATIONSHIP WITH THE REGULATED POPULATION AND INDUSTRY STAKEHOLDERS**

32. The Government expects APRA to have an open and sound working relationship with supervised entities and to ensure that industry participants are encouraged to communicate considered and candid views to APRA. In doing this APRA should keep abreast of key emerging issues, opportunities, trends and behaviours in prudentially regulated sectors.
33. Where APRA has powers to make orders or rules, modify the law or make exemptions, and the exercise of that power would have significant implications for the market or regulated population, the Government expects that APRA will consult with stakeholders and provide appropriate time to implement the regulatory change.
34. The Government also expects APRA to identify opportunities to collaborate with the private sector in regulating and monitoring particular industries where collaborative partnerships (including co-regulation, quasi-regulation or self-regulation) can deliver better regulatory outcomes.

#### **RELATIONSHIP WITH THE GOVERNMENT AND THE RESPONSIBLE MINISTERS**

35. APRA plays an essential role in ensuring that the Government is well placed to respond promptly to issues that may arise in prudentially regulated sectors. This role requires that APRA informs the Government about problems that APRA has encountered in performing its regulatory functions.
36. The Government expects APRA to provide responsible Ministers with accurate and timely advice on significant issues in APRA's core areas of responsibility. Examples include matters which the Government will be required to address in Parliament, important operational or budgetary issues and decisions regarding the appropriate action for the Government to take following substantial problems arising in the financial services industry.
37. The Treasurer and the APRA Members will meet at least annually to discuss APRA's performance and matters relevant to prudentially regulated entities. The discussion will draw on feedback from relevant stakeholders on APRA's performance and APRA's progress in achieving its intended goals, including those articulated in APRA's Corporate Plan.
38. The Treasurer will also seek to regularly meet with APRA members to remain abreast of current issues.

#### **RELATIONSHIP WITH THE TREASURY**

39. The Government expects the Treasury and APRA to maintain a close relationship to support the Treasury's role in advising the Treasury Ministers. This is an important way for APRA to contribute to policy development.
40. In working with the Treasury, the Government expects APRA to:

- provide the Secretary to the Treasury with a copy of all information, briefings, press releases and correspondence provided to Ministers;
- keep the Secretary to the Treasury appropriately informed of significant meetings between APRA and Government Ministers and other Parliamentary bodies; and
- advise the Treasury about changes to legislation that, in APRA's opinion, would assist in improving the regulatory framework in a manner that minimises compliance costs for business and the community.

## **RELATIONSHIP WITH OTHER GOVERNMENT BODIES AND REGULATORS**

41. The Government expects APRA to maintain collaborative working relationships with other Commonwealth and State and Territory agencies (including the agencies of the Council of Financial Regulators (CFR) and the Australian Competition and Consumer Commission), APRA's counterpart regulators in overseas jurisdictions and international standard setting bodies.
42. The Government expects APRA to work with the CFR and other government bodies to identify and make the Government aware of emerging issues and gaps in regulation that could pose systemic risks.
43. The Government expects APRA to work collaboratively with other regulators and government bodies to avoid duplication of supervisory activities and consider whether outcomes could be achieved by using existing regulation administered by another regulator. This is to ensure an integrated regulatory framework and to reduce compliance costs for regulated entities.
44. The Government expects that APRA consider the outcomes or recommendations of relevant Government established panels, reviews or inquiries.

## **TRANSPARENCY AND ACCOUNTABILITY**

45. APRA operates as part of the Australian Government and is accountable to the Parliament, and ultimately to the public, through the Treasury Ministers, the Parliamentary Committee process and the tabling of its Annual Report.
46. The Government expects APRA to provide regular external communications on key decisions and regulatory outcomes subject to the secrecy provisions in the APRA Act. These should be made available publicly as soon as possible, and should clearly demonstrate how these decisions and intended outcomes align with APRA's statutory objectives and strategic priorities.
47. The Government expects APRA to comply with the requirements of the whole-of-government performance management framework under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and the Finance Minister's Orders. In particular, the Government expects that APRA will integrate performance measures into its Corporate Plan and subsequently report on outcomes against each measure in its Annual Report. The Government will assess APRA's performance against these measures as part of its oversight function in determining whether APRA is successfully achieving its objectives.

48. APRA is required to operate within a budget funded by industry levies. This requires choices being made on how resources are used to best meet APRA's statutory responsibilities. The requirements for APRA's financial management are set out in the PGPA Act and the Finance Minister's Orders. The Government expects that APRA will continue efforts to secure improved efficiency in its operations and demonstrate value for money for the services that it delivers.

## CONCLUSION

49. The Government's vision is for APRA to be a high performing and responsive agency that administers a principles-based regulatory framework in a way that minimises compliance costs for business and the community, is efficient and effective and promotes financial stability while balancing the objectives of financial safety and efficiency, competition, contestability and competitive neutrality, consistent with APRA's statutory objectives.