ANNUAL REPORT 19/20

AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY

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19/20

THE AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY (APRA) IS THE PRUDENTIAL REGULATOR OF THE AUSTRALIAN FINANCIAL SERVICES INDUSTRY.

It oversees Australia's banks, credit unions, building societies, general insurers and reinsurance companies, life insurers, private health insurers, friendly societies and most members of the superannuation industry.

APRA currently supervises institutions holding $7.68 trillion in assets for Australian depositors, policyholders and superannuation fund members.

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WAYNE BYRES
Chair

18 September 2020

The Hon Josh Frydenberg, MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer,

In accordance with sections 43 and 46 of the *Public Governance, Performance and Accountability Act 2013*, I am pleased to submit the Australian Prudential Regulation Authority Annual Report and Financial Statements for the year ended 30 June 2020.

Yours sincerely,

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Glossary

ADI	Authorised deposit-taking institution
ANAO	Australian National Audit Office
APRA	Australian Prudential Regulation Authority
APRA Act	*Australian Prudential Regulation Authority Act 1998*
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
BEAR	Banking Executive Accountability Regime
CFR	Council of Financial Regulators
FCS	Financial Claims Scheme
MoU	Memorandum of Understanding
PHI	Private health insurers
RBA	Reserve Bank of Australia
RSE	Registrable Superannuation Entity

Chapter 1 – From the Chair

The 2019/20 financial year was, without doubt, an extremely testing one – for APRA, for the financial sector, and for the Australian community.

A series of events at the beginning of 2020 – including the most devastating and traumatic bushfire season in memory; severe storms and flooding across vast swathes of the country's east coast; and most significantly, a once-in-a-century pandemic – has served to severely test the resilience of the Australian financial system. Although the economic and psychological impact on households and businesses across the country has been profound and dramatic, APRA-regulated financial institutions (authorised deposit-taking institutions (ADIs), insurers and superannuation funds) have stood up to the challenge, both financially and operationally, and have continued to fulfil their critical roles in society and the economy.

This positive outcome reflects a long period of investment in financial and operational resilience, founded on a strong prudential framework. Moreover, this investment has meant that each industry has not only been able to withstand the events of the past year, but has been able to play a part – through measures such as deferring loan repayments, suspending premium increases, and facilitating prompt access to funds – in helping cushion the blow from the severe economic contraction that the Australian community has experienced in recent months.

For APRA, these events mean the 2019/20 financial year was one of two distinct halves.

In the latter part of 2019, APRA established an ambitious regulatory and supervisory agenda, based on the delivery of four key community outcomes, and commenced a number of initiatives designed to deliver these, built on an expansion of resourcing provided by the Government in the 2019 Federal Budget. Substantial internal organisational changes were also instituted, designed to respond to changes in the financial system APRA supervises, and to better equip APRA to deliver on its 2019-2023 Corporate Plan. With the onset of COVID-19, however, much of this work needed to be reprioritised to enable APRA to deploy its resources to respond to the period of severe and sudden disruption and heightened financial risk caused by the pandemic. This reprioritisation is discussed in more detail in the Statement of Performance contained in Chapter 3 of this report.

Looking forward, the intense and ongoing focus on financial and operational resilience will undoubtedly dominate APRA's agenda in the year ahead, as the financial system continues to navigate an environment of heightened risk and considerable uncertainty.

Meeting expanded expectations

APRA's strategic objectives for the period 2019-2023 were detailed in its updated Corporate Plan, which was released in August 2019. The plan identified four strategic focus areas to strengthen outcomes for the Australian community:

- maintaining financial system resilience;
- improving outcomes for superannuation members;
- transforming governance, culture, remuneration and accountability (GCRA) in regulated financial institutions; and
- improving cyber-resilience across the financial system.

These areas reflected an expansion of expectations by Government and the broader community of APRA's role, particularly with respect to a greater focus on non-financial risk and the behaviour of those in leadership positions within the financial services industry, as well as the emergence of newer and increasing risks such as those related to cyber resilience. Increased emphasis on information-sharing and collaboration with peer agencies, particularly the Australian Securities and Investments Commission (ASIC), was also prioritised.

During the year, APRA put considerable effort into increasing the publicly available information about its activities and the industries it regulates. Most notably, APRA published the first superannuation heatmap in December 2019 (with a subsequent update in June 2020), providing assessments of every MySuper superannuation product in three key areas: investment performance, fees and costs, and sustainability. APRA also published its first 'Year in Review', providing additional information on APRA's activities and achievements, as well as key statistics on the regulated industries.

Internally, a new supervisory risk assessment model was developed, designed to align with these newer areas of activity and drive APRA's supervisory resource allocation. APRA also continued to make significant investments in its capabilities with respect to crisis management, data collection and analysis, and leadership.

Notwithstanding the disruption caused by COVID-19, APRA remains committed to all these initiatives. Many are necessary to respond to various recommendations from the Royal Commission, the APRA Capability Review and other reviews and inquiries. But more crucially, they will ensure APRA remains a strong and effective prudential supervisor into the future, and well placed to continue to perform its role protecting the financial wellbeing of the Australian community.

COVID-19

The COVID-19 pandemic significantly changed APRA's operating environment. The health crisis brought with it an economic crisis as countries shut borders, and imposed lockdowns and other restrictions on public movement and social gatherings. The subsequent economic contraction was more severe than anything seen since the Great Depression.

The onset of COVID-19 required APRA to quickly reset and reshape its priorities. The sharp economic contraction caused by COVID-19 necessitated a redeployment of resources to focus heavily on (initially) operational resilience, and then financial resilience. The effort directed to stress testing and contingency planning was also increased. To accommodate this shift in priorities, in March 2020 APRA announced the suspension of a large part of its policy and supervisory agenda, the temporary suspension of the APRA Connect data collection project, and postponement of the issuance of new banking and insurance licences.

COVID-19 required APRA to adopt a broad perspective when identifying and responding to the risks and vulnerabilities that had the potential to threaten the stability of Australia's financial system. At the heart of the challenge was a collective action problem: that is, that steps by individual financial institutions to protect themselves from the economic impact of COVID-19, such as reducing their risk appetite and conserving their financial resources, could prove to be counter-productive if taken by all institutions at the same time.

APRA has therefore sought, where possible, to act in a counter-cyclical manner. This meant temporarily relaxing a number of regulatory and supervisory expectations, often in support of actions by other arms of government and/or the industry to provide help to the community. Most notable has been the relaxation of expectations in relation to bank capital levels, and in providing a concessional capital treatment for loans subject to repayment deferrals. However, in providing regulatory relief and reducing burden, APRA also sought to ensure this did not materially undermine the fundamental strength of the financial system. As a result, in a few areas – most notably with respect to capital management and the payment of dividends – APRA took restrictive measures to ensure its regulatory concessions were used for their intended purpose: to preserve resilience and support financial businesses to continue to serve their customers. Throughout, APRA has been conscious that a stable and resilient financial system remains a critical foundation for Australia's economic recovery.

COVID-19 also challenged APRA's own ways of working. At the onset of the crisis APRA split its workforce into two teams, alternating time in the office to limit contamination risk. However, as the rate of infection in the community grew, APRA closed its offices entirely in late March and moved to a full work-from-home model. Whilst this brought challenges, APRA's employees adapted well and the transition was implemented relatively smoothly with little disruption to operations.

To date, the financial system has stood up well to the shock caused by COVID-19. APRA has been able to modify its prudential framework in a targeted manner to help facilitate the various support measures that have been put in place to assist the Australian community through a period of considerable disruption. However, while the financial system has proven to be resilient so far, it is yet to be fully tested: many support measures are temporary and the full impacts of the shock are yet to be felt. This will require APRA to continue to closely monitor the health of the financial institutions it regulates, and respond quickly to any early signs of stress that might emerge.

Organisational changes

The 2019/20 year saw a number of changes to APRA's operations, designed to better equip the organisation to identify emerging risks and meet future challenges. The most significant of these was the restructuring of APRA's operations in late 2019 to create separate supervisory divisions for each of the regulated industries of banking, insurance and superannuation.

APRA also undertook significant work to further lift its management capabilities and supporting platforms to enhance the operational environment and quality of leadership within the organisation. A focus on recruitment delivered the additional expertise and personnel necessary to address areas identified as those where APRA needed to do more, especially with regard to non-financial risks.

During the year, APRA made two important appointments to its senior executive team: Ms Suzanne Smith (Executive Director, Superannuation) and Ms Renée Roberts (Executive Director, Policy and Advice). These appointments completed a significant refresh of APRA's leadership that has occurred in recent years and, together with the other members of the senior executive team, provide APRA with a strong and experienced set of leaders to steer the organisation into the future.

Agility in uncertain times

As with the financial system it regulates, the events of 2019/20 tested APRA's own resilience.

Pleasingly, APRA was able to respond with purpose and agility, and will build on the learnings and achievements of the past year in its ongoing oversight of the financial services industry, both in terms of its regulatory and supervisory responsiveness to rapidly changing circumstances, as well as the need to adapt to very different ways of working. APRA showed itself to be flexible and able to change and adapt as circumstances required. Underpinning that capability was the strength of the prudential framework that had been built over many years prior, which provided the necessary confidence that the financial system could withstand a period of stress and act as a shock absorber for the rest of the community.

As Chair, I have greatly appreciated adaptability, responsiveness and professionalism that APRA’s people consistently demonstrated over the past 12 months, and particularly in response to COVID-19. The environment has been challenging, but their talent, cooperation and unwavering dedication to APRA’s purpose have enabled the organisation to successfully navigate a very difficult period. On behalf of my fellow APRA Members, I sincerely thank them for their efforts over the past year, and look forward with confidence to the continuation of that commitment and effort in 2020/21.

Wayne Byres
Chair

Chapter 2 – About APRA

APRA is an independent statutory authority established for the purpose of prudential supervision of financial institutions and promoting financial system stability in Australia. APRA also acts as a central statistical agency for the Australian financial sector, plays a role in preserving the integrity of Australia's retirement incomes policy and administers the Financial Claims Scheme (FCS).

Legislative underpinnings

Under the *Australian Prudential Regulation Authority Act 1998* (the APRA Act), APRA's main purposes are to regulate the banking, insurance and superannuation institutions under five 'industry Acts' and to administer the FCS for depositors and insurance policyholders.[1]

The industry Acts provide for licensing and regulatory oversight of:

- authorised deposit-taking institutions (ADIs, including banks, credit unions and building societies);
- general insurers;
- life companies and friendly societies;
- private health insurers; and
- registrable superannuation entity (RSE) licensees.

APRA also has responsibilities under other Acts, including:

- data collection from regulated and non-regulated entities under the *Financial Sector (Collection of Data) Act 2001* (FSCOD Act); and
- transfers of ownership under the *Financial Sector (Shareholdings) Act 1998*.

The APRA Act requires that, in performing and exercising its functions and powers, APRA must "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".[2]

Statements of Expectations and Intent

From time to time the Government issues APRA with a Statement of Expectations, setting out its key expectations for APRA in undertaking its role. APRA responds with a Statement of Intent outlining its intended approach to fulfilling its role. These documents are published, with the most recent being finalised in 2018.[3]

The Statement of Expectations provides important context and guidance for APRA, such as that the Government:

- expects APRA to focus on preventative aspects to safeguard Australia's financial system;

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[1] The industry Acts are *Banking Act 1959*, *Insurance Act 1973*, *Life Insurance Act 1995*, *Private Health Insurance (Prudential Supervision) Act 2015* and *Superannuation Industry (Supervision) Act 1993*.

[2] Section 8, APRA Act.

[3] The 2018 Statement of Expectations is available at: https://www.apra.gov.au/statement-expectations-2018

- acknowledges that, in performing its role, APRA is required to balance several objectives and that, at times, this may not be straightforward and the appropriate balance will require professional judgement;
- regards competition in the system as a key Government policy priority and expects APRA to facilitate an environment where innovation and competition are encouraged and barriers to entry are minimised;
- expects APRA to publicly communicate how it has balanced its regulatory responsibilities and objectives in acting to promote financial system stability in Australia; and
- 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.

APRA's Statement of Intent acknowledges these points and notes:

- APRA cannot eliminate the risk that any institution might fail and it recognises that attempting to do so would impose an unnecessary burden on institutions and the financial system. APRA's aim is to identify the likely failure of an APRA-regulated institution early enough so that corrective action can be promptly initiated or an orderly exit achieved;
- APRA's approach is based on the fundamental premise that the primary responsibility for financial soundness and prudent risk management within an APRA-regulated institution rests with its board of directors and senior management;
- APRA adopts a risk-based approach to prudential supervision that is designed to identify and assess those areas of greatest risk to an APRA-regulated institution (or to the financial system as a whole) and then direct attention and resources to those risks; and
- in undertaking its role and in setting its strategic priorities, APRA will take into consideration emerging trends and risks and the Government's policy priorities for the financial system, where this does not conflict with APRA's core objectives.

APRA's mandate, vision and values

APRA's mandate, put simply, is to protect the Australian community by establishing and enforcing prudential standards and practices designed to ensure that, under all reasonable circumstances, financial promises made by the institutions it supervises are met within a stable, efficient and competitive financial system.

In seeking to deliver on this mandate, APRA's vision is to deliver a sound and resilient financial system, founded on excellence in prudential supervision.

APRA's organisational values are a critical foundation on which APRA's success is built. APRA and its employees seek to demonstrate the APRA values in their work and in their interactions with each other. These values are:

- **integrity** – we act without bias, are balanced in the use of our powers, and deliver on our commitments;
- **collaboration** – we actively seek out and encourage diverse points of view, to produce well-founded decisions;
- **accountability** – we are open to challenge and scrutiny, and take responsibility for our actions;
- **respect** – we are always respectful of others, and their opinions and ideas; and
- **excellence** – we maintain high standards of quality and professionalism in all that we do.

APRA's core functions

To meet its mandate, APRA's three core functions are:

- **supervision** – APRA seeks to identify and respond promptly to issues and risks at an individual entity, industry and financial system level, including enforcement activity as necessary;
- **policy** – APRA seeks to establish and maintain a robust prudential regulatory framework; and
- **resolution** – APRA seeks to plan for and implement prompt and effective responses to an entity failure or financial crisis.

Performing these functions requires APRA to have three core capabilities:

- **people and culture** – APRA seeks to maintain its highly skilled and engaged workforce, supported by strong leaders, within a values-aligned corporate culture;
- **risk intelligence and frameworks** – APRA seeks to maintain strong analytical capabilities, using available data and specialist expertise within structured frameworks, to support well-founded, risk-based decisions; and
- **organisational effectiveness and infrastructure** – APRA seeks to maintain robust and efficient business support, transparent and accountable practices, and secure and reliable workplaces and systems.

These functions and capabilities, and the strategic initiatives designed to improve them, are discussed further in APRA's Statement of Performance (Chapter 3).

APRA's organisation structure

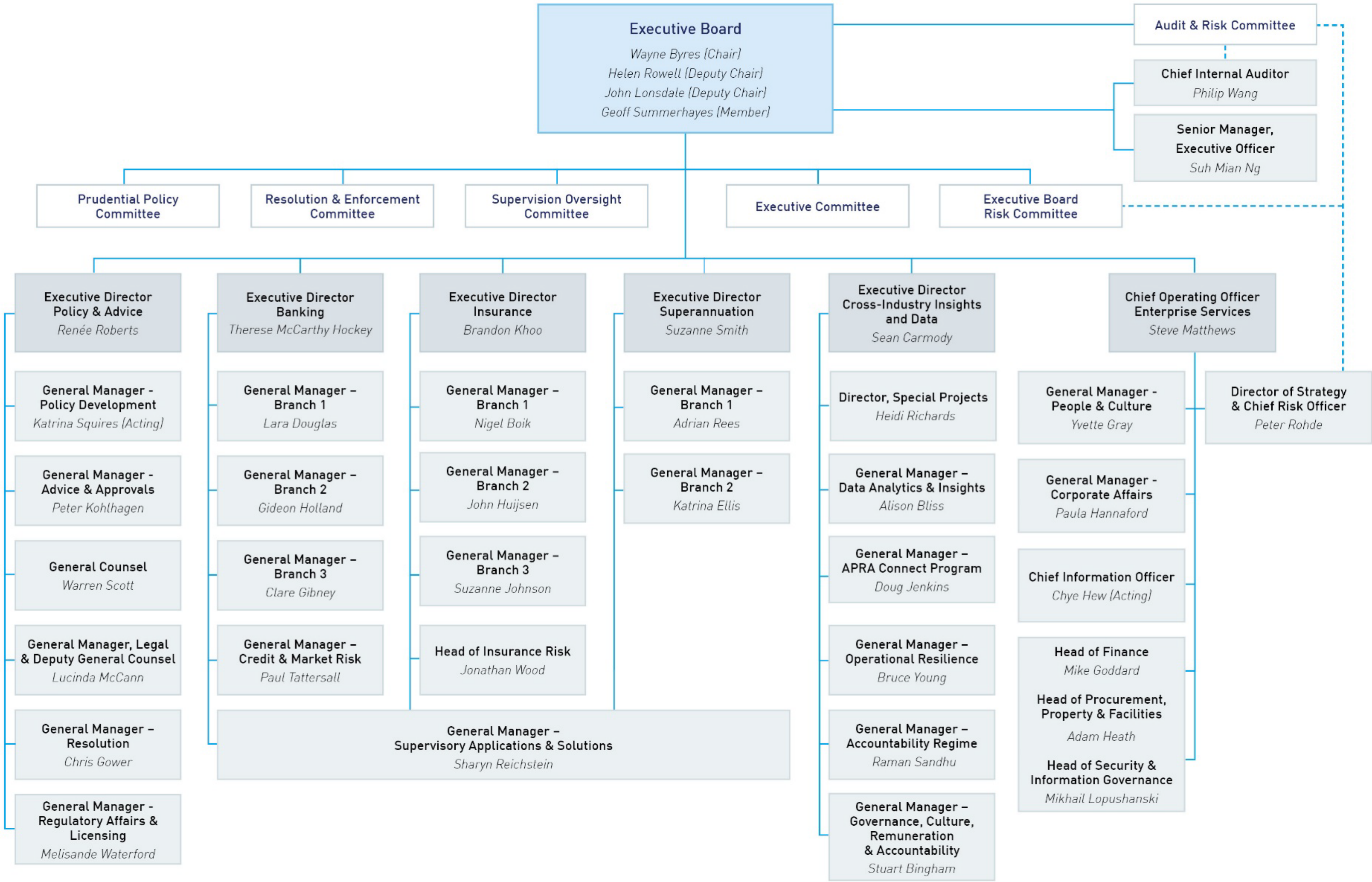
Under the APRA Act, the APRA Members are collectively responsible and accountable for APRA's operation and performance. APRA Members are appointed by the Governor-General, on the advice of the Australian Government, for terms of up to five years.

In the second half of 2019, APRA announced that it was making a number of important changes to the way it was organised. These changes were designed with two clear goals in mind: to respond to the changing operational environment, and to best position the organisation to deliver on the strategy outlined in APRA's 2019-2023 Corporate Plan.

Those changes included:

- a shift away from complexity and size-based supervision focused units to industry-based supervision divisions;
- strengthening and intensifying supervisory attention on IT, cyber risk and GCRA;
- a new Enterprise Services Division comprising APRA's corporate functions, reporting to a Chief Operating Officer; and
- a new Executive Leadership Team structure with revised governance and accountabilities.

APRA's organisation chart (as at 30 June 2020)



The APRA Members, from left to right: John Lonsdale, Deputy Chair; Helen Rowell, Deputy Chair; Wayne Byres, Chair; Geoff Summerhayes, Member.

Domestic and international liaison and cooperation

Domestic liaison and cooperation

Consistent with the recognition of external engagement and collaboration as a key strategic priority within its Corporate Plan, over the past year APRA has expanded and deepened its engagement with a range of public and private stakeholders. This engagement has helped enhance the effectiveness and improve the efficiency of APRA's policy and supervisory activities, as well as helping to inform APRA's understanding and approach to new and emerging risks in the financial system, such as cyber security and climate change and, more recently, the impacts of COVID-19.

Throughout the year, APRA maintained strong working relationships with Australia's key financial agencies, including other members of the Council of Financial Regulators (CFR) – ASIC, the RBA and the Treasury – as well as the ACCC, AUSTRAC and the ATO. These relationships are important in maintaining a coordinated and integrated approach to overseeing the financial system, particularly in times of financial distress and economic uncertainty.

These engagements are typically guided by a Memorandum of Understanding (MoU) which, although not legally binding, signifies a commitment to cooperate and share relevant information, and establishes the practical arrangements by which this will occur. Many of these MoUs are available on APRA's website.

Current MoUs with domestic agencies

- Australian Bureau of Statistics
- Australian Capital Territory Compulsory Third-Party Insurance Regulator
- Australian Competition and Consumer Commission
- Australian Crime Commission
- Australian Federal Police
- Australian Securities and Investments Commission
- Australian Taxation Office
- Australian Transaction Reports and Analysis Centre
- Council of Financial Regulators
- Department of Health
- Motor Accidents Authority of NSW
- Motor Accident Insurance Commission of Queensland
- NSW Fair Trading
- Reserve Bank of Australia
- South Australia Compulsory Third-Party Insurance Regulator
- The Treasury
- WorkCover Tasmania

Stakeholder engagement

APRA engages with a variety of stakeholders including regulated institutions, industry bodies, government departments, other regulatory agencies, media and the general public. APRA uses a diverse range of channels to communicate various policy, statistical and other announcements with stakeholder groups, as shown in the table below.

Over the past year, APRA has instituted new approaches to policy consultations – such as webinars, workshops and targeted discussions with industry representatives – designed to improve the quality of feedback APRA receives.

	2018/19	2019/20
Policy consultations conducted	31	21
Information letters issued to industry	14	37
Presentations at formal speaking engagements[4]	80	58
Media releases issued	93	79
Parliamentary hearings attended	14	9
Submission to formal inquiries	11	1

International activities

APRA's coordination with foreign supervisors and engagement with global standard-setting bodies has increased over the past year, consistent with its strategy and as a result of COVID-19. The primary international activities undertaken by APRA take two main forms:

[4] The decline in 2019/20 is primarily due to the impact of COVID-19 and the subsequent change in the external operating environment in 2020.

- liaison with overseas home and host supervisory agencies on developing risks and the activities of internationally active firms, including through participation in supervisory colleges; and
- participation in global standard-setting bodies to ensure relevant characteristics of the Australian financial system are taken into account in how international standards evolve, and to share information.

APRA has formal bilateral information sharing arrangements with 34 overseas regulatory agencies through MoUs and letters of exchange. APRA is one of 73 signatories to the International Association of Insurance Supervisors (IAIS) multilateral MoU. APRA also participates in institution-specific multilateral arrangements to support the sharing of confidential information in supervisory colleges involving internationally active financial institutions, including those headquartered in Australia.

APRA's engagement with international agencies and standard-setting bodies is summarised in the lists below.

International organisations that APRA was a member of or participated in during 2019/20

- Asian Forum of Insurance Regulators
- Basel Committee on Banking Supervision
- Executives' Meeting of East Asia-Pacific Central Banks (Working Group on Banking Supervision)
- Financial Stability Board
- International Association of Deposit Insurers
- International Association of Insurance Supervisors
- International Credit Union Regulators Network
- International Forum of Insurance Guarantee Schemes
- International Organisation of Pension Supervisors
- Organisation for Economic Co-operation and Development (Working Party on Private Pensions)
- Sustainable Insurance Forum
- Trans-Tasman Council on Banking Supervision

International organisations with which APRA engaged in 2019/20

- ASEAN Insurance Training and Research Institute
- Asian Development Bank
- Asia-Pacific Economic Cooperation – Financial Regulators Training Initiative
- Association of Financial Supervisors of Pacific Countries
- Financial Action Task Force
- Financial Stability Institute
- International Monetary Fund
- Network for Greening the Financial System
- Pacific Financial Technical Assistance Centre
- South-East Asia, New Zealand and Australia Forum of Banking Supervision
- South-East Asian Central Banks
- World Bank

In addition to these activities, APRA receives visits from international delegations for a range of core business and other purposes. Over 2019/20, APRA received visits from 26 international delegations from 13 countries, most commonly from New Zealand and South

Korea. Interest was focused on technology and cyber risk, APRA's supervision frameworks, governance and culture, and policy developments.

Technical assistance

In addition to international engagements for core business purposes, APRA undertakes targeted technical assistance activities, primarily in the Asia-Pacific region. These activities support whole-of-Government initiatives that seek to improve governance in the region, and provide valuable interactions with the partner countries involved, including in respect of Australian institutions operating in those jurisdictions. Most of these activities are funded under programs agreed with agencies responsible for administering international aid, particularly the Department of Foreign Affairs and Trade (DFAT) and, to a lesser extent, the International Monetary Fund (IMF) and the World Bank.

With very limited employee resources available for these activities, APRA favours multilateral initiatives and can only accommodate a small number of the requests it receives. As well as strengthening the prudential frameworks and activities of the partner agencies involved, these activities offer APRA valuable employee development and retention benefits.

APRA engages with two key financial regulators in Indonesia – Otoritas Jasa Keuangan and Bank Indonesia – under the DFAT-funded PROSPERA program. PROSPERA is a three-year funding facility that commenced 1 July 2018 to assist with government-to-government technical assistance. During 2019/20, four secondments of Indonesian officials to APRA needed to be postponed due to COVID-19 travel restrictions.

APRA also plays its part in supporting the training activities of the Financial Stability Institute and various regional groups in the Asia-Pacific region, such as the Asian Development Bank, SEACEN and SEANZA.

Over the year, APRA provided speakers to two regional conferences in Thailand and the Philippines. APRA participated in the International Monetary Fund's technical assistance mission assisting Samoa, Tonga and Fiji.

APRA-regulated institutions

	Number of entities [1]			Assets ($ billion) [2]		
	30 Jun 19	30 Jun 20	% change	30 Jun 19	30 Jun 20	% change
ADIs [3] [4]	148	146	-1.4%	4,765	5,473	14.9%
Banks	93	98	5.4%	4,702	5,410	15.1%
Credit unions and building societies	47	40	-14.9%	58	57	-2.0%
Other ADIs	7	7	0.0%	5	5	11.2%
Restricted ADIs	1	1	0.0%			
Representative offices of foreign banks	15	14	-6.7%			
General insurers	96	95	-1.0%	128	135	5.5%
Life insurers	29	28	-3.4%	200	130	-35.3%
Friendly societies	12	12	0.0%	8	8	
Licensed trustees	113	107	-5.3%			
Superannuation entities [5]	1,803	1,818	0.8%	1,925	1,922	-0.2%
Public offer funds	124	122	-1.6%	1,568	1,565	-0.2%
Non-public offer funds	48	45	-6.3%	351	352	0.2%
Small APRA funds	1,589	1,609	1.3%	2	2	
Approved deposit funds	10	10	0.0%	0	0	
Eligible rollover funds	7	7	0.0%	5	3	-28.9%
Pooled superannuation trusts [6]	25	25	0.0%	148	150	1.0%
Private health insurers	37	37	0.0%	15	17	9.2%
Non-operating holding companies	29	30	3.4%			
TOTAL	**2,267**	**2,273**	**0.3%**	**7,042**	**7,684**	**9.1%**

1 Number of entities for end-June 2019 has been revised to reflect wind-up of entities finalised during FY 2019/20.
2 Asset figures for end-June 2020 are based on the most recently submitted returns. Asset figures for end-June 2019 have been revised slightly from APRA's 2019 Annual Report in line with audited returns received during the year.
3 The ADI classification does not include representative offices of foreign banks.
4 Asset figures for ADIs for June 2019 and June 2020 have been sourced from the Economic and Financial Statistics (EFS) domestic books data collection, which has a new treatment of certain assets, including all securitisation of assets.
5 This data excludes superannuation entities that APRA does not regulate, that is, exempt public sector superannuation schemes and Australian Tax Office regulated self-managed superannuation funds.
6 Pooled superannuation trust assets are not included in totals as these assets are already recorded in other superannuation categories.

Chapter 3 – Statement of performance

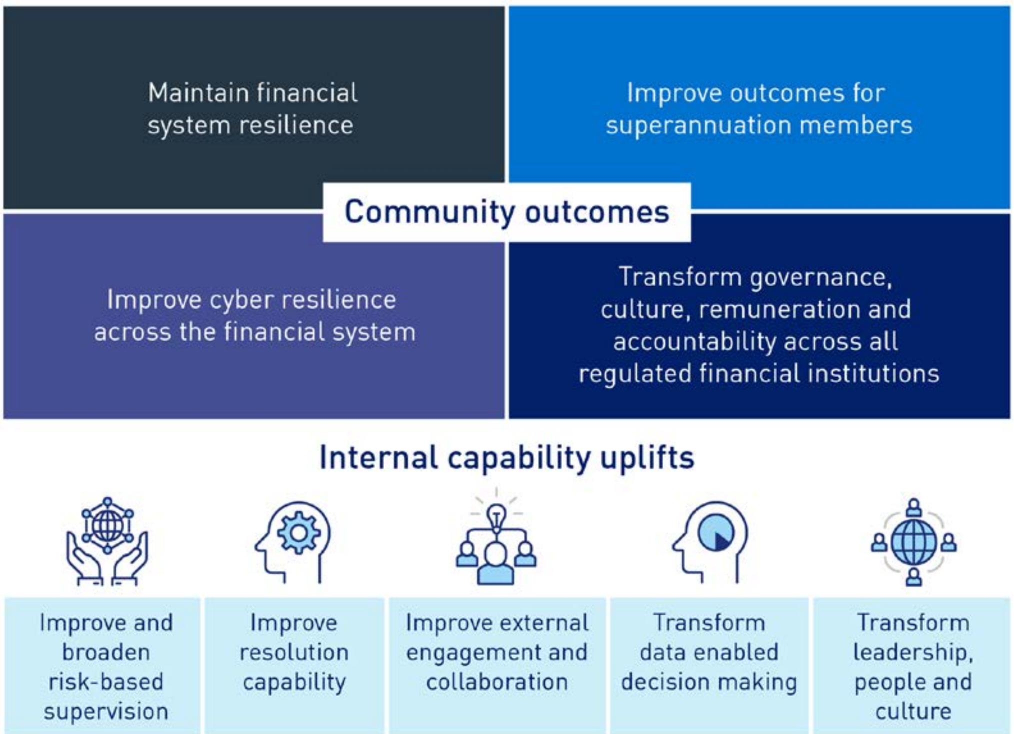
I, Wayne Byres, as the accountable authority of the Australian Prudential Regulation Authority (APRA), present the annual performance statement of APRA for the 2019/20 reporting period, as required under paragraph 39(1)(a) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). In my opinion, this annual performance statement accurately presents the performance of APRA and complies with subsections 39(2) of the PGPA Act.

Purpose

APRA is an independent statutory authority established for the purpose of prudential supervision of financial institutions and for promoting financial stability in Australia. APRA's role is to regulate relevant financial institutions through a robust prudential framework of legislation, prudential standards and guidance, which aims to ensure that risk-taking is conducted within reasonable bounds and that risks are clearly identified and well-managed. In performing and exercising its functions, APRA is required to balance the objectives of financial safety and efficiency, competition, contestability and competitive neutrality, and, in doing so, to promote financial system stability in Australia.

Corporate Plan

APRA began the 2019/20 financial year with an ambitious agenda. APRA's 2019-2023 Corporate Plan outlined specific areas for concentrated attention in order to maintain financial system resilience, make tangible and visible improvements in key result areas for the benefit of the Australian community and improve and transform APRA's internal tools, capabilities and ways of working. Four strategic focus areas to strengthen outcomes for the Australian community were defined and an uplift in APRA's internal capabilities in five areas was considered essential to attain desired community outcomes.



Changes in APRA's operating environment

APRA takes a risk-based approach to identifying and assessing areas of greatest risk to regulated institutions meeting their obligations, and to financial stability in Australia, and directs its resources to address those risks. It became clear in early 2020 that APRA needed to review the strategic priorities laid out in its 2019-2023 Corporate Plan and move quickly to respond to a rapidly deteriorating operating environment triggered by the COVID-19 global pandemic. APRA promptly reset priorities and directed resources to key risks and vulnerabilities – including the heightened risk of failure of one or more APRA-regulated institutions – and intensified its efforts to reinforce the stability of the financial system and support the broader Australian economy.

The onset of COVID-19 also prompted a significant change to APRA's way of working with its entire workforce shifting to working-from-home in early 2020. In such an environment, APRA placed a high priority on supporting the health and wellbeing of its people and providing enabling infrastructure and technology to continue to operate effectively in a distributed work environment.

It is with this context, and the backdrop of APRA's Statement of Intent[5], that the analysis of APRA's performance for the 2019/20 financial year is presented in this performance statement.

Key performance measures

APRA's 2019-2023 Corporate Plan outlined the following key measures with which APRA's performance against its core statutory functions would be assessed for the 2019/20 financial year.

Incidence of failure of APRA regulated institutions – APRA seeks to maintain a low incidence of failure of APRA-regulated institutions while not unnecessarily hindering efficiency, competition or otherwise impeding the competitive neutrality or contestability of the financial system[6]. APRA aims to identify likely failures early enough so that corrective action can be promptly initiated or orderly exit achieved. APRA monitors two key performance indicators in this respect:

Performing Entity Ratio (PER) – The PER is an indicator of the incidence of failure amongst regulated institutions. It is determined as the number of regulated institutions that met their commitments to beneficiaries in a given year divided by the total number of regulated institutions. The higher the percentage, the lower the incidence of failure.

Money Protection Ratio (MPR) – The MPR is an indicator of the incidence of loss in the financial sector. It is determined as the dollar value of liabilities to beneficiaries held in Australia in regulated institutions less any prudential losses to beneficiaries in a given year, divided by the total dollar value of liabilities to beneficiaries in Australia in regulated institutions. Again, the higher the percentage, the lower the incidence of loss.

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[5] https://www.apra.gov.au/statement-of-intent-september-2018

[6] APRA endorses the view expressed in the Government's Statement of Expectations 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'.

Efficient administration of the Financial Claims Schemes – As specified in Section 8 of the *Australian Prudential Regulation Authority Act 1998*, APRA has responsibility for administering Financial Claims Schemes (FCSs). The FCSs are Australian Government schemes designed to protect Australian depositors and general insurance policyholders in a situation in which an authorised deposit-taking institution (ADI) or general insurer fails[7]. Under the *Banking Act 1959* (Banking Act) and the *Insurance Act 1973* (Insurance Act), the relevant Minister may make a declaration which activates the FCS if certain conditions are met. Administration of the FCS, once activated, is one of APRA's primary responsibilities.

- *Authorised deposit-taking institutions* – APRA measures the efficiency with which it performs its function in relation to the FCS for ADIs by the percentage of FCS payments paid to account holders within seven calendar days of an FCS declaration[8].
- *General Insurers* – Given the long tail nature of insurance claims, which do not easily lend themselves to measures of efficiency, APRA reports on the number of outstanding claims in the event of an FCS declaration.

Efficient operations – As well as striving to maintain a low incidence of failure and efficiency in administering the FCS, APRA seeks to operate efficiently. APRA's proxy efficiency measure is costs per $1,000 of assets supervised.

The above key performance measures are supplemented by additional metrics included in the analysis section of this performance statement.

Results

Incidence of failure of APRA-regulated institutions

The strong PER and MPR results presented in Table 1 indicate that APRA continued to perform well against its purpose during the year.

Table 1 – Overall PER and MPR results by regulated industry

Overall	2019/20 result (%)	10 Year average (%)	20 Year average (%)
PER	100.00	99.95	99.94
MPR	100.00	100.00	99.97

By Industry	Banking		General Insurance		Life Insurance		Superannuation		Private Health Insurance*
Average (%)	10yr	20yr	10yr	20yr	10yr	20yr	10yr	20yr	5yr
PER	100.00	100.00	100.00	99.76	100.00	100.00	99.92	99.93	100.00
MPR	100.00	100.00	100.00	99.34	100.00	100.00	100.00	100.00	100.00

*APRA became the prudential regulator for private health insurers from 1 July 2015. Therefore only 5-year PER and MPR averages are reported for that industry.

[7] The FCS does not apply to life insurance companies or to private health insurers. Separate arrangements for compensating members are in place for instances of fraud or theft in superannuation.
[8] https://www.fcs.gov.au/about-apra

Table 2 provides a further breakdown of the number of failures, the dollar value of losses, the dollar value of protected accounts and the annual PER and MPR by financial year. While the incidence of loss has declined since APRA's formation, the value of protected accounts has considerably increased, reflecting significant growth in the size of the Australian financial system.

Table 2 – Breakdown of PER and MPR results by financial year

Financial year	Number of failures[1]	Losses ($million)	Number of institutions[2]	Protected Accounts[3] ($million)	Annual PER %	Annual MPR %
2001	8	5,341[4]	4,350	947,923	99.82	99.44
2002	6	140	3,803	1,006,845	99.84	99.99
2003	5	19	3,252	1,066,480	99.85	100.00
2004	1	0[5]	2,744	1,207,241	99.96	100.00
2005	0	0	2,099	1,347,813	100.00	100.00
2006	0	0	1,596	1,546,338	100.00	100.00
2007	1	0	1,244	1,832,609	99.92	100.00
2008	0	0	1,129	1,923,369	100.00	100.00
2009	0	0	1,028	2,048,163	100.00	100.00
2010	1	1	965	2,231,887	99.90	100.00
2011	4	72	832	2,462,275	99.52	100.00
2012	0	0	780	2,650,832	100.00	100.00
2013	0	0	724	2,973,705	100.00	100.00
2014	0	0	706	3,319,391	100.00	100.00
2015	0	0	681	3,628,841	100.00	100.00
2016	0	0	660	3,870,659	100.00	100.00
2017	0	0	602	4,100,235	100.00	100.00
2018	0	0	573	4,451,132	100.00	100.00
2019	0	0	555	4,685,336	100.00	100.00
2020[6]	0	0	527	4,523,018	100.00	100.00

1. In the case of superannuation, failures refer to the number of funds affected and include failures due to employer sponsors.
2. The number of institutions excludes small APRA Funds, representative offices of foreign banks and non-operating holding companies. From 1 July 2015, APRA became the prudential regulator for private health insurers. This has been reflected in Table 1.
3. Protected Accounts is an estimate of the funds protected by APRA as defined by relevant legislation and is less than the total assets held by APRA-regulated institutions, which were $7,684 billion at end-June 2020. From 1 July 2015, APRA became the prudential regulator for private health insurers. This has been reflected in Table 1.
4. Includes HIH Group's estimated $5.3 billion loss incurred by creditors and policyholders, based on liquidator's advice to creditors in April 2002.
5. Losses incurred due to the failure of an employer sponsor in a superannuation fund were less than $0.5 million.
6. The calculation of Protected Accounts for Authorised Deposit-taking Institutions (ADIs) was adjusted during 2019/20 to reflect a change in data items submitted to APRA.

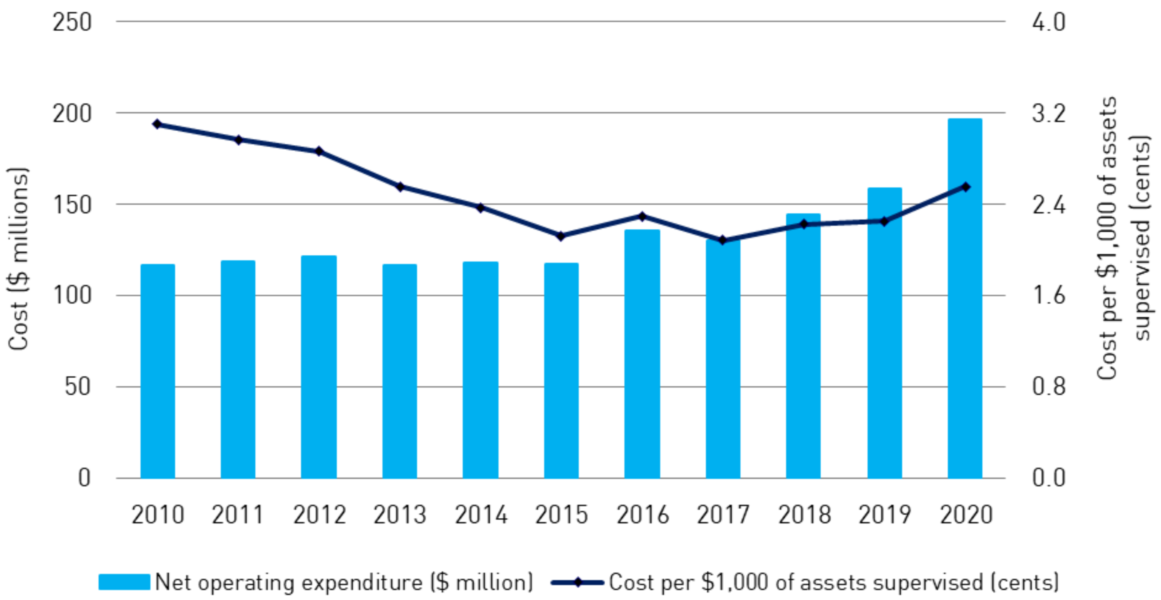
Efficient administration of the FCS

In the 2019/20 financial year, no declarations of the FCS for banking or general insurance were made. The only time the FCS has been activated to date has been the failed general insurer Australian Family Assurance Limited in 2009[9]. Due to exceptional circumstances, one claim remains outstanding in relation to this institution.

Efficient operations

APRA's total operating expenditure for the 12 months to 30 June 2020 was $196.2 million, against the original budget of $184.2 million. Relative to the size of the industries that APRA supervises, the cost per $1,000 of assets supervised was 2.6 cents in 2019/20. This compared with approximately 3.0 cents per $1,000 of assets supervised at the start of the decade. The increase from 2015 to 2016 shown in Figure 1 below reflects inclusion of private health insurers under APRA's purview from 1 July 2015.

Figure 1 – Costs per $1,000 of assets supervised by APRA



During 2019/20, new funding measures significantly increased APRA's available resources, with average staffing levels increasing from 644 to 734. The increase in resourcing arose due to the Government's response to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission), increasing the supervision intensity of the largest and most complex institutions, providing for significant investment in APRA's technology for data collection and analysis, and preparation for the introduction of the Financial Accountability Regime. The increase in costs per $1,000 of assets supervised in 2019/20 primarily reflects a broadening of supervisory responsibilities and activities, rather than a decline in APRA's operational efficiency.

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[9] On 15 October 2009, the Minister made a declaration under section 62ZZC of the *Insurance Act 1973* that Division 3 of Part VC of that Act applied in relation to Australian Family Assurance Limited.

Analysis of performance against purpose

Analysis of APRA's performance in relation to the four strategic focus areas to strengthen outcomes for the Australian community and five areas where an uplift in APRA's internal capabilities was considered essential, as set out in APRA's 2019-2023 Corporate Plan, is provided below.

Maintain financial system resilience

Objective

To maintain APRA's strong track record of maintaining financial safety and stability by reinforcing the resilience of APRA-regulated financial institutions and the Australian financial system to protect the interests of Australian depositors, insurance policyholders and superannuation members.

Performance against objective

APRA's supervision and prudential policy program is directed at protecting the Australian community by identifying and actively responding to significant risks to financial institutions and the financial system in a timely manner, establishing minimum expectations for financial institutions and empowering APRA's supervisors to achieve desired prudential outcomes. The consistently strong PER and MPR results presented above indicate that APRA continued to perform well against this objective during an extremely challenging year.

In January 2020, APRA published updated plans on its supervision and policy priorities for the year ahead, consistent with the priorities laid out in the 2019-2023 Corporate Plan. Shortly thereafter, however, it became clear that APRA needed to move quickly to respond to a rapidly changing operating environment triggered by the COVID-19 global pandemic. As such, many planned supervisory activities and policy reforms that were underway were put on hold for at least six months. In their place, APRA re-directed its resources to the assessing and responding to the immediate risks and vulnerabilities generated by COVID-19, as well as its own scenario and crisis planning.

This refocusing of supervisory attention also allowed financial institutions to focus on supporting customers through the unfolding pandemic and economic contraction. As a result, APRA's frontline supervisors directed their attention to how financial institutions were responding to COVID-19, particularly in the areas of financial and operational resilience. This involved extensive and frequent liaison with key contacts at each institution. On the policy front, all substantive public consultations and 'in flight' revisions to the prudential framework were suspended. A notable deferral was the scheduled implementation of the Basel III capital reforms for banks in Australia, which was delayed by one year in line with the decision by the Basel Committee on Banking Supervision to defer the internationally agreed start dates from January 2022 to January 2023.

Figure 2 – Number of prudential engagements

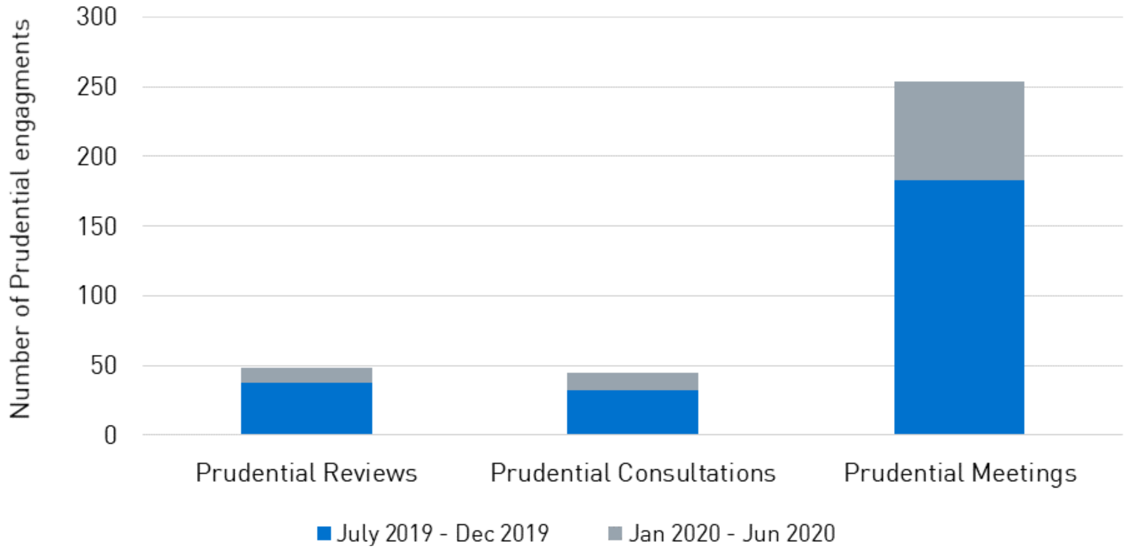
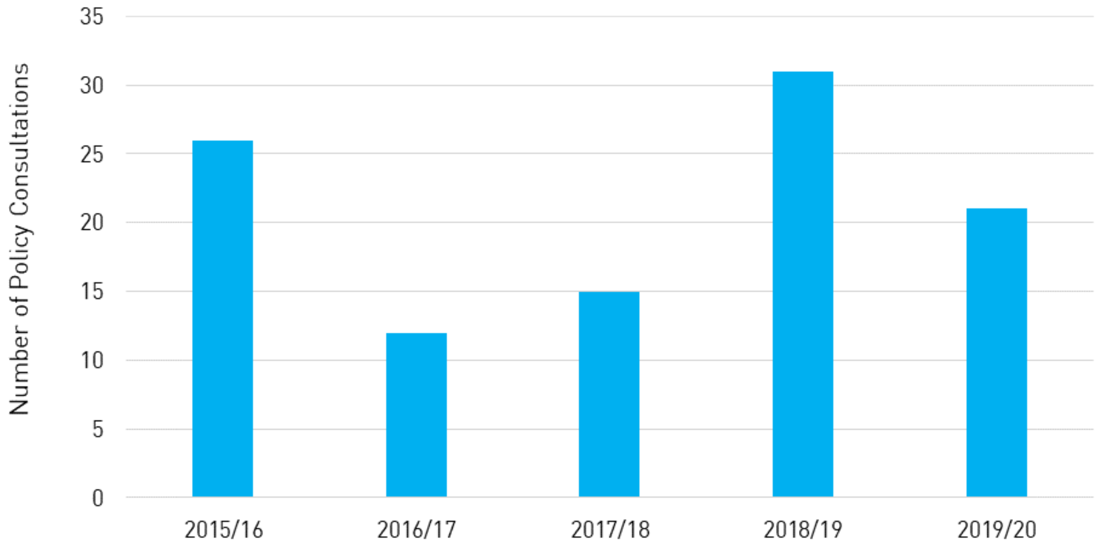


Figure 2 above demonstrates how the prudential engagements conducted by APRA changed over the course of the year. During the period July to December 2019, APRA conducted its normal supervision program of prudential engagements[10] including 38 prudential reviews, 32 prudential consultations and 183 prudential meetings. While formal prudential engagements reduced notably in the second half of the year as APRA pivoted its supervisory resources to focus on COVID-19 activities, APRA nevertheless maintained extensive contact with key representatives from regulated institutions to assess COVID-19-related risks and responses – with contact often occurring on a daily basis at the height of the crisis.

In terms of policy reforms, APRA released five updated prudential standards, three prudential practice guides and four reporting standards and consulted on 21 proposed changes to the prudential and reporting framework across all regulated industries in the 2019/20 financial year, as per Figure 3 below. Although not notably less than some prior years, the quantum of consultations was less than originally planned for 2019/20, given the deferral of policy consultation as a result of the onset of COVID-19.

[10] **Prudential engagements** included prudential reviews, prudential consultations and prudential meetings. **Prudential reviews** aim to identify key risks and confirm that these are well-managed, or to identify areas for improvement and take supervisory action where those areas of risk may bring into question a regulated institution's ability to meet its financial promises to its beneficiaries. **Prudential consultations** are discussions with a regulated institution's Board or senior executives that focus on obtaining an update on key strategic and risk issues, and explaining APRA's supervisory assessment and any prudential concerns. **Prudential meetings** are a high-level discussion with an institution to gather information on risks and issues, and are generally held with the strategy, risk and decision owners of the institutions.

Figure 3 – Number of policy consultations conducted



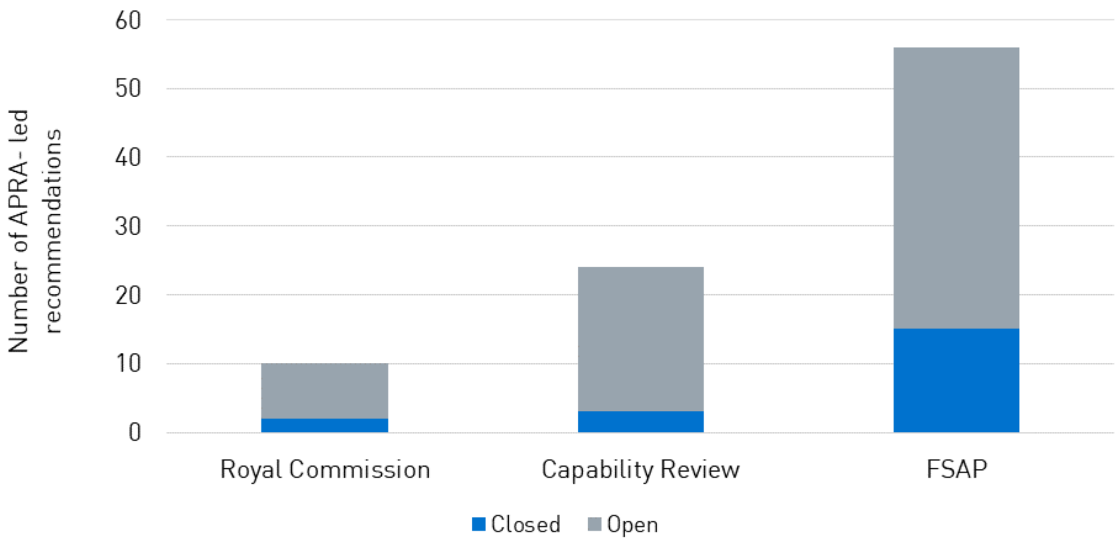
For all changes made to the prudential framework, APRA achieved 100 per cent compliance with Office of Best Practice Regulation requirements demonstrating its commitment to consulting with Government, financial institutions, peer regulatory agencies and other stakeholders, and analysing the cost, benefits and impacts of any proposed new regulation.

APRA received 266 applications for regulatory relief from financial institutions related to COVID-19 prior to the end of the financial year. As at 25 August 2020, a total of 248 applications were assessed, of which 224 were granted and 24 were declined. The remaining 18 applications remained under consideration. Table 3 provides a breakdown of applications by regulated industry.

Table 3 – Breakdown of applications for COVID-19 regulatory relief by Industry

Industry	# requests received	# approved	# declined	# in progress
Banking	160	136	19	5
Superannuation	42	32	4	6
General Insurance	31	23	1	7
Life Insurance	9	9	0	0
Private Health Insurance	24	24	0	0
Total	266	224	24	18

Figure 4 – APRA-led recommendations from the Royal Commission, Capability Review and FSAP



APRA has addressed in full two recommendations from the Royal Commission, three from APRA's Capability Review (and parts of four other recommendations) and 15 from the Financial Sector Assessment Program (FSAP) undertaken by the IMF. While good progress has been made on many others, planned work to address a number of the recommendations was delayed when APRA suspended its policy consultations and many of its supervisory activities with the onset of the COVID-19 pandemic. APRA will be recommencing this work in the latter part of 2020, and has plans to address the remaining recommendations within its revised Corporate Plan.

A breakdown of performance by regulated industry is provided below.

Banking

In the face of COVID-19, APRA's resources were redirected to the near-term financial resilience issues that have confronted the banking industry: liquidity and funding; capital; and credit quality. The operational resilience of the banking sector has also been a priority area for supervisory attention.

Resilience to stressed environments cannot be built in times of stress, but rather is prepared for during more prosperous times. The liquidity and funding positions of ADIs have significantly strengthened since they were last tested in the 2008-09 global financial crisis. Based on previous learnings, systemic liquidity support provided by the Reserve Bank of Australia (RBA) to ADIs has (assisted by APRA) been readily and rapidly delivered since the onset of COVID-19. Actions taken by APRA to increase ADI self-securitisations and re-open the window for banks to seek additional Committed Liquidity Facilities if needed occurred in concert with the RBA's introduction of the Term Funding Facility and extended open market operations. As a result, despite the considerable financial market volatility, all ADIs have remained well funded and operating well above minimum regulatory requirements.

The strengthening of capital to achieve the unquestionably strong benchmarks set by APRA prior to the onset of COVID-19 has been a major factor behind the financial strength of the Australian banking sector in the face of the pandemic. This has allowed the banking industry to act as a shock absorber to the negative impacts of COVID-19 on the Australian economy. Nevertheless, APRA's stress testing on a range of scenarios suggested additional prudence was warranted, particularly in March and April 2020 when the uncertainty as to potential future outcomes was at its greatest. At that time, APRA released capital guidance that encouraged the deferral of dividend decisions by the industry, with capital to be first used to absorb any losses and to support the provision of credit to the economy. While APRA committed to increasing its stress testing program from three-yearly to annually in its 2019-2023 Corporate Plan, stress testing activities have subsequently evolved even further to a nimbler and more frequent program of testing as an input to determining regulatory responses and contingency planning in a highly uncertain environment.

COVID-19, and the associated impacts on economic activity, directly affected the incomes of businesses and consumers and, in turn, their ability to make debt repayments. Reflecting the widespread nature of economic interruption, APRA therefore needed to be in close engagement with ADIs on their credit portfolios, particularly where borrowers had deferred repayments. To facilitate the program of deferrals being offered by the banking industry to its customers, APRA granted a regulatory concession that allowed, for a limited time, ADIs to continue to treat customer COVID-19 repayment deferrals as performing loans (which in turn avoided the imposition of higher capital requirements) and provided relief in loan restructuring, subject to ADIs providing minimum expected disclosures and undertaking customer check-ins. Engagement with ADIs and other key stakeholders on expectations regarding loan repayment deferrals and dividend payments continues.

From an operational resilience perspective, pleasingly, banks were adept at maintaining operational service levels with customers experiencing some, but generally limited, disruption to services given the environment. Utilising the framework provided by APRA's cross-industry pandemic guidance CPG 223, APRA monitored unfolding events by undertaking frequent surveys, regularly engaging with key banking personnel and requesting further information where needed.

In terms of banking policy reforms, APRA modernised and updated three prudential standards:

- APS 220: *Credit Risk Management*[11];
- APS 115: *Capital Adequacy: Standardised Measurement Approach to Operational Risk*[12];
- APS 222: *Associations with Related Institutions*, and the associated reporting standard ARS 222: *Exposure to Related Entities*[13].

The changes to APS 220 and APS 222 (once they become effective in 2021) will serve to address Recommendation 1.12 from the Royal Commission and five recommendations from the FSAP. Aside from this, much of APRA's planned supervisory and policy agenda did not proceed (including the conduct of an independent review into problem asset management) so as to allow APRA and the industry to focus on the pressures of the COVID-19 environment.

General insurance

APRA's risk-based supervision of the general insurance industry needed to step up in intensity at the beginning of 2020 given the significant impacts of natural catastrophe events (including floods and bushfires), the COVID-19 pandemic and increased market volatility. The prudential strength of general insurers remains an important focus for APRA and, on a positive note, despite the deteriorating operating environment and negative earnings impact

[11] https://www.apra.gov.au/news-and-publications/apra-modernises-prudential-standard-on-banking-credit-risk-management
[12] https://www.apra.gov.au/news-and-publications/apra-finalises-updated-prudential-standard-on-operational-risk-requirements
[13] https://www.apra.gov.au/news-and-publications/apra-strengthens-rules-to-combat-contagion-risk-within-banking-groups

during the year, general insurers continued to maintain strong balance sheets and report robust capital positions.

Prior to the onset of COVID-19, APRA's supervision focus was on the catastrophe events of late 2019/early 2020, ensuring that capital positions and claims information were regularly updated, and that appropriate remediation measures (especially concerning impacted reinsurance programs) were being taken. Additionally, APRA continued to pursue its work on a number of key strategic initiatives including external engagement on affordability, the adequacy and appropriateness of insurance cover and managing the industry reliance on overseas reinsurance. However, product design and consumer value work streams were deferred as APRA's resources were redirected towards the more immediate COVID-19 response.

Given the ongoing uncertainty in the external environment, APRA paid particular attention to the potential for significant downside risks across impacted lines of business. APRA intensified its engagement with peer domestic and international regulators and actively participated in a cross-agency working group on business interruption insurance. The latter is a prominent area of focus due to significant uncertainty regarding the extent of industry exposure as a result of challenges to policy wordings. A test case on this issue has subsequently commenced.

Life insurance

Life insurers were able to maintain their balance sheet strength during the year with all life insurers maintaining capital levels above APRA's prudential requirements, although not without some notable challenges. Some insurers have, in particular, experienced very adverse outcomes from Disability Income Insurance (DII) products, which has been a long-standing source of loss for the industry. APRA held an industry roundtable in relation to Individual DII products in November 2019 and subsequently notified 20 insurers of specific capital adjustments that would be applied in early 2020 in relation to concerns with these products. However, owing to the changing external environment as a result of COVID-19, the capital adjustments were subsequently postponed to reduce pressure on insurers in a time of stress until the latter part of 2020.

Initiatives to drive an uplift in risk governance maturity and improved data collections across the life insurance industry were progressed, though somewhat slower than planned given APRA's capacity constraints triggered by COVID-19 and to minimise burden on industry. Risk governance work completed during the year included internal work to develop measures to address unsustainable pricing and product design practices, particularly for Individual DII. Similarly, work was completed to determine a new APRA data collection on Individual DII data. An APRA forum was conducted in June 2020 with the CEOs of life insurers to discuss issues facing the industry and for APRA to set clear expectations in regard to sustainable practices.

Private health insurance

APRA continued its supervisory focus during the year on ensuring that private health insurers continued to develop credible strategies to address the ongoing sustainability and affordability challenges facing the industry and respond prudently to the impacts of COVID-19.

Given the ongoing economic environment and its likely impact on industry sustainability, the prudential strength of private insurers remained a key focus for APRA. As such, APRA increased its monitoring of the industry impacts of COVID-19 (involving more engagement with peer regulators to jointly monitor targeted areas of impact), strengthened capital monitoring activities and issued industry guidance to ensure the consistent treatment of capital for prudential purposes for all insurance claims, particularly those disrupted by COVID-19. Notwithstanding the challenging operating environment, the private health insurance industry managed to sustain a sound capital position with a capital coverage ratio of 1.6x at end June 2020.

Significant progress was made on other planned strategic initiatives aimed at maintaining financial system resilience. This included the assessment of insurers' recovery plans, increased engagement with the Department of Health to ensure that prudential considerations continued to be factored into the setting of broader health policy, and the release of a discussion paper[14] in December 2019 on a revised and strengthened capital framework for private health insurers.

Sustainability of the industry remained a key issue given the increasing number of people opting out of health insurance and Australia's ageing population. APRA will continue to work with industry and Government to help address those challenges.

Improve outcomes for superannuation members

Objective

To actively drive a superannuation trustee culture of continuous improvement in delivering quality outcomes to superannuation members, including addressing underperformance in the superannuation industry.

Performance against objective

During 2019/20, APRA delivered on a number of commitments directed at improving outcomes for superannuation members.

APRA strengthened the prudential framework through proposing revisions to SPS 250: *Insurance in Superannuation*[15] and in doing so will address Recommendations 4.14 and 4.15 from the Royal Commission once a revised SPS 250 becomes effective. The revised standard is designed to improve outcomes for superannuation members by assisting RSE licensees to select the most appropriate insurance policies for their members and monitor ongoing relationships with insurers.

APRA continued to push RSE licensees to strengthen outcomes for superannuation members through a package of prudential framework reforms designed to improve RSE licensees' strategic and business planning practices and assessment of performance. SPS 515: *Strategic Planning and Member Outcomes* came into effect on 1 January 2020[16], requiring RSE licensees to perform an annual Business Performance Review to assess whether they are delivering sound, value-for-money outcomes for the members they serve. To support SPS 515, APRA released Prudential Practice Guide SPG 516: *Business Performance Review*. The reforms contained in the *Treasury Laws Amendment (Improving Accountability and Member Outcomes in Superannuation Measures No.1) Act 2019*, which gave APRA a new directions power, together with APRA's supporting prudential requirements in SPS 515, provide a strong platform for APRA to drive a more intense focus on member outcomes across the superannuation industry.

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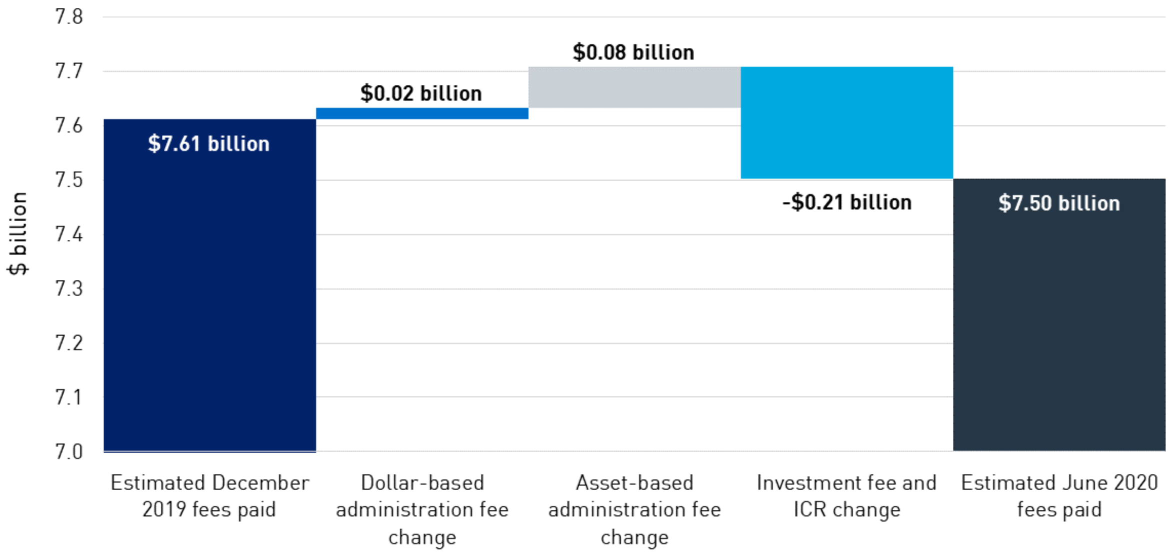
[14] https://www.apra.gov.au/review-of-private-health-insurance-capital-framework
[15] https://www.apra.gov.au/news-and-publications/apra-proposes-changes-to-prudential-standard-governing-insurance
[16] https://www.apra.gov.au/news-and-publications/apra-finalises-revised-guidance-on-superannuation-business-performance-review

Another major achievement during the year was the publication of the MySuper heatmaps aimed at improving transparency, lifting industry practice and enhancing member outcomes by publicly identifying superannuation products that are underperforming in the areas of investment returns and fees. The first MySuper heatmap was published in December 2019, with an updated version published in June 2020 to reflect changes to fees and costs since the original publication.

Figure 5 – Estimated change in fees and costs paid per annum for MySuper products



During the year, APRA supervisors had extensive interaction with superannuation trustees that present as 'red' on the heatmap to understand how they plan to address areas of identified underperformance. Experience so far has been that the publication of the MySuper heatmaps has been an effective prudential tool, with 42 per cent of MySuper members seeing a reduction in fees and costs since the publication of the first heatmap. This translates to 6.1 million members saving an aggregate of $110 million a year. In addition, a number of poorly performing funds and products have closed and transferred their members to better performing products.

During the second half of the year, APRA's superannuation supervision focused heavily on monitoring the financial health of individual superannuation funds in response to the COVID-19 environment and the impacts flowing from the Government's early release of superannuation scheme, including assessing liquidity risk, the impact on asset allocations, operational risk and other matters. APRA also published weekly data on the early release scheme throughout Tranche 1 and 2. A total of $23.3 billion worth of applications was made from the commencement of the scheme in April 2020 to the first week in July 2020. Payments made to eligible members took an average of 3.3 business days after receipt of the application from the Australian Tax Office (ATO), and 95.2 per cent were made within APRA's guidance of five business days.

Improve cyber resilience across the financial system

Objective

To seek to reduce the impact of cyber incidents to the Australian community and financial system by ensuring that APRA-regulated financial institutions are proactively undertaking continual actions to strengthen their cyber resilience.

Performance against objective

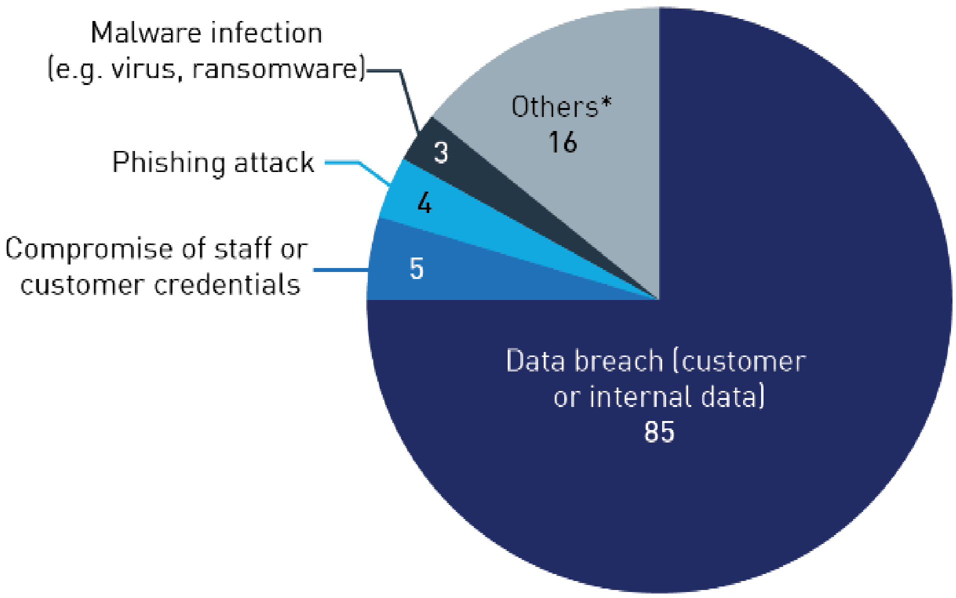
APRA's Prudential Standard CPS 234: *Information Security*[17] came into effect on 1 July 2019. This standard set a baseline for all APRA-regulated institutions to improve cyber resilience by requiring institutions to maintain information security capability commensurate with the size and the extent of threats to their information assets, implement controls to protect information assets, and undertake regular testing and assurance of the effectiveness of those controls.

Requirements in CPS 234 relating to third-party arrangements came into effect on 1 July 2020. While some extensions were granted on a case-by-case basis to institutions so they could deal with the impact of COVID-19, an industry proposal for an across-the-board extension for all institutions was not granted, recognising the importance of managing the cyber exposure present within regulated institutions' supply chains.

CPS 234 was one of the key pillars of the multi-year Cyber Strategy that APRA developed in 2018. Other components of the strategy included uplifting APRA's data collection and frontline supervisor capability in order to facilitate a better assessment of the management of this risk by regulated institutions and triaging those that warrant closer attention. Work on these areas continued during the year, alongside work to refresh the Cyber Strategy to, amongst other things, align with the Federal Government's national Cyber Security Strategy.

[17] https://www.apra.gov.au/news-and-publications/apra-finalises-prudential-standard-aimed-at-combatting-threat-of-cyber

Figure 6 – Information security incidents notified to APRA



* includes: 2 System compromises; 1 remote access breaches; 1 unauthorised access; 1 website defacement; 1 denial of service attack; 1 network incursion (potential); & 9 'other' incidents

A formal information security incident notification mechanism was also established to ensure APRA has visibility of when a material incident has occurred, how an institution is responding to it and what actions are being undertaken to prevent similar future incidents. Under the notification mechanism, 113 information security incidents had been reported to APRA as at end June 2020. These notifications help APRA to continually adjust its focus areas as the nature of cyber-attacks evolves. Review of cyber incident notifications and compliance with CPS 234 requirements will continue to be areas of supervisory focus in the year ahead.

As noted above, APRA has been developing a new 2020-2024 Cyber Security Strategy. In line with APRA's strategic focus of improving cyber resilience across the financial system, the updated strategy seeks to influence the financial system more broadly (i.e. not just the financial institutions APRA regulates directly). In doing so, APRA intends to broaden its activities from its current focus on entity-based cyber supervision to a more expansive approach, applying a broader set of tools and techniques. This will necessitate acting in greater concert with peer regulators and other government agencies, and dovetailing APRA's work with Australia's 2020 Cyber Security Strategy.

Transform governance, culture, remuneration and accountability across all regulated financial institutions

Objective

To transform governance, culture, remuneration and accountability across APRA-regulated institutions' management of non-financial risks, so as to enhance the resilience of APRA regulated institutions and contribute to rebuilding the Australian community's trust and confidence in the fairness of the financial system.

Performance against objective

In November 2019, APRA published its plan to significantly scale up efforts to lift standards of governance, culture, remuneration and accountability (GCRA) across the industries it regulates. APRA's intensified approach to GCRA aims to strengthen the resilience of financial institutions including addressing, and ideally preventing, issues such as poor risk governance, misaligned incentives and misconduct that have undermined public confidence in the financial sector over recent years, as highlighted in the Royal Commission.

Delivery against this plan was delayed due to the onset of COVID-19. In the first half of the financial year, APRA completed a number of on-site and off-site reviews including reviewing board practices, assessing the comprehensive reviews required under the relevant prudential standards (CPS 220 and SPS 220), reviewing large ADIs' implementation of the Banking Executive Accountability Regime (BEAR) and conducting risk culture deep dives for two regulated institutions. The key insights from this work were that the necessary shift from focusing on design effectiveness to operating effectiveness of risk management frameworks will take time; the distinction between a compliance and risk management mindset was not always well understood; and there needed to be a better understanding of the risks associated with tolerating work-arounds to established processes. In addition, APRA developed internal guidance and trained supervisors in the assessment of an institution's risk culture maturity.

APRA released draft CPS 511: *Remuneration*[18] for consultation during the year. The draft standard introduced heightened requirements on executive remuneration design and oversight to ensure remuneration practices reward the right behaviours, improve accountability and promote effective management of financial and non-financial risks. However, work on CPS 511 did not proceed beyond the consultation phase given policy suspensions in response to COVID-19. APRA is currently reassessing its timetable for introduction of CPS 511, and has flagged it will recommence consultation on the draft standard towards the end of 2020. Once implemented, CPS 511 will serve to address Recommendations 5.1 and 5.2 from the Royal Commission.

During the year, APRA worked closely with the Treasury and ASIC on policy work relating to the extension of the BEAR to the insurance and superannuation sectors, as recommended by the Royal Commission. Treasury released its proposal paper outlining the Government's planned approach to the Financial Accountability Regime (FAR) in January 2020. Subsequently, the introduction of the FAR legislation was deferred by the Government, with a revised timetable expected to be outlined later in 2020. In response, APRA has reprioritised its FAR work and will continue to work closely with the Treasury and ASIC in implementing FAR for all APRA-regulated institutions.

Improve and broaden risk-based supervision

Objective

To review of APRA's supervision model to ensure that it is fit for purpose and responsive to a rapidly changing environment, as well as being one that drives consistent, informed and comprehensive prudential supervision and enforcement across the financial system.

[18] https://www.apra.gov.au/consultation-on-remuneration-requirements-for-all-apra-regulated-institutions

Performance against objective

Review of APRA's supervision model

APRA continued with a significant review of its supervision model. A fundamental component of this review was a redesign of APRA's risk assessment methodology to elevate non-financial risks and better cater for industry nuances and emerging risks. During the year, APRA finalised its new Supervision Risk and Intensity (SRI) Model, which will replace APRA's existing risk rating and response tools [the Probability and Impact Rating System (PAIRS) and Supervisory Oversight and Response System (SOARS)][19]. The new model will be rolled out during 2020/21.

The roll-out of the SRI Model was originally planned for June 2020 but a decision was taken to defer the roll-out to allow APRA's supervisory teams to concentrate their efforts on COVID-19-related activities. In addition to developing the new SRI Model, APRA also established a dedicated Supervision Training Academy to enhance APRA's current supervisory training curriculum. The training academy commenced with the launch of the supervision on-boarding program, with 93 APRA staff participating in the five programs as at 30 June 2020.

Strengthen APRA's enforcement capability

A review of APRA's enforcement infrastructure was undertaken during 2019/20, with the aim of ensuring that APRA had the right resources and tools to enable delivery of APRA's refreshed enforcement approach. The review identified a number of areas where APRA could make additional investment in its enforcement infrastructure. However, in light of COVID-19 and associated resource constraints, APRA will need to pursue these opportunities over a longer timeframe than originally envisaged.

In the 2019/20 financial year, APRA commenced three formal investigations; issued 13 directions to RSE licensees or a connected entity of an RSE licensee; imposed additional conditions on the licences of three RSE licensees; issued 715 infringement notices to three institutions for failing to meet their legal obligations to report timely and accurate data to APRA; and applied additional capital requirements to four institutions in response to the outcomes of respective governance self-assessments.

[19] https://www.apra.gov.au/risk-assessment-and-supervisory-response-tools

Table 4 – Summary of APRA's enforcement actions

Enforcement action	2017/18	2018/19	2019/20
Coercive			
Direction and Conditions*	1	11	16
Court actions^	0	1	0
Enforceable undertakings	1	0	0
Infringement notices	0	0	715[1]
Statutory/ Judicial managers	0	0	0
Investigative Powers			
Notice to produce	3	44	78
Formal investigations	1	25[2]	3
Witness examinations	0	0	2
Search warrants	0	0	0

* Includes formal directions, licence conditions, direction to remove director/manager
^ Includes civil penalties, court disqualifications, criminal penalties and injunctions
1. Infringement notices to three institutions
2. 24 of the investigations relate to five superannuation trustees

During the year, a major court action that commenced in 2018/19 concluded.

APRA initiated action in December 2018 against entities within the IOOF group, due to its view those entities, as well as certain IOOF directors and executives, had failed to act in the best interests of their superannuation members. Before taking the court action, APRA had sought to resolve concerns with IOOF over several years but considered that it was necessary to take stronger action – through use of directions, conditions and court action – after concluding the company was not making adequate progress, or likely to do so in an acceptable period of time.

In September 2019, the Federal Court dismissed APRA's application for a finding that IOOF entities, directors and executives had contravened their obligations under the SIS Act. After considering the judgement, APRA elected not to appeal the decision.

Improve analysis of APRA's external environment

APRA strengthened its ability to identify, assess and respond to a broader range of risks in a more coordinated way this year. The work undertaken was focused on refreshing APRA's strategic risk register and providing more cohesive dashboards to APRA's Executive Board Risk Committee to support decision-making on mitigating actions to address APRA's key risks from a strategic, environmental, industry and operational risk perspective. Further planned work to optimise APRA's supporting analytical processes has been slowed given the shift in organisational priorities to support COVID-19-related activities.

Improve resolution capability

Objective

To improve APRA's resolution capability by, amongst other things, developing a new prudential standard on resolution, designing more robust resolution strategies, and strengthening recovery planning by industry, so as to minimise financial loss, distress and instability within the financial system in the event of a crisis.

Performance against objective

Improve resolution capability

APRA's resolution function is directed at protecting the Australian community from financial loss and disruption by planning for and implementing prompt and effective responses to a failure or crisis in the financial system. Building APRA's resolution capability remains a key multi-year priority and in December 2019, APRA provided a '*Resolution Readiness Report'* to Government. This addressed Recommendation 3.4 from APRA's Capability Review.

In mid-2019, APRA finalised changes to the application of the capital adequacy framework for ADIs, designed to ensure that adequate loss absorbing capacity (LAC) would be available to support orderly resolution in the event of failure. This was achieved through increasing the total capital requirement for Australia's largest banks. An additional requirement for smaller entities was, on balance, not deemed necessary.

For much of 2020, APRA's resolution function was heavily focused on developing institution-specific resolution plans to prepare for and manage potential risks associated with the COVID-19 pandemic. This redirection of resources meant that some of the planned resolution agenda for 2020 set out in APRA's 2019-2023 Corporate Plan was not able to be progressed. This included a delay in the development of a new recovery and resolution planning prudential standard and associated practice guides, which was originally scheduled to be released for consultation and finalisation in 2020.

APRA continued to work closely with members of the CFR and Trans-Tasman Council on Banking Supervision (TTBC) on work related to crisis preparedness. After the onset of COVID-19, these inter-agency engagements became more frequent. Discussions focused on, amongst other things, sharing observations on emerging risks, stress testing, and developing strategies for responding to the potential distress of one or more Australian financial institutions in order to protect beneficiaries and minimise disruption to the broader financial system.

Strengthen recovery planning

APRA continued work with financial institutions to strengthen recovery planning during the year. APRA built on efforts from the previous financial year by conducting a thematic review of recovery plans across peer groups of small, medium and large ADIs and insurers, notably conducting its first review of private health insurers' recovery plans. In line with previous years, feedback was provided to institutions where improvement was warranted.

In the second half of the financial year, APRA's focus shifted to analysing the usability of institutions' recovery plans in the COVID-19 environment, to support the monitoring of risk indicators, assessment of resilience and the credibility of recovery options.

Improve FCS administration

As part of APRA's work to ensure FCS readiness, all locally incorporated ADIs provided APRA with FCS self-assessments and action plans. In addition, several ADI FCS payout reviews were conducted by APRA over the course of the year, with findings and recommendations for improvements reported to institutions. APRA continued to monitor ADI progress against plans to address shortcomings identified in line with agreed timeframes.

To better assist the public with information about protected deposits and insurance policies, APRA also refreshed FCS-related content and FAQs on its website.

Improve external engagement and collaboration

Objectives

To promote better prudential outcomes and drive greater accountability by developing and implementing an enhanced communications strategy and supporting communication mechanisms that cater to all stakeholder needs.

To promote a 'whole of system' mindset to the collective success of Australia's financial regulatory regime through a more deliberate approach to collaborating with peer domestic and international agencies on a broader range of risks and mitigation activities.

Performance against objectives

Improve external engagement

Over the past few years, APRA has invested in improving its communications capability, including the expansion and restructuring of its Corporate Affairs team. APRA focused its efforts during the year on increasing the transparency of its activities by publishing a series of information papers, making more information about APRA's decision-making publicly available, and increasing media engagement.

In addition to APRA's routine publications, APRA released its inaugural '*Year in Review*' which was published in January 2020[20]; and an information paper setting out how APRA interprets its mandate (addressing aspects of Recommendation 6.6 from APRA's Capability Review). The past year has also seen APRA continue to publish more information about its decisions and actions, particularly as they relate to enforcement (such as the imposition of directions and licence conditions on RSE licensees). To support APRA's greater transparency, APRA increased its media engagement: for example, by conducting print and broadcast interviews on selected matters of public interest such as the MySuper Product Heatmap. Finally, APRA overhauled and upgraded its quarterly *Insight* publication, and continues to expand its consumer-directed website content and social media presence, including the publication of APRA's first video content in July 2020.

[20] https://www.apra.gov.au/news-and-publications/apra-2019-year-review

Figure 7 – External communications – stakeholder feedback

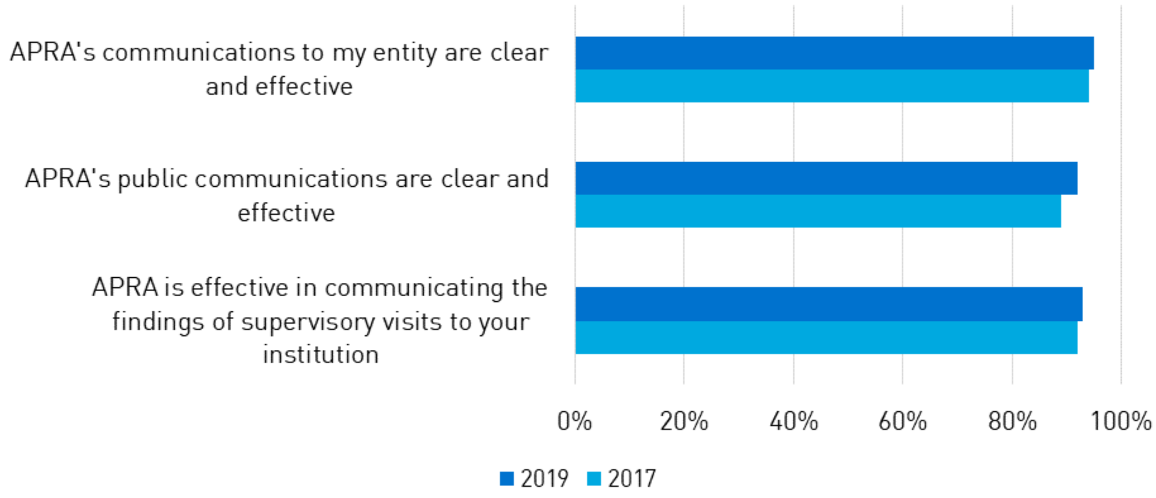


Figure 7 demonstrates the continued improvement in APRA's external communications, which was validated through APRA's 2019 stakeholder survey results. The figure shows the percentage of respondents who favourably agree with statements around the clarity and quality of APRA's public and entity communications. Further information on APRA's stakeholder survey can be found on APRA's website[21].

Improve external collaboration

Over the past year, APRA expanded and strengthened its engagement with domestic and international peer agencies, supported by the establishment of a dedicated Regulatory Affairs team. This engagement helped, in particular, to inform APRA's approach to new and emerging risks in the financial system, such as cyber security and climate change. As the COVID-19 pandemic unfolded, APRA worked closely with its domestic and international counterparts to maintain a coordinated and integrated approach to overseeing the financial system and preserving financial stability.

Embedding more formal arrangements for inter-agency coordination and information-sharing with peers and international standard-setting bodies was an important task during the year. Closer cooperation between APRA and ASIC was formalised via an updated Memorandum of Understanding (MoU), signed and released in November 2019[22] (addressing Recommendation 6.10 from the Royal Commission) and strengthened coordination under a revised engagement structure.

Internationally, the opportunities to share COVID-19 regulatory actions and responses with bodies such as the Basel Committee on Banking Supervision and the Financial Stability Board provide a valuable source of information on international developments in a rapidly changing environment.

Overall, APRA has 17 MoUs in place with other domestic agencies and formal information-sharing arrangements with 34 international regulatory agencies, as outlined in Chapter1.

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[21] https://www.apra.gov.au/stakeholder-survey
[22] https://www.apra.gov.au/news-and-publications/asic-and-apra-issue-updated-mou

Transform data-enabled decision making

Objective

To transform APRA's data into a strategic asset by further developing its data strategy in consultation with key stakeholders (including industry participants and other regulatory agencies), facilitate greater and more effective data-sharing, and continue APRA's multi-year transformation program (Program Athena) to modernise the way APRA collects, stores and accesses data.

Performance against objective

Transform data into a strategic asset

APRA continued to develop its data strategy to better enable decision-making and use data as a strategic asset. During the year, APRA built on the broad strategic approach prepared in 2018/19 by completing a current state assessment of data management practices, with learnings and insights incorporated into a future state vision. This assessment identified as a priority the need to enhance APRA's data management by embedding improved practices for new data collections. The first such initiative will be APRA's Superannuation Data Transformation project, which is currently under consultation.

In response to COVID-19, APRA initiated a number of new, rapidly-developed data collections to provide insights on priority areas of focus, while seeking to balance APRA's need for this data with minimising the resulting burden on financial institutions. This included implementing:

- For ADIs: Two weekly collections on liquidity; one weekly market risk collection for advanced ADIs[23]; two monthly credit risk collections; and three-monthly capital data collections.
- For insurance: One monthly life insurance collection on capital; a monthly performance data collection from the five top private health insurers; and a one-off collection on general insurance business interruption exposure.
- For superannuation: One weekly collection covering the early release scheme; a one-off collection on fund liquidity; and a monthly collection covering a number of areas including insurance, complaints and advice, operational resilience, liquidity, member demographics, and the 'Protecting Your Super' package of reforms.

Continue the multi-year data transformation program

A program to modernise APRA's data collection, storage and business intelligence systems infrastructure began in 2018 and has been transforming how data is collected, stored and delivered to APRA's supervisors, regulated industries, other agencies and to the Australian community more broadly. Under this program (Program Athena), APRA implemented a new enterprise data warehouse that holds collected data across all financial industries, and a new internal reporting tool to allow supervision activities to access this data.

Following the completion of that work, the program is now focused on implementing a new Data Collection Solution to be known as 'APRAConnect'. This solution will ultimately replace Direct to APRA (D2A) as APRA's data collection tool across all supervised industries. APRA

[23] Advanced ADIs are the major banks and those banks that have approval to use their own internal models for calculating capital.

publicly released its revised implementation approach[24] in early March 2020, but in response to COVID-19 APRA subsequently announced the temporary suspension of the program to allow financial institutions and APRA to focus on the response to the pandemic. APRA expects the APRAConnect project will resume in the 2020/21 financial year as the external environment stabilises.

Transform leadership, people and culture

Objective

To optimise APRA's workforce by recruiting new resources, skills and capabilities; improving workforce planning and resource management; resetting APRA's organisation structure to promote stronger accountability; and lifting the capability of APRA leaders by greatly strengthening the focus and prioritisation given to high standards of leadership behaviours via a new capability framework.

Performance against objective

Optimise APRA's workforce and improve workforce planning and resource management

APRA began the financial year reorganising its workforce during a period of growth and increased funding. New funding measures increased APRA's available resources, with average staffing levels increasing from 644 in 2018/19 to 734 in 2019/20. This enabled an upgrade in APRA's ability to deliver on its broadened set of supervisory and regulatory responsibilities. A significant recruitment effort was undertaken, including a successful campaign involving the Prudential Regulation Authority (PRA) in the United Kingdom that resulted in 25 experienced international candidates being sourced for APRA. Other planned improvements to workforce planning and resource management processes and supporting systems have not progressed as originally planned due to the shift in organisational priorities to support COVID-19 activities. APRA will look for opportunities to pursue these over the year ahead.

Reset APRA's organisation structure

In December 2019, a number of changes were made to APRA's organisational structure. These reflected APRA's changing operating environment, and considerations as to how best to position APRA to deliver on its strategy. Of note, APRA shifted to three industry-based supervision divisions for Banking, Insurance and Superannuation[25]. At the same time, APRA strengthened and intensified its cross-industry focus on technology and GCRA, and created a new project team dedicated to delivering on the Government's planned roll-out of the FAR across all regulated industries. In parallel, APRA revised (and published) its internal governance and accountability arrangements and developed individual accountability statements for its senior executives. The changes to APRA's organisation structure and governance arrangements addressed a key recommendation from the Royal Commission and parts of recommendations from APRA's Capability Review.

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[24] https://www.apra.gov.au/news-and-publications/apra-announces-revised-implementation-approach-for-apra-connect
[25] https://www.apra.gov.au/apras-organisation-structure

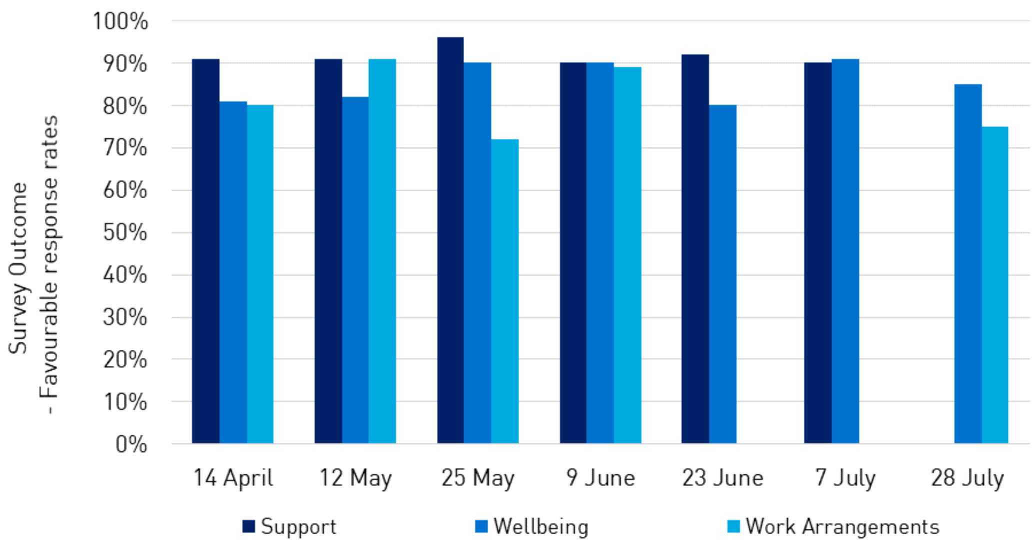
Lift the capability of APRA's leaders

APRA continued to strengthen its leadership team during the year. New senior executives were recruited and key managerial roles were created drawing from a large field of high-quality candidates. A new capability framework was rolled out based on performance outcomes and demonstration of behaviours aligned to APRA's organisational values. The new framework was an important step in improving the consistency with which the performance of APRA's people (including APRA's leaders) is assessed and rewarded. In addition to the existing suite of leader development programs, additional investment in leadership development specifically targeting 'inclusive leadership' was initiated and will be completed in the latter part of 2020. The program commenced in November 2019 and all of APRA's senior management have been actively involved.

Implement further initiatives for ongoing cultural enhancement at APRA

Given the onset of COVID-19, and the resulting abrupt move to an extended period of remote working, APRA placed a strong emphasis on internal communication and inclusion, as well as on the health and wellbeing of its people. A number of upgrades to APRA's infrastructure and supporting policies were made to enable this transition. For example, in order to support strong, face-to-face communication in an environment of remote working, the implementation of video conferencing technology was prioritised. The expedited and successful roll-out allowed APRA's people to provide strong positive responses in relation to the levels of support and communication during a period of considerable disruption.

*Figure 8 – Pulse survey responses by category**



* Based on the average total favourable result for questions asked in each category. N.b: Question(s) asked each week were different for each category and/or may not have been surveyed that week.

APRA conducted seven pulse check surveys of its people between April and July 2020, with an average response rate of 70 per cent. The surveys consisted of a series of questions directed at understanding staff sentiment across three categories: Support, Wellbeing and Work Arrangements. Detailed survey results for individual areas of the organisation were provided to APRA's senior executives and people managers for review and action.

In addition, a range of webinars were made available covering leading through change, wellbeing and personal resilience. These were attended by 234 APRA employees.

Drawing from recent experience, APRA is now developing new ways of working in a distributed work environment to drive optimal organisation performance and employee engagement in the future.

Chapter 4 – Management and accountability

APRA's governance

APRA is governed by an executive group of APRA Members (Executive Board) who are collectively responsible and accountable for APRA's operation and performance. APRA Members are appointed by the Governor-General, on the advice of the Australian Government, for terms of up to five years. Biographies for APRA's four Members are included below.

The Executive Board is supported by six Executive Directors and seven governance committees, including the Audit and Risk Committee, which is chaired by one of two independent committee members. Details on APRA's governance and executive accountabilities, including individual accountability statements for each senior executive, were published in December 2019.[26]

APRA's Members

Mr Wayne Byres, Chair, BEc (Hons), MAppFin, SF Fin, GAICD

Mr Byres was appointed as a Member and Chair of APRA from 1 July 2014 for a five-year term. He was subsequently reappointed for a second five-year term commencing 1 July 2019. Mr Byres' early career was in the Reserve Bank of Australia (RBA), which he joined in 1984. After more than a decade with the RBA, including a secondment to the Bank of England in London, he transferred to APRA on its establishment in 1998. Mr Byres subsequently held a range of senior executive positions in APRA, covering both its policy and supervisory divisions. In late 2011, Mr Byres left APRA to take up the appointment as Secretary General of the Basel Committee on Banking Supervision, the global standard setting body for banks based at the Bank for International Settlements in Basel, Switzerland. He held this position until his return to Australia in mid-2014. Mr Byres is APRA's representative on the Payments System Board, the Council of Financial Regulators, the Trans-Tasman Council on Banking Supervision, the Basel Committee and its oversight body, the Governors and Heads of Supervision, and Australian representative on the Financial Stability Board's Standing Committee on Supervisory and Regulatory Cooperation.

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[26] See https://www.apra.gov.au/governance-and-senior-executive-accountabilities

Mrs Helen Rowell, Deputy Chair, BA FIAA

Mrs Rowell was appointed as Deputy Chair of APRA in November 2015, and reappointed for a further five-year term from 1 July 2018. Mrs Rowell joined APRA in 2002 as General Manager, Industry Technical Services and held a number of senior roles, including General Manager, Diversified Institutions Division, General Manager, Policy Development and Executive General Manager, Supervisory Support Division prior to her appointment as APRA Member, with primary responsibility for superannuation, from 1 July 2013. Mrs Rowell was the Chair of APRA's (cross-divisional) general insurance industry group from 2006 to 2011, and has represented APRA at various subcommittees of the International Association of Insurance Supervisors, on the FSB's Supervisory Intensity and Effectiveness Group and was previously co-Chair of the Joint Forum Financial Conglomerates Committee. Mrs Rowell is currently the APRA representative on the OECD Working Party on Private Pensions, and was appointed President of the International Organisation of Pension Supervisors in November 2019. Prior to joining APRA, Mrs Rowell was a partner at the international consulting firm Towers Perrin; she is also a Fellow and past President of the Institute of Actuaries of Australia.

Mr John Lonsdale, Deputy Chair

Mr Lonsdale was nominated by the Government as an additional Deputy Chair of APRA on 30 May 2018 and commenced in his role on 8 October 2018. Prior to joining APRA, Mr Lonsdale worked for the Australian Treasury. He was a member of Treasury's Executive Committee and held the position of Deputy Secretary, Markets Group at Treasury. In this role Mr Lonsdale had responsibility for financial system, consumer and foreign investment policy. In 2014 he led the Secretariat to the Financial System Inquiry, based in Sydney. Mr Lonsdale had been with the Treasury since 1986 and worked across key areas in the Department including Budget policy, tax policy, retirement incomes and the financial system. In 2008 and 2009 he worked as the Chief Advisor in the Secretariat supporting Australia's Future Tax System Review, a major review of Australia's tax and transfer systems.

Mr Geoff Summerhayes, Executive Board Member, B. Bus, GMQ (AGSM), GAICD

Mr Summerhayes is an Executive Board Member of APRA. His responsibilities include the oversight of the General, Life and Private Health Insurance sector. He is a member of the Executive Committee of the International Association of Insurance Supervisors and Chair of its Audit and Risk Committee, and Chair of the Sustainable Insurance Forum, which was established under the UN Environment Program. Mr Summerhayes was Chief Executive Officer of Suncorp Life from 2008 to 2015. Before joining Suncorp, he held a number of senior roles at the National Australia Bank (NAB) in strategy, product and distribution. Prior to that he was CEO of Retail Investment at MLC and also held senior roles at Lend Lease. Mr Summerhayes was a director of the Financial Services Council and was co-chair of their Life Board Committee.

Audit and Risk Committee

The Audit and Risk Committee (ARC) comprises two independent non-executive members and an APRA Member. It is advisory and not a decision-making authority.

The committee was established in December 2019, through the merger of the previous Audit Committee (AC) and Risk Management Committee (RMC) to provide a coordinated focus on APRA's control environment.

The committee provides independent assurance and advice to the APRA Chair on APRA's financial reporting, management and system of internal control, performance reporting, and system of risk oversight and management, and compliance with applicable laws and regulations. In fulfilling its obligations, it receives reports and updates from Internal Audit and Risk Management and Compliance, and has the authority to call for reports and updates from across APRA it considers necessary to meet its obligations.

The committee meets formally five times annually, and more frequently as required. In addition to its members, the Australian National Audit Office (ANAO), APRA's Chair, Chief Internal Auditor and Chief Risk Officer are regular attendees at meetings of this committee.

The committee's charter is available on APRA's website.

Further information on the membership, activities and attendance of the committee is set out below. The current non-executive independent members are:

Ms Sam Lewis, BA (Hons), CA, ACA, GAICD
Audit and Risk Committee – Chair

Ms Lewis was appointed Chair of APRA's Audit Committee (AC) and an independent member of APRA's Risk Management Committee (RMC) for a three-year term in 2016. She was reappointed for a further two-year term on 1 April 2019. With the restructure of the AC and RMC, she assumed the role of Chair of the ARC.

Ms Lewis is a chartered accountant, and has been lead auditor to a number of Australian-listed entities. She has extensive expertise in accounting, finance, auditing, risk management and corporate governance. After 24 years with Deloitte, where Ms Lewis was an Assurance and Advisory Partner for 14 years, she has more recently taken on roles as a non-executive director of Aurizon Limited (since February 2015), acting as Chair of the Audit, Governance and Risk Management Committee and as a non-executive director of Orora Limited (since March 2014), where she is Chair of the Audit and Compliance Committee and non-executive director of Nine Entertainment Co. Holding Limited (since March 2017), where she is Chair of the Audit and Risk Committee.

Ms Kate Hughes, BCom (Ec & Fin), Grad Dip Applied Finance, Grad Dip OH&S, GAICD
Audit and Risk Committee – Independent member

Ms Hughes joined APRA's Audit and Risk Committee as an independent member on 2 December 2019, for a three-year term. Ms Hughes is a risk management, compliance, internal audit and governance professional who holds various non- executive roles with Comcare, Department of Justice and Community Safety and Department of Transport.

Ms Hughes' most recent executive role was as Chief Audit and Risk Officer at RMIT University, with responsibility for the University's internal audit, risk management, compliance and regulatory affairs functions. Prior to this she was the Chief Risk Officer at

Telstra, with global responsibility for the enterprise wide risk management, resilience, privacy, compliance and health and safety functions. Ms Hughes has led international teams for 15 years and has broad risk management, compliance, safety and governance experience in many sectors, including financial services, agribusiness, retail, manufacturing, public administration and telecommunications.

Ms Fiona Bennett, BA (Hons), FCA, FAICD, FAIM
Risk Management Committee – Chair; Audit Committee – Independent member

Ms Bennett originally joined APRA's previous Risk Management and Audit Committee (RMAC) as an independent member on 1 January 2011. With the restructure of the RMAC into separate risk and audit committees, Ms Bennett was appointed as independent Chair of APRA's Risk Management Committee on 1 January 2015 for a three-year term. She was reappointed for a further two-year term on 1 January 2018. Her most recent term on the committees concluded on 31 December 2019.

Attendance at Audit and Risk Committee meetings from 1 December 2019 to 30 June 2020:

Member	Meetings	Attended
Sam Lewis (Chair, external)	2	2
Fiona Bennett (external to December 2019)	1	1
Kate Hughes (external from March 2020)	2	2
Geoff Summerhayes	2	2

Attendance at Audit Committee meetings from 1 July 2019 to 30 November 2019:

Member	Meetings	Attended
Sam Lewis (Chair, external)	3	3
Fiona Bennett (external)	3	3
Geoff Summerhayes	3	3

Attendance at Risk Management Committee meetings from 1 July 2019 to 30 November 2019:

Member	Meetings	Attended
Fiona Bennett (Chair, external)	2	2
Sam Lewis (external)	2	2
Geoff Summerhayes	2	2

ARC Independent Member Remuneration from 1 July 2019 to 30 June 2020:

Member	Annual (ex GST)	Paid (ex GST)
Sam Lewis (Chair, external)	49,200	49,200
Fiona Bennett (external to December 2019)	41,000	20,500
Kate Hughes (external from March 2020)	40,000	20,000

Governance committees

Executive Board

The Executive Board (EB) comprises of the four APRA Members and meets formally on a monthly basis, and more frequently as required. The Board deals with matters that require formal approval or decisions such as APRA's strategic plans, financial statements and budgets, policy priority agenda, audit plan, and matters that are essential to meeting the organisation's statutory obligations.

Attendance at Executive Board meetings from 1 July 2019 to 30 June 2020:

Member	Meetings	Attended
Wayne Byres	15	15
John Lonsdale	15	15
Helen Rowell	15	15
Geoff Summerhayes	15	13

The Executive Board has established a number of supporting committees and working groups. The most significant of these are set out below.

Executive Board Risk Committee

The Executive Board Risk Committee (EBRC), comprising the four APRA Members also meets monthly, or more frequently as required. The EBRC was established in September 2019 to provide an increased focus on risk matters at executive level. The EBRC oversees the management and mitigation of APRA's risks by ensuring an effective Risk Management Framework, including a Risk Appetite Statement is in place; monitoring APRA's risk profile and associated controls; monitoring risk and audit actions including progress against remediation plans; and undertaking deep-dives of key risks where considered necessary.

Attendance at Executive Board Risk Committee meetings from establishment in September 2019 to 30 June 2020:

Member	Meetings	Attended
Wayne Byres	9	9
John Lonsdale	9	9
Helen Rowell	9	9
Geoff Summerhayes	9	8

Executive Committee

The Executive Committee (ExCo), comprising the four APRA Members and the six Executive Directors meets monthly, or more frequently as required. The ExCo focuses on monitoring APRA's organisational performance, progress on APRA's strategic priorities, people and culture matters, and general organisational effectiveness. The objective of the ExCo is to strengthen alignment and accountability for these issues across the Members and Executive Directors.

Supervision Oversight Committee

The Supervision Oversight Committee (SOC) is the primary forum for strategic oversight and review of APRA's core supervision function, including all related strategic initiatives and risks. The SOC meets monthly. Its membership comprises two of APRA's Members, plus Executive Directors and General Managers from APRA's divisions responsible for risk and supervision.

Prudential Policy Committee

The Prudential Policy Committee (PPC) is the primary forum for senior-level discussion and coordination in relation to the development of prudential policy. The PPC meets twice monthly. Its membership comprises all APRA's Members, plus Executive Directors and General Managers from APRA's divisions responsible for policy, risk and supervision.

Resolution and Enforcement Committee

The Resolution and Enforcement Committee (REC) is the primary forum for strategic oversight and review of APRA's enforcement strategy and resolution function, including all related strategic initiatives and risks. The REC, meets twice monthly. Its membership comprises all of APRA's Members, its General Counsel, plus Executive Directors and General Managers from APRA's divisions responsible for policy, risk and supervision.

Other committees and groups

Reporting to the governance committees listed above are other specialist committees and working groups. These include:

COVID-19 Coordination

During the year, APRA initiated a special COVID-19 coordination structure to facilitate faster and more coordinated decision-making. This followed the triggering of APRA's Crisis

Management Plan as the COVID-19 outbreak progressively worsened. The structure comprised three committees, led by an overarching Executive Crisis Committee (ECC) and supported by two operational Committees: an Incident Management Team (IMT) focused on APRA's own operational capacity, and a Financial Impacts Team (FIT) which coordinated the assessment of, and response to, the pandemic on financial institutions and the broader financial system. Initially meeting daily during the onset of COVID-19, these committees are now being wound down and decision-making is returning to APRA's normal governance structures.

Industry groups

Reporting to the SOC, there are industry groups comprising representatives of the various divisions of APRA, covering each of APRA's regulated industries: authorised deposit-taking institutions, superannuation, general insurance, life insurance (including friendly societies), and private health insurance. These groups monitor industry developments to identify emerging risks and issues and act as a sounding board for prudential policy issues in the different industries.

Inclusion and Diversity Council

Reporting to the Executive Board, the Council promotes awareness of workplace inclusion and diversity (I&D) and is responsible for implementing and monitoring the implementation of APRA's I&D strategy.

Employee Consultative Group

Reporting to the ExCo, this Group facilitates communication and consultation with all APRA employees below the senior management level on the terms and conditions of their employment in line with APRA's Enterprise Agreement and employment policies, and the impact of these on APRA's organisational culture and values.

Work Health and Safety Committee

Reporting to the ExCo, this Committee focuses on issues concerning the health, safety and wellbeing of employees, and ensures that these concerns are integrated into broader management systems and practices.

Financial resources

APRA's expenditure

APRA's total operating expenditure for the 12 months to 30 June 2020 was $196.2 million against an original budget of $184.2 million. The expenditure in excess of the original budget were partly covered by $6.5 million budget increase approved during the 2019 Mid-Year Economic and Fiscal Outlook (MYEFO) update, and additional costs primarily related to: the fall in the Government 10-year bond yield impacting the valuation of staff leave provisions; higher property costs due to the adoption of a new accounting standard (AASB-16 – *Leases*); and a provision for a likely legal settlement.

APRA's income

APRA's total income in 2019/20 was $192.4 million, against a budget of $192.5 million.

Income was fractionally lower than budget even though there was an over-collection of Financial Institutions Supervisory Levies due to higher than expected June 2019 quarter assets growth in the superannuation industry. This over-collection was offset, however, by lower cost recovery activities.

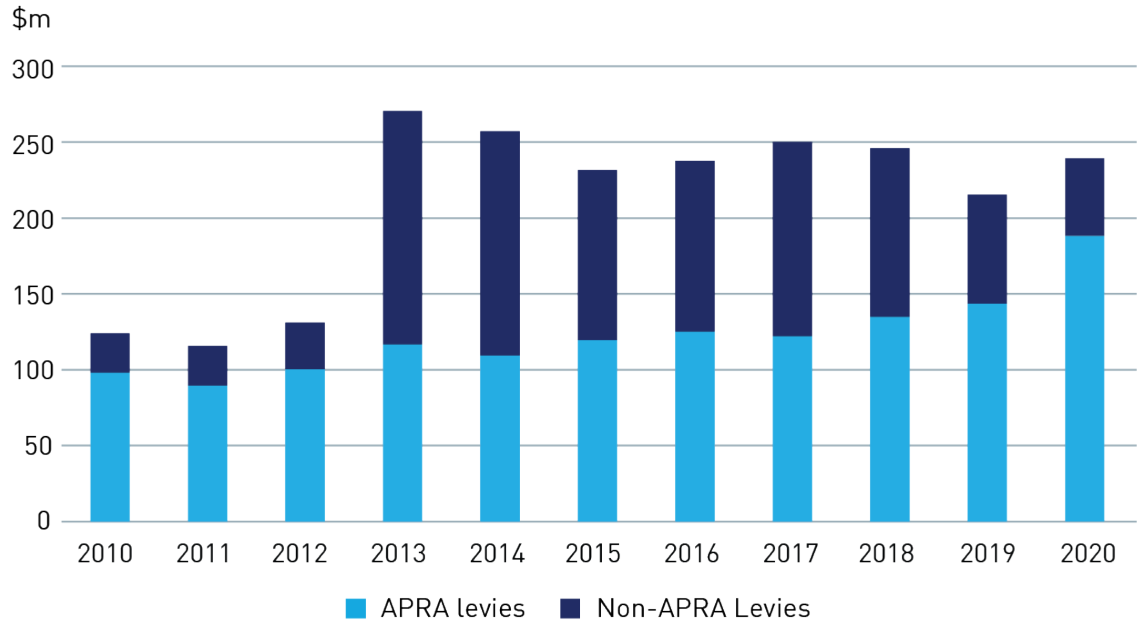
Industry levies are raised according to the *Financial Institutions Supervisory Levies Collection Act 1998*, the *Supervisory Levy Imposition Acts 1998* relevant to each of APRA's regulated industries, and the *Private Health Insurance Supervisory Levy Imposition Act 2016*. Following consultation with industry, the relevant Minister determines the levy rates for each regulated industry prior to the beginning of each financial year. Industry levies are based on the costs incurred by APRA in discharging its duties with respect to each sector. For industries APRA regulates, other than private health insurance, the levy rate is applied on the relevant institution's total assets, subject to a minimum and maximum amount per institution. Exceptions to this are non-operating holding companies and small APRA-regulated superannuation funds, which are levied at a flat rate. For private health insurers, the levies are based on the number of policies held by each insurer at 30 June.

Levies are also collected to cover the costs of the National Claims and Policies Database (NCPD) for which a rate is applied to the gross earned premiums of general insurers that contribute to this database. The amount raised for NCPD purposes in 2019/20 was $1.0 million. The total levies collected by APRA also cover certain costs attributable to ASIC, the ATO, the ACCC, the Gateway Network Governance Body Ltd and The Treasury. Total levies collected by APRA in 2019/20, including on behalf of these agencies, were $238.0 million.

On an annual basis, APRA releases a Cost Recovery Implementation Statement to provide further information on the APRA component of the levies collected from industry.

APRA also administers the Risk Equalisation Special Account whereby revenue collected by APRA for the purposes of risk equalisation across the private health insurance industry is treated by the Government as revenue and expenses. Total Risk Equalisation collections and payments in 2019/20 were $472.7 million.

Figure 1 – APRA's financial industry levies



Reserves

The components of APRA's reserves were subject to the following changes during the year:

- APRA's retained surpluses increased by $16.0 million to $25.5 million, attributable to an operating deficit from ordinary activities of $3.9 million, a transfer of $4.0 million to the Contingency Enforcement Fund and an adjustment to the opening balance of $23.9 million due to accounting standard changes[27]; and
- The Contingency Enforcement Fund was increased by $4.0 million from retained surpluses to $12.0 million, attributable to a planned growth in the size of the fund arising from the BEAR and the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

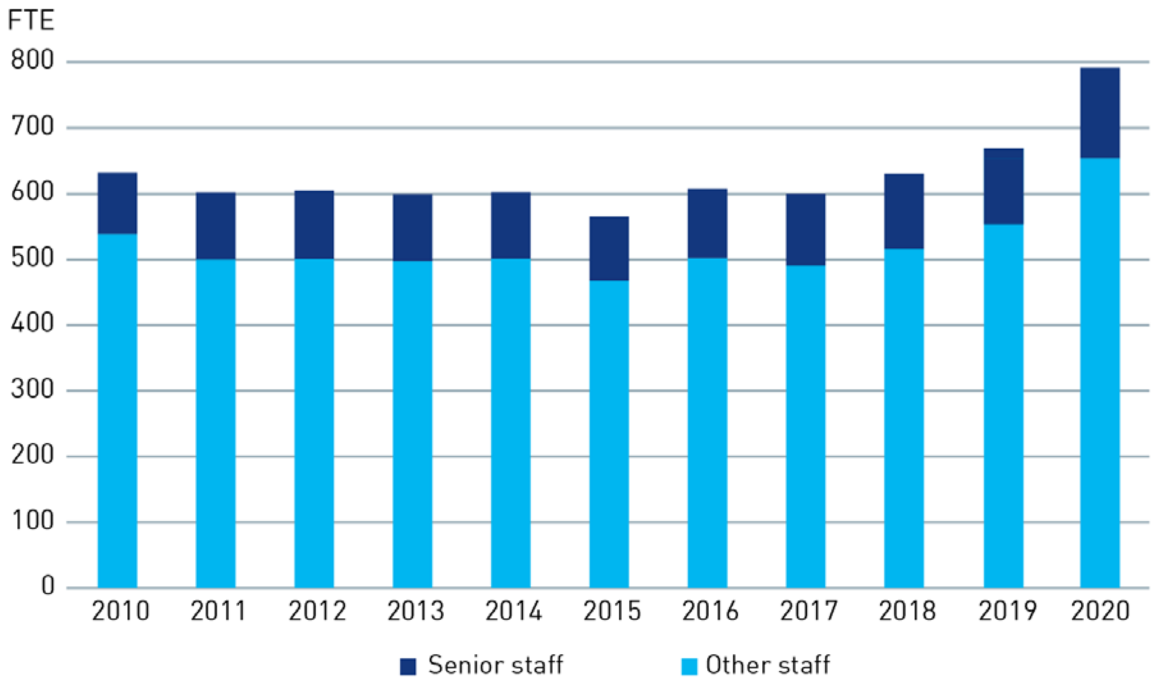
With these items, total reserves increased to $61.8 million. This included an asset revaluation reserve of $7.6 million and contributed equity of $16.7 million, which were materially unchanged over the year.

[27] Reflecting the introduction of AASB-16 – *Leases* and AASB-15 – *Income*.

Management of Human Resources

At 30 June 2020, APRA's total permanent employee number was 786.8 on a full-time equivalent (FTE) basis, which was an increase of 120.1 from 666.7 at 30 June 2019 (see Figure 2).

Figure 2 – Total FTE employees as at 30 June 2020

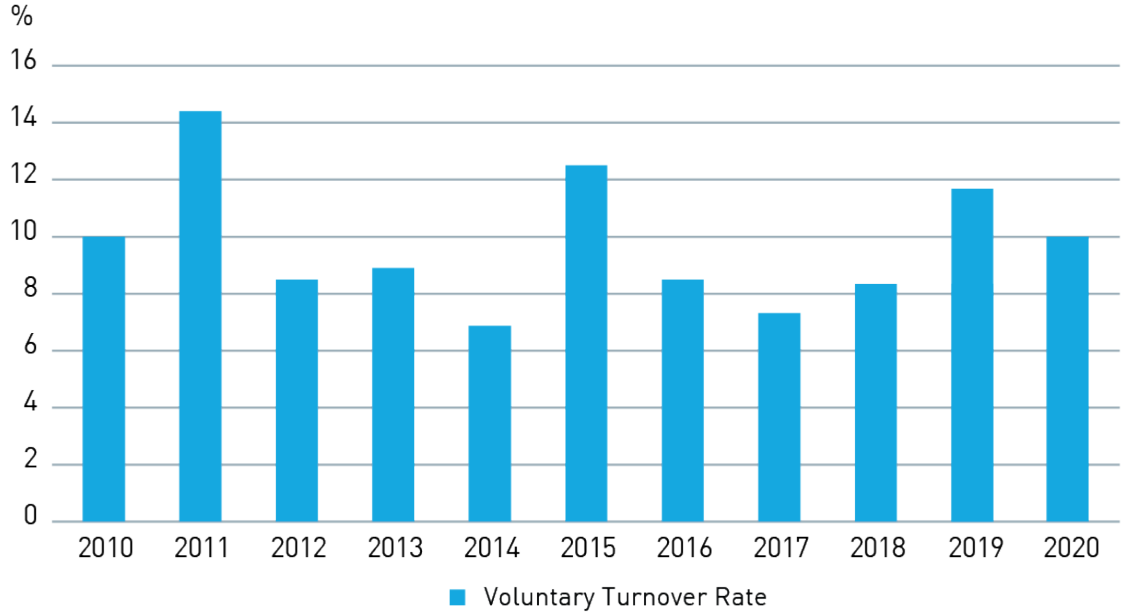


Full-time equivalent employees by level and gender

	Female	Male	Grand Total
LVL1	22.7	23.7	46.4
LVL2	50.4	35.0	85.4
LVL3	100.2	107.5	207.7
LVL4	127.8	183.3	311.1
LVL5	30.3	68.4	98.7
GNRL	13.5	14.0	27.5
EXEC	3.0	3.0	6.0
MEMBER	1.0	3.0	4.0
Total (FTE)	**348.9**	**437.9**	**786.8**

Figure 3 – Voluntary turnover rate

APRA's voluntary turnover decreased from 11.8 per cent in 2018/19 to 10.1 per cent during 2019/20.



APRA is focused on maintaining a highly skilled workforce with a combination of supervisory and industry expertise. This is essential for a supervision-led regulator such as APRA, which relies on the judgement and experience of its employees to achieve sound prudential outcomes. APRA sought during the year to broaden its talent acquisition to attract and retain more highly skilled employees in areas of particular need, such as policy, specialist risk, enforcement and resolution, hiring more than 200 new specialists in 2019/20. APRA also continued its well-regarded graduate program, employing 21 graduates in 2019/20.

While APRA has been reasonably successful in developing and retaining employees with supervisory experience, overall experience levels have declined in recent years (see Figure 4), particularly in the past year during a period of substantial recruitment (see Figure 5).

Figure 4 – Employee supervisory experience levels (in years)

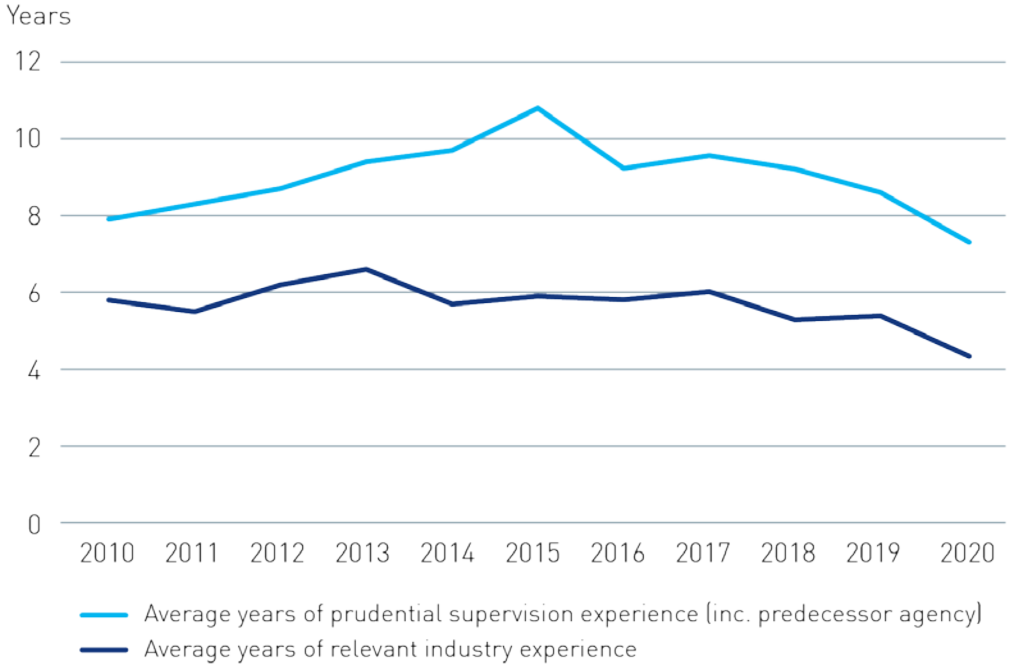
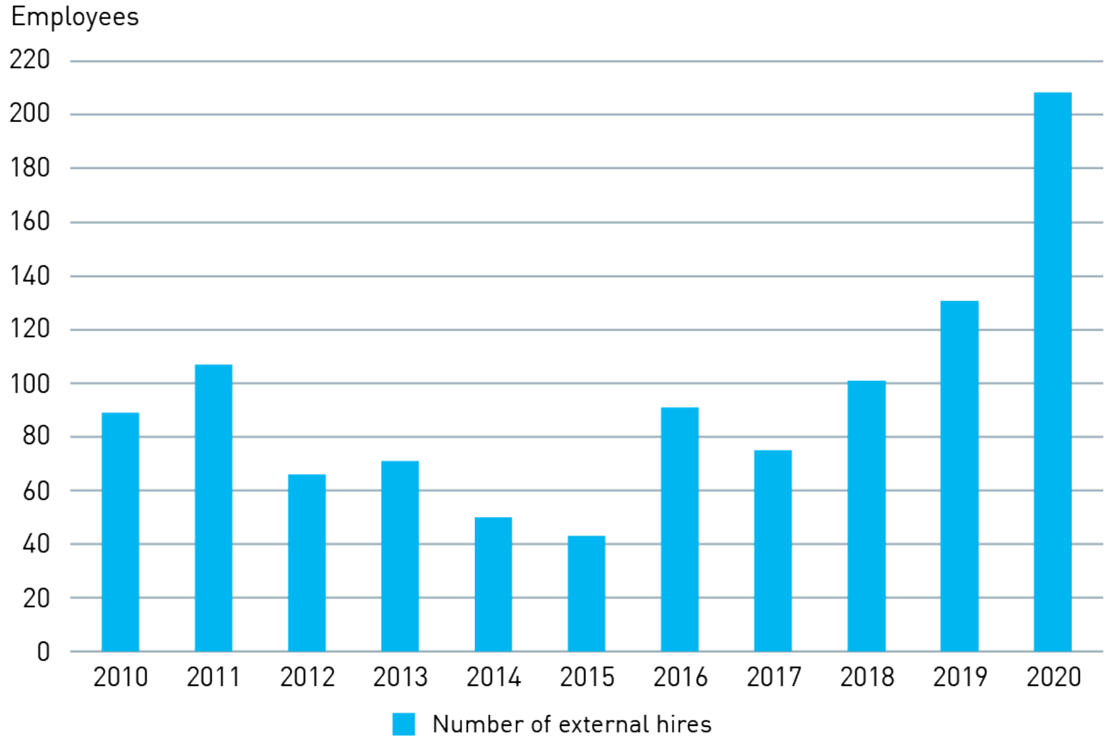


Figure 5 – External recruitment



External recruitment by level and gender

	Female	Male	Grand Total
LVL1	13	14	27
LVL2	11	16	27
LVL3	26	26	52
LVL4	39	42	81
LVL5	4	9	13
GNRL	2	3	5
EXEC	1	0	1
Total	**96**	**110**	**206**

Talent and development

In 2019/20, APRA focused on strengthening the capability of leaders through prioritising a broad range of leadership development programs. These included an inclusive leadership program for senior leaders, leading for wellbeing programs, a greater focus on the neuroscience of leading, and ensuring leaders and managers are skilled to lead a high-performance organisation through effective coaching and feedback.

APRA's newly embedded performance framework and associated behavioural capability framework provides leaders and employees with an objective basis for career and development performance management discussions. The framework enables employees to have a clearer view of their performance and career advancement options across the organisation.

Building organisational and individual capabilities remains a priority for APRA. In 2019/20 APRA created the Supervision Training Academy to train and upskill our supervisors, respond to changing expectations and uplift our enforcement and cyber capabilities. APRA has also broadened its training and development offerings more generally by using more diverse and specialised digital platforms, as well as traditional face-to-face learning. A significant and seamless shift occurred in the fourth quarter to respond to the unfolding COVID-19 pandemic, with learning and development programs and graduate recruitment transitioning online. In addition, a significant emphasis has been placed on delivering new, enhanced and focused wellbeing programs and resilience training to ensure APRA is safeguarding the wellbeing of all employees throughout this period.

Support for employees undertaking postgraduate study continued in 2019/20, with 45 employees participating in the studies support program.

Table 1 – Learning and development activities

Key training metrics	2018	2019	2020
Training spend per employee	$3,225	$2,438	$2,624
Percentage of employees provided with training	100	100	100
Training sessions per employee	12.5	10.3	12.6
Training days per employee	3.0	3.0	2.2
Number of internal courses offered	275	211	283
Employees undertaking formal post-graduate studies	43	42	45

APRA and diversity

APRA believes that to successfully fulfil its mandate, every employee should have the opportunity to reach their true potential. In practice, this means creating and cultivating an environment where every employee, regardless of background or personal circumstances, feels valued, included and able to contribute fully to the work and social life of the organisation.

Table 2 – Diversity and inclusion characteristics across employees (by total headcount)

	Female	Male	ATSI[1]	CALD[2]	PWD[3]
LVL1	23	24	0	6	0
LVL2	52	35	0	24	1
LVL3	105	108	2	70	0
LVL4	136	186	0	93	2
LVL5	32	69	0	20	1
GNRL	14	14	0	4	0
EXEC	4	6	0	1	0
TOTAL	**366**	**442**	**2**	**218**	**4**

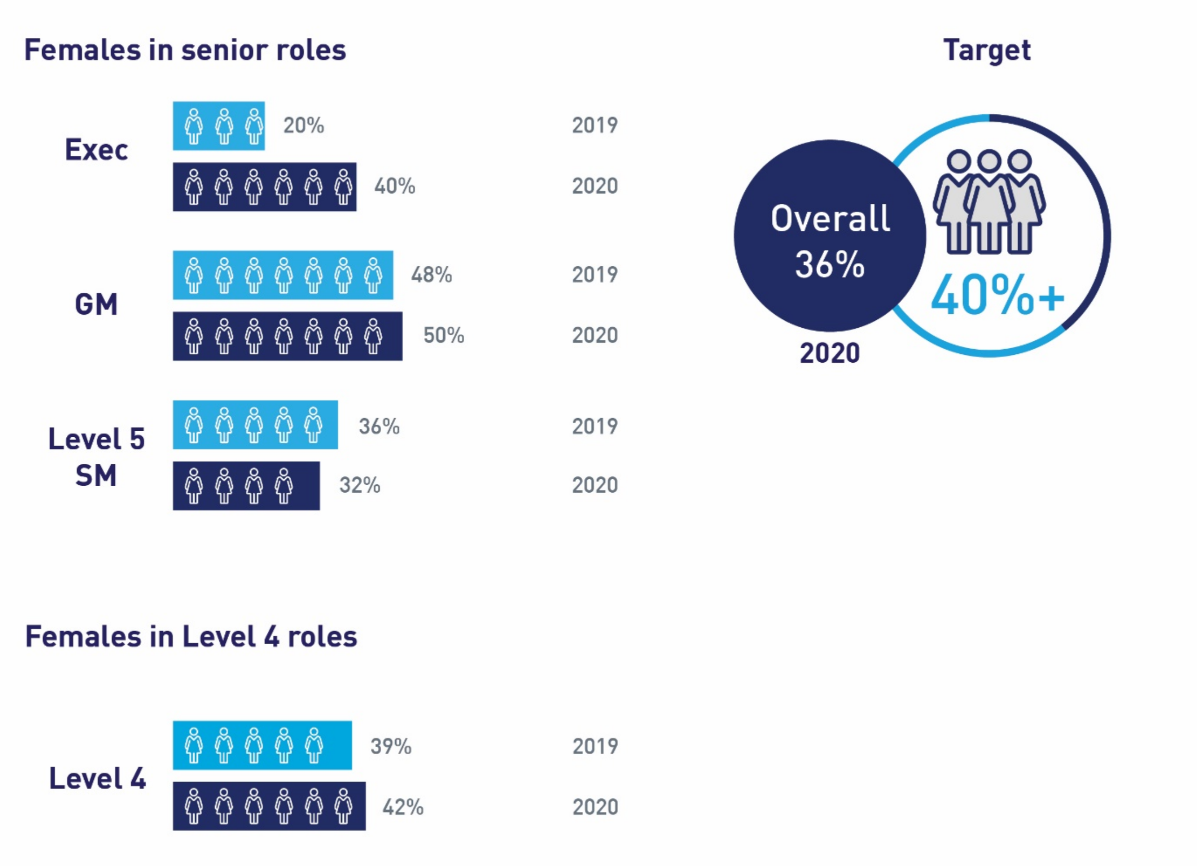
[1] Aboriginal and Torres Strait Islanders (ATSI)
[2] Culturally and Linguistically Diverse (CALD)
[3] People with Disabilities (PWD)

2019/20 progress

In 2019/20, APRA restructured its Inclusion and Diversity Council to strengthen senior executive leadership accountability in driving ongoing improvement. It is now chaired by APRA's Chair, with community streams sponsored by the Executive Directors and supported by representatives of People & Culture. Stream activities continued throughout the year, with many adapting to virtual formats over the COVID-19 period.

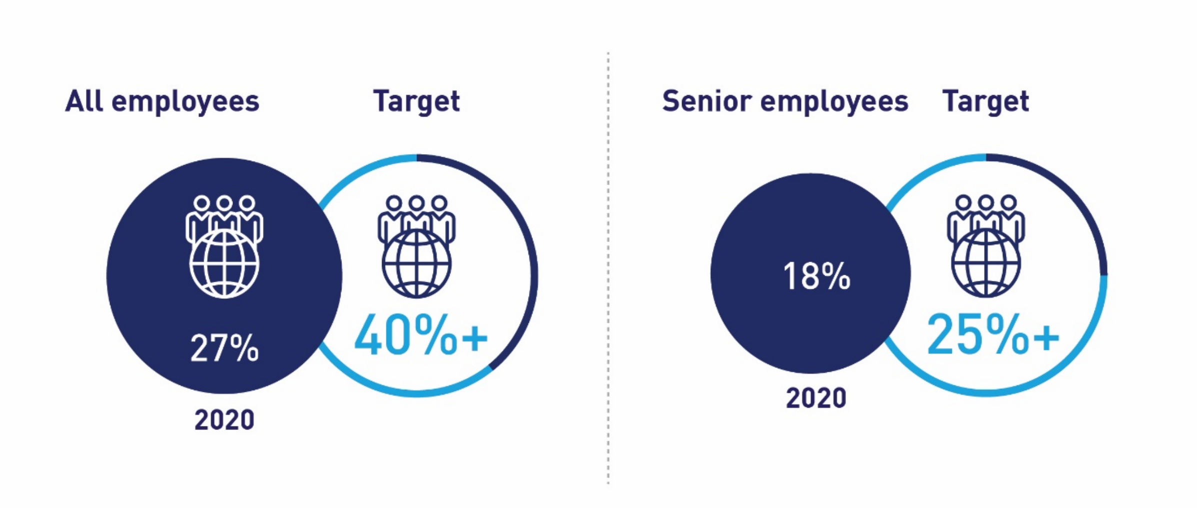
Gender diversity in senior roles

The proportion of females in senior roles (Level 5 and above) was unchanged at 36 per cent in 2020. Females in Level 4 roles increased from 39 per cent in 2019 to 42 per cent in 2020. At the General Manager levels, women occupied 50 per cent of positions at 30 June 2020.



Culturally and linguistically diverse employees

Overall, 27 per cent of APRA employees in 2019/20 came from culturally and linguistically-diverse backgrounds, including 18 per cent of senior employees.



Flexibility – if not, why not?

APRA's policy of 'Flexibility for all – if not, why not?' has continued to see significant uptake by employees on formal flexible working arrangements. At March 2020, pre COVID-19, 40 per cent of APRA's workforce was on a formal flexible working arrangement.

APRA's approach to flexibility has enabled the organisation to adapt in the current COVID-19 environment seamlessly, with almost all employees working remotely for many months.

Chapter 5 – Statutory reporting requirements

APRA reports in accordance with the following Commonwealth legislation and other requirements:

- *Australian Prudential Regulation Authority Act 1998*;
- *Environment Protection and Biodiversity Conservation Act 1999*;
- *Equal Employment Opportunity (Commonwealth Authorities) Act 1987*;
- *Freedom of Information Act 1982*;
- *Public Governance, Performance and Accountability Act 2013*;
- *Work Health and Safety Act 2011*;
- Commonwealth Fraud Control Framework; and
- Requirements for Annual Reports for Departments, Executive Agencies and other Non-corporate Commonwealth Entities.

Australian Prudential Regulation Authority Act 1998 (APRA Act)

Section 59 of the APRA Act requires APRA to report on:

- the activities of persons conducting investigations under Division 2 of Part II and section 61 of that Act the *Banking Act 1959*;
- the activities of Banking Act statutory managers (within the meaning of the *Banking Act 1959*);
- the activities of Insurance Act statutory managers (within the meaning of the *Insurance Act 1973*);
- the activities of Life Insurance Act statutory managers (within the meaning of the *Life Insurance Act 1995)*;
- the operation of Division 2AA (Financial Claims Scheme for account-holders with insolvent ADIs) of Part II of the *Banking Act 1959*;
- the operation of Part VC (Financial Claims Scheme for policyholders with insolvent general insurers) of the *Insurance Act 1973*;
- the number of times during the year that APRA determined, under subsection 13(1) of the *Financial Sector (Collection of Data) Act 2001*, a reporting standard that is not a legislative instrument; and
- the exercise during the year of APRA's powers under Part 15 of the *Retirement Savings Accounts Act 1997* (RSA Act) and Part 29 of the *Superannuation Industry (Supervision) Act 1993* (SIS Act).

During 2019/20, APRA appointed two people to conduct an investigation under Division 2 of Part II of the *Banking Act 1959* in relation to Westpac Banking Corporation. On 17 June 2020, APRA announced that due to the potential for significant overlap in factual background and potential contraventions between this investigation and an investigation that ASIC was conducting under the *Corporations Act 2001*, APRA had delegated functions and certain powers in relation to APRA's investigation to ASIC. This will allow ASIC to take court action which it considers appropriate as a result of its investigation. ASIC will, however, consult and collaborate with APRA in relation to any such proceedings.

The delegation is designed to achieve greater efficiencies in the investigative process and a more coordinated regulatory outcome. It will avoid significant duplication in the investigative process, including compulsory examinations of the same individuals in respect of the same matters, and will avoid the potential for two sets of court proceedings for the same conduct. It is therefore likely to achieve a swifter and more effective regulatory response as a result.

There were no appointments under the *Banking Act 1959* continuing from the previous year.

APRA did not appoint statutory managers under the *Banking Act 1959*, *Insurance Act 1973* or *Life Insurance Act 1995*. There were no appointments continuing from the previous year.

There were no schemes in operation under Division 2AA of Part II of the *Banking Act 1959*. On 15 October 2009, the Minister made a declaration under section 62ZZC of the *Insurance Act 1973* that Division 3 of Part VC of that Act applied in relation to one general insurer[28]. No payments were made from the Financial Claims Scheme Special Account in 2019/20 to satisfy claims against this general insurer.

APRA did not determine any reporting standards under subsection 13(1) of the *Financial Sector (Collection of Data) Act 2001* during 2019/20 that were not legislative instruments.

APRA did not exercise its powers under Part 15 of the RSA Act in 2019/20.

APRA exercised its powers under Part 29 of the SIS Act in relation to particular entities or persons as set out below:

Exemptions exercised under the SIS Act

Exemption number	Date	Provision of SIS Act / regulations exempted
A7 of 2019	21/10/19	s.93(3)
A8 of 2019	03/10/19	s.93(3)
A9 of 2019	29/10/19	r.1.06(8)(d)
A10 of 2019	29/10/19	r.1.06(8)(d)
A11 of 2019	15/11/19	s.29MB(1)
A1 of 2020	27/02/20	r.1.06(8)(d)
A2 of 2020	12/05/20	s.93(3)
A3 of 2020	12/05/20	r.9.04D, r9.04I and r9.09
A4 of 2020	25/06/20	s.93(3)
A5 of 2020	30/06/20	r.1.06(7)(g)

[28] Australian Family Assurance Limited (in liquidation).

Modifications exercised under the SIS Act

Modification number	Date	Provision of SIS Act / regulations modified
A1 of 2020	26/03/20	s.10(1)
A2 of 2020	20/03/20	s.10(1)
A3 of 2020	24/03/20	s.29C(4)
A4 of 2020	05/05/20	r.1.06
A5 of 2020	05/05/20	r.1.06
A6 of 2020	05/05/20	r.1.03(1)

Environment Protection and Biodiversity Conservation Act 1999 (EPBC Act)

APRA's Environmental Policy Statement reinforces its commitment to operating in an ecologically sustainable manner. APRA actively takes steps to reduce its environmental impact and adopts environmentally friendly options where practical. Measures include: sensor-controlled lighting; energy-efficient power management settings on office equipment; recycling of paper, cardboard, office furniture and printer cartridges; reducing waste; the use of mobile devices and 'follow-me' printing; and fostering employee awareness of environmental issues including considering the need to print documents.

Equal Employment Opportunity (Commonwealth Authorities) Act 1987 (EEO)

APRA is dedicated to ensuring it continues to create an environment that fosters inclusivity and respect for all its employees. Diverse and inclusive teams are critical for APRA's success as they broaden the range of thinking that supports strong judgments, which are the foundation of supervisory authorities. APRA's Inclusion and Diversity initiatives can be found in the section APRA and diversity in Chapter 4.

Fraud preventions and controls

Commonwealth Fraud Control Guidelines

The Chair of APRA certifies that he is satisfied that:

- a fraud risk assessment and fraud control plan has been prepared and complies with the Commonwealth Fraud Control Guidelines;
- appropriate fraud prevention, detection, investigation, recording and reporting procedures are in place to meet the specific needs of APRA (subject to the below); and
- whilst all reasonable measures to appropriately deal with fraud relating to APRA have been taken, APRA has self-identified areas for improvement and planned activities to uplift.

Freedom of Information Act 1982 (FOI Act)

Agencies subject to the *Freedom of Information Act 1982* (FOI Act) are required to publish information to the public as part of the Information Publication Scheme (IPS). This requirement is in Part II of the FOI Act and has replaced the former requirement to publish a section 8 statement in an annual report. APRA displays on its website a plan showing what information it publishes in accordance with the IPS requirements.

Work Health and Safety Act 2011 (WHS Act)

APRA has continued to strengthen its Work Health and Safety (WHS) policy with an increased focus on employee wellbeing, risk management and reporting. This has been crucial with the bushfire crisis and then the COVID-19 pandemic creating the need for a strong focus on employee health and wellbeing.

APRA has continued to respond in a risk-based manner, with WHS risk assessments being conducted to determine the appropriate approach to ensure the safety and wellbeing of employees.

WHS Response to COVID-19

The WHS Risk Assessment identified key risks that had the potential to impact APRA's key objective of 'maintaining the health, safety and wellbeing of all employees and contractors whilst working remotely and in the return to office approach'. The key risks covered the spectrum of psychological and physical health as well as leadership and change management.

Controls to address COVID-19 key risks included:

- detailed monitoring of potentially impacted employees and establishing a framework to be able to respond effectively to an instance of COVID-19 in the workplace;
- all employees being kept fully informed through a regularly updated information page, FAQs and weekly communications from the Chair;
- the opportunity for employees to raise concerns about their remote working arrangements and ergonomic conditions, followed up by virtual ergonomic assessments where required;
- the adaption policies to enable greater flexibility to better support family/personal responsibilities and workload, and the creation of new/additional policies to enable an appropriate and ongoing response to COVID-19 in the workplace; and
- the delivery of a series of leadership sessions targeted at supporting leaders through the change in working arrangements.

To monitor employee engagement and wellbeing whilst working remotely, a fortnightly pulse survey of all APRA employees was established. The results of these surveys (contained in Chapter 3) helped shape APRA's ongoing wellbeing initiatives and approach to the return to office.

APRA was able to continue to offer access to various initiatives for employees to support wellbeing, including the annual flu vaccination which was provided to employees this year through a one-off direct payment for them to attend their local GP or health clinic, and online workshops to assist employees with increased caring responsibilities.

In addition to this, there was a strong emphasis on supporting positive mental health with increased engagement through APRA's partnership with external providers in delivering targeted workshops to strengthen resilience in challenging times. APRA continued to promote its Employee Assistance Program and Wellbeing Ambassador network.

All APRA's people leaders were provided with additional tools and support for creating an environment that promotes wellbeing. During 2019/20, APRA continued to deliver mental health and wellbeing awareness training for all people managers. This training enabled those managers to better address wellbeing issues, and have the confidence to intervene and progress support mechanisms as needed.

WHS Committee

The WHS Committee is an integral part of APRA's internal governance system, and is the principal forum for oversight on all WHS matters. It is responsible for monitoring the effectiveness of WHS control measures.

The role of the Work Health and Safety Committee has increased and the output improved, with strengthened membership and updated terms of reference to reflect these changes.

WHS outcomes

APRA's risk management strategies have successfully mitigated any risks or hazards that may have resulted in notifiable incidents, investigations relating to undertakings, or provisional improvement notices.

There were two new workers compensation claims accepted by Comcare in the 2019/20 financial year.

Other reporting requirements

Accountable Authority during the current reporting period (2019/20)

		Period as the accountable authority or member	
Name	Position title/position held	Date of commencement	Date of cessation
Wayne Byres	Chair	1 July 2014	30 June 2024

Advertising and market research

Under the *Commonwealth Electoral Act 1918*, APRA is required to report annually on amounts paid to advertising agencies, market research and media advertising organisations relating to electoral expenditure.

In 2019/20 APRA has not incurred any advertising or market research expenditure in relation to an election.

Separately, during 2019/20 APRA incurred employment advertising expenditure relating to the following executive recruitment organisations:

Supplier	Amount (Excl. GST)
Mediabrands Australia Pty Ltd T/As Universal McCann	$94,425
Russell Reynolds Associates Australia Pty Ltd	$36,106

Outside of the above, APRA did not conduct any specific advertising campaigns during 2019/20.

Auditor-General activities

The Australian National Audit Office (ANAO) undertook the required statutory financial audit of APRA for 2019/20.

Capability reviews

In March 2019, the Australian Government initiated a capability review of APRA. The review was tasked with providing a forward-looking assessment of APRA's ability to respond to an environment of growing complexity and emerging risks for APRA's regulated sectors.

The report of the review was published by the Government on 17 July 2019. The report recognised APRA as a high-quality prudential supervisor that has successfully delivered on its core mandate – the financial safety of regulated entities and a sound and resilient financial system – over a long period of time.

However, it also concluded that APRA needed to expand its capabilities in a number of areas. These included strengthening its leadership capabilities, culture and organisational structure; increasing resourcing and supervisory focus on GCRA; giving greater prominence to member outcomes in superannuation; and better communicating what it does and how it does it. APRA supported all 19 recommendations that were directed at it; a further five recommendations were directed to the Government.

The Capability Review followed additional external reviews by the International Monetary Fund and the Productivity Commission, as well as APRA's own internal Enforcement Review (published in March 2019) that identified opportunities to improve regulation and supervision practices. Collectively, along with the recommendations from the Royal Commission, these reviews provided approximately 150 recommendations and suggestions for APRA to consider. A summary of progress against these recommendations is included in the Statement of Performance (Chapter 3).

The recommendations were important foundations for the formulation of APRA's Corporate Plan and underlying operational plans.

Collective agreements and common law contracts

All employees are appointed under the APRA Act.

As at 30 June 2020, there were 669 employees covered by the terms of the APRA Employment Agreement 2018. The APRA Employment Agreement 2018 commenced on 9 December 2018 for a three-year term, with a nominal expiry date of 8 December 2021.

APRA's 139 senior employees were covered by common-law agreements.

APRA applies a total remuneration package (TRP) approach whereby all salary, superannuation and 'salary-sacrifice' benefits are included in an employee's TRP.

Table 1 − TRP ranges for non-executive employees as at 30 June 2020

	Level 1	Level 2	Level 3	Level 4
Maximum	$71,464	$107,639	$156,022	$221,826
Minimum	$49,148	$64,582	$93,658	$133,050

Commonwealth Ombudsmen

The Commonwealth Ombudsman did not undertake any investigation into APRA's conduct in 2019/20.

Commonwealth procurement rules

The APRA Chair's Finance Instructions and Finance Policies (CFIs) and associated operational procedures, ensure that APRA's procurement process complies with the Commonwealth Procurement Rules (CPRs). In particular, they ensure that the core procurement principle of value-for-money is observed.

APRA conducts its procurement processes within the CPRs, including but not limited to:

- engaging indigenous suppliers for procurements between $80,000 and $200,000 as required under the Indigenous Procurement Policy;
- conducting open tenders for procurement activities of more than $200,000 (unless otherwise exempted under the CPRs);
- reporting all procurements over $10,000 on AusTender; and
- providing a link on APRA's website to the AusTender report on all purchases over $100,000.

In 2019/20, APRA had no AusTender-exempt contracts. As required under the CPRs, all APRA competitively tendered contracts over $100,000 provide for the Auditor-General to have access to the contractor's premises.

Procurement initiatives to support small business

APRA supports small business participation in the Commonwealth Government procurement market. Small and medium enterprises (SME) and small enterprise participation statistics are available on the Department of Finance's website:

www.finance.gov.au/procurement/statisticson-commonwealth-purchasing-contracts/

APRA's procurement activities that support small business are consistent with paragraph 5.5, 5.6 and 5.7 of the CPRs and include:

- using the Commonwealth Contracting Suite for low-risk procurements valued under $200,000;
- prequalified panels with SME providers;
- payments via electronic systems; and
- meeting the objective of paragraph 5.6 of the CPRs on sourcing over 10 per cent of procurements through SME providers.

Consultancies

APRA's CFIs and associated operational procedures, include specific provisions on consultants.

APRA engages consultants where it lacks specialist expertise or when independent research, review or assessment is required. Consultants are typically engaged to investigate or diagnose a defined issue or problem; carry out defined reviews or evaluations; or provide independent advice, information or solutions to assist in APRA's decision-making. Prior to engaging consultants, APRA considers the skills and resources required for the task, the skills available in-house, and the cost-effectiveness of engaging external expertise. The decision to engage a consultant is made in accordance with legislation, CPRs and internal policies.

During 2019/20, APRA entered into a total of seven new consultancy contracts involving a total expenditure of $670,716. Information on the value of contracts and consultancies is available on the AusTender website: www.tenders.gov.au

Table 2 – Number of consultants and expenditure - 2019/20

	Total
Number of new contracts entered into during the period	7
Total actual expenditure during the period on new contracts (excl. GST)	$670,716
Number of ongoing contracts engaging consultants that were entered into during a previous period	0
Total actual expenditure during the period on ongoing contracts (excl. GST)	0

Consultative arrangements

APRA consults extensively with regulated entities, industry bodies and other interested parties prior to finalising prudential policies, including new or amended prudential standards and reporting standards, as well as formal prudential guidance.

APRA complies with the Government's policy on best practice regulation. During 2019/20, APRA finalised three Regulation Impact Statements. In addition, APRA completed eight preliminary assessments; of these, the Office of Best Practice Regulation (OBPR) advised that further regulatory impact analysis was required for three.

Courts and tribunals

Over 2019/20, there were no judicial decisions that had, or may have, a significant effect on APRA's operations. There was one court decision relating to enforcement action taken by APRA during the year.

Executive remuneration

APRA's Board members' remuneration is determined by Remuneration Tribunal determinations. The Senior Executives are remunerated through a common law contract and APRA's remuneration policies. All employees have a fixed salary component as their primary income with a discretionary bonus ('at risk' component) which is based on performance and in line with APRA's performance policy. All decisions relating to Executive remuneration are governed by the APRA Board. The Executive Committee approves remuneration review adjustments for all other employees.

Remuneration for key management personnel earned in 2019/20

Name	Position title	Short-term benefits			Post-employment benefits	Other long-term benefits		Termination benefits	Total remuneration
		Base salary	Bonuses	Other benefits and allowances[1]	Superannuation contributions	Long service leave[2]	Other long-term benefits		
Wayne Byres	Chair	720,425	-	82,251	113,593	81,811	-	-	998,081
Helen Rowell	Deputy Chair	719,629	-	100	25,000	45,074	-	-	789,803
John Lonsdale	Deputy Chair	643,445	-	6,405	89,082	31,142	-	-	770,074
Geoff Summerhayes	Member	654,883	-	19,875	25,000	24,276	-	-	724,033
Total		**2,738,382**	**-**	**108,631**	**252,675**	**182,303**	**-**	**-**	**3,281,991**

[1] Other benefits and allowances include non-reportable fringe benefit amounts.
[2] Long service leave balances include the annual accrual and any revaluation impacts.
Note: Differences in the key management personnel figures and those provided by the Remuneration Tribunal are related to leave earned and leave revalued during the year.

Remuneration for senior executives in 2019/20

		Short-term benefits			Post-employment benefits	Other long-term benefits		Termination benefits	Total remuneration
Total remuneration bands	Number of senior executives	Average base salary	Average bonuses[1]	Average other benefits and allowances	Average superannuation contributions	Average long service leave[2]	Average other long-term benefits	Average termination benefits	Average total remuneration
$0 - $220,000	14	106,322	4,704	190	10,482	(8,863)	-	-	112,836
$220,001 - $245,000	1	186,147	-	100	19,350	20,934	-	-	226,530
$270,001 - $295,000	1	193,092	32,824	-	34,848	19,243	-	-	280,007
$320,001 - $345,000	9	294,537	390	100	25,022	13,497	-	-	333,546
$345,001 - $370,000	9	313,415	659	100	27,881	14,565	-	-	356,621
$395,001 - $420,000	1	357,812	-	100	25,000	21,456	-	-	404,368
$420,001 - $445,000	1	397,136	6,650	100	25,000	9,783	-	-	438,668
$470,001 - $495,000	3	449,128	-	100	25,000	15,027	-	-	489,255
$495,001 - $520,000	1	464,810	-	100	25,000	29,205	-	-	519,115
Total number of executives	**40**								

[1] Average bonus figures represent awards to senior staff who performed executive roles in an acting capacity throughout the year, and accrued but not paid bonuses held over from the 2018/19 financial year. No bonuses were accrued for substantive executives for 2019/20.
[2] Long service leave balances include the annual accrual, write-backs from staff leaving with less than ten years service and any revaluation impacts.

Remuneration for highly paid staff earned in 2019/20

		Short-term benefits			Post-employment benefits	Other long-term benefits		Termination benefits	Total remuneration
Total remuneration bands	Number of other highly paid staff	Average base salary	Average bonuses	Average other benefits and allowances[1]	Average superannuation contributions	Average long service leave[2]	Average other long-term benefits	Average termination benefits	Average total remuneration
$225,001 - $245,000	38	190,791	14,877	225	19,036	9,216	-	-	234,144
$245,001 - $270,000	33	202,392	18,811	97	21,609	9,022	-	4,868	256,798
$270,001 - $295,000	24	218,017	21,452	100	26,388	14,086	-	-	280,043
$295,001 - $320,000	5	238,261	23,000	100	27,735	13,192	-	-	302,288
$320,001 - $345,000	1	161,916	18,000	123,004	15,870	7,813	-	-	326,602
Total number of highly paid staff	**101**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

[1] Average other benefits and allowances include the fringe benefit costs of offshore relocation expenses provided to employees on secondment.
[2] Long service leave balances include the annual accrual write-backs from staff leaving with less than ten years service and any revaluation impacts.

Indemnities and insurance premiums

APRA Members and officers are covered by the professional indemnity insurance cover of the Commonwealth-managed insurance scheme, Comcover. The generic terms and conditions of the insurance cover provided by Comcover to Commonwealth agencies are available on the Comcover website: www.finance.gov.au/comcover. Under the conditions of the cover, APRA has an obligation not to disclose the nature and limits of liability and the amount of the premium.

Grant programs

The Commonwealth Grants Rules and Guidelines require agencies to publish details of grants on their websites within 14 working days after the funding agreement for the grant takes place. Details must remain on websites for at least two financial years. Grant programs, including discretionary grant programs, that APRA either jointly administered or participated in during 2019/20, including previous recipients of the Brian Gray Scholarship and the University of New South Wales Cooperative Actuarial Scholarship, are available on APRA's website: https://www.apra.gov.au/brian-gray-scholarship-program.

Information on grants awarded by APRA during 2019/20 is available at: https://www.apra.gov.au/grants-and-scholarships

Legal services

The *Legal Services Directions 2017* require Commonwealth agencies to make publicly available information on records of their legal services expenditure for the previous financial year. During 2019/20, APRA's total expenditure on external legal advice and litigation services was $3,363,067 (excluding GST).

Parliamentary committees

Avenues through which APRA is accountable to the Parliament include Parliament's ad hoc and standing committees, and specific references on legislation or issues of particular interest to parliamentary committees.

During 2019/20, APRA Members and executives appeared at public hearings before the:

- Senate Standing Committee on Economics Legislation:
  - Australian Business Growth Fund Bill 2019 on 13 February 2020
- Estimates hearing on 23 October 2019 and 5 March 2020
- House of Representatives Standing Committee on Economics:
  - Inquiry into APRA's Annual Report on 9 August 2019 and 2 December 2019
  - Australia's four major banks and other financial institutions: superannuation sector on 6 June 2020
- Parliamentary Joint Committee on Corporations and Financial for their inquiry into the regulation of auditing in Australia on 7 February 2020
- Select Committee on Financial Technology and Regulatory Technology on 28 February 2020
- Senate Select Committee on COVID-19 on 28 May 2020

During 2019/20, APRA provided a submission to the Select Committee on Financial Technology and Regulatory Technology.

Copies of opening statements delivered as part of APRA's appearances may be downloaded from APRA's website www.apra.gov.au. Transcripts of APRA's Parliamentary appearances and copies of its submissions to parliamentary committees are available from the Parliamentary website www.aph.gov.au.

Performance pay

APRA has a fully discretionary performance bonus system with aligned policy and guidelines around performance expectations.

In May 2020, in response to COVID-19, the Government instructed that within the APS:

- remuneration increases for the general workforce should be deferred for six months; and
- there should be a stay on remuneration increases and bonus payments for employees in the Senior Executive Service (SES).

Although not an APS agency, the APRA Members agreed that APRA should follow the Government's guidance around the deferral of remuneration increases for employees, while also observing the relevant clauses in APRA's Enterprise Agreement and Employment Contracts.

The effect of this decision was that remuneration increases for employees covered by the Employment Agreement (Levels 1-4) and Senior Managers, which would normally have taken effect in July 2020, will not take effect until January 2021. Employees (other than those aligned with the SES) remained eligible to participate in career advancement processes (where relevant) and to receive performance-related bonus payments according to APRA's standard arrangements and timetable. However, for 2019/20 the aggregate bonus pool ($8.3 million) was set at a slightly more conservative level as a percentage of total remuneration than in previous years. Bonuses are only paid to eligible employees still in APRA's employ at the payment date.

For its Senior Leadership Team, APRA placed a stay on all remuneration increases and performance-related bonus payments until further notice.

Privacy Commission

The Office of the Australian Information Commissioner (OAIC) conducted preliminary enquiries into a privacy complaint under section 42 of the *Privacy Act 1988*. However, the OAIC declined to investigate as they determined that APRA did not interfere with the individual's privacy.

The Privacy Commissioner made no determinations under section 52, nor did APRA seek any under section 73.

There were no adverse or favourable comments made by the Privacy Commissioner in respect of APRA's operations. Privacy enquiries relating to APRA sent by post should be addressed to:

Freedom of Information Coordinator
Australian Prudential Regulation Authority
GPO Box 9836
Sydney NSW 2001

Or by phone: 02 9210 3000; fax: 02 9210 3424 or email: foi@apra.gov.au

Responsible Ministers

During the 2019/20 financial year, the Hon. Josh Frydenberg MP had portfolio responsibility for APRA as Treasurer of the Commonwealth of Australia.

Senator the Hon. Jane Hume was the Assistant Minister for Superannuation, Financial Services and Financial Technology during the year.

Significant non-compliance with relevant financial laws

During 2019/20 there were no incidents of material non-compliance with relevant financial laws.

Employee statistics (by FTE)

Table 1 – Ongoing employees 2019/20 by location

Location	Female		Female Total	Male		Male Total	Grand Total
	Full Time	Part Time		Full Time	Part Time		
ADEL	3.0	0.9	3.9	4.0	0.0	4.0	7.9
BRIS	7.0	1.6	8.6	6.0	0.0	6.0	14.6
CANB	0.0	0.0	0.0	5.0	0.0	5.0	5.0
MELB	22.0	6.8	28.8	31.0	2.1	33.1	61.8
SYD	229.0	25.8	254.8	282.0	7.4	289.4	544.2
Total	**261.0**	**35.1**	**296.1**	**328.0**	**9.5**	**337.5**	**633.6**

Table 2 – Non-ongoing employees 2019/20 by location – Fixed-term employees and Senior Managers and above.

Location	Female		Female Total	Male		Male Total	Grand Total
	Full Time	Part Time		Full Time	Part Time		
ADEL	0.0	0.0	0.0	1.0	0.0	1.0	1.0
BRIS	0.0	0.6	0.6	2.0	0.0	2.0	2.6
MELB	6.0	0.0	6.0	5.0	0.6	5.6	11.6
SYD	40.0	6.2	46.2	91.0	0.9	91.9	138
Total	**46.0**	**6.8**	**52.8**	**99.0**	**1.5**	**100.5**	**153.2**

Table 3 – Ongoing employees 2018/19 by location

Location	Female		Female Total	Male		Male Total	Grand Total
	Full Time	Part Time		Full Time	Part Time		
ADEL	3.0	0.9	3.9	5.0	0.0	5.0	8.9
BRIS	6.0	0.9	6.9	6.0	0.0	6.0	12.9
CANB	1.0	0.0	1.0	3.0	0.0	3.0	4.0
MELB	15.0	4.3	19.3	26.0	1.0	27.0	46.3
SYD	189.0	20.0	209.0	249.0	8.2	257.2	466.2
Total	**214.0**	**26.1**	**240.1**	**289.0**	**9.2**	**298.2**	**538.3**

Table 4 – Non-ongoing employees 2018/19 by location – Fixed-term employees and Senior Managers and above.

Location	Female		Female Total	Male		Male Total	Grand Total
	Full Time	Part Time		Full Time	Part Time		
ADEL	0.0	0.0	0.0	1.0	0.0	1.0	1.0
BRIS	1.0	0.0	1.0	1.0	0.0	1.0	2.0
MELB	4.0	0.0	4.0	3.0	0.0	3.0	7.0
SYD	38.0	5.5	43.5	74.0	0.9	74.9	118.4
Total	**43.0**	**5.5**	**48.5**	**79.0**	**0.9**	**79.9**	**128.4**

Table 5 – Ongoing employees 2019/20 – by division

Location	Female		Female Total	Male		Male Total	Grand Total
	Full Time	Part Time		Full Time	Part Time		
BNK	44.0	4.0	48.0	56.0	0.6	56.6	104.6
CID	44.0	7.7	51.7	67.0	1.6	68.6	120.3
ESD	46.0	6.4	52.4	58.0	3.0	61.0	113.4
INS	40.0	5.1	35.1	47.0	0.8	47.8	92.9
PAD	58.0	9.6	67.6	61.0	2.5	63.5	131.1
SUP	28.0	3.3	31.3	39.0	1.0	40.0	71.3
Total	**260.0**	**36.1**	**296.1**	**328.0**	**9.5**	**337.5**	**633.6**

Table 6 – Non-ongoing employees 2019/20 by division – Fixed-term employees and Senior Managers and above.

Location	Female		Female Total	Male		Male Total	Grand Total
	Full Time	Part Time		Full Time	Part Time		
BNK	7.0	0.9	7.9	17.0	0.6	17.6	25.5
CID	4.0	1.9	5.9	20.0	0.9	20.9	26.7
ESD	6.0	1.7	7.7	22.0	0.0	22.0	29.7
INS	13.0	1.4	14.48	19.0	0.0	19.0	33.4
PAD	11.0	0.9	11.9	15.0	0.0	15.0	26.9
SUP	5.0	0.0	5.0	6.0	0.0	6.0	11.0
Total	**46.0**	**6.8**	**52.8**	**99.0**	**1.5**	**100.5**	**153.2**

Table 7 – Ongoing employees 2018/19 – by division

Location	Female		Female Total	Male		Male Total	Grand Total
	Full Time	Part Time		Full Time	Part Time		
COR	39.0	4.2	43.2	46.0	1.9	47.9	91.1
DID	33.0	5	38.0	40.0	0.8	40.8	78.8
EPD	16.0	0.6	16.6	20.0	0.0	20.0	36.6
GOV	4.0	0.0	4.0	2.0	0.0	2.0	6.0
PAD	40.0	7.2	47.2	53.0	2.8	55.8	103.0
RDA	45.0	2.7	47.7	77.0	2.1	79.1	126.8
SID	37.0	6.4	43.4	51.0	1.6	52.6	96.0
Total	**214.0**	**26.1**	**240.1**	**289.0**	**9.2**	**298.2**	**538.3**

Table 8 – Non-ongoing employees 2018/19 by division – Fixed-term employees and Senior Managers and above.

Location	Female		Female Total	Male		Male Total	Grand Total
	Full Time	Part Time		Full Time	Part Time		
COR	8.0	0.9	8.9	15.0	0.0	15.0	23.9
DID	7.0	0.0	7.0	17.0	0.0	17.0	24.0
EPD	7.0	1.2	8.2	2.0	0.0	2.0	10.2
GOV	2.0	0.0	2.0	5.0	0.0	5.0	7.0
PAD	8.0	0.8	8.8	18.0	0.0	18.0	26.8
RDA	6.0	0.8	6.8	14.0	0.9	14.9	21.7
SID	5.0	1.8	6.8	8.0	0.0	8.0	14.8
Total	**43.0**	**5.5**	**48.5**	**79.0**	**0.9**	**79.9**	**128.4**

Agency resources and expenses by outcome

Under the Requirements for annual reports for departments, executive agencies and other non-corporate Commonwealth entities, issued by the Department of Prime Minister and Cabinet, APRA must provide information outlining its various funding sources during the financial year and total expenses for each agency outcome. To this end, APRA's Agency Resource Statement and Expenses by Outcome Statement for 2019/20 are set out below.

Agency resources statement

		Actual available appropriation $'000 (a)	Payments made $'000 (b)	Balance remaining $'000 (a)-(b)
Ordinary annual services				
Departmental appropriation		11,410	11,410	-
Total		11,410	11,410	-
Total available annual appropriations and payments	A	**11,410**	**11,410**	**-**
Special accounts				
Opening balance		71,678		
Appropriation receipts		1,273		
Special appropriation receipts		188,086		
Payments made			188,209	
Total special account	B	**261,037**	**188,209**	**72,828**
Total resources and payments				
A+B		272,447	199,619	72,828
Less appropriation drawn from annual or special appropriations above and credited to special accounts		(11,410)	(11,410)	-
Total net resourcing and payments for APRA		**261,037**	**188,209**	**72,828**

Expenses by outcome statement

Outcome 1: Enhanced public confidence in Australia's financial institutions through a framework of prudential regulation which balances financial safety and efficiency, competition, contestability and competitive neutrality and, in balancing these objectives, promotes financial system stability in Australia.	Budget	Actual expenses	Variation
	$'000	$'000	$'000
	(a)	(b)	(a)-(b)
Program 1.1: Australian Prudential Regulation Authority			
Departmental expenses			
Departmental appropriation[1]	5,473	11,410	(5,937)
Special accounts	178,750	184,819	(6,069)
Total expenses for outcome[1]	**184,223**	**196,229**	**(12,006)**

	Actual 2019/20	Actual 2018/19	Variation
Average staffing level (number)	734	644	90

[1] Departmental appropriation combines 'Ordinary annual services (Appropriation Bill No.1)' and 'Revenue from independent sources'.

Chapter 6 – Financial statements

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* Administered items are distinguished from departmental items throughout these financial statements by background shading.

Statement by the Accountable Authority and the Chief Operating Officer

In our opinion, the attached financial statements for the year ended 30 June 2020 comply with subsection 42(2) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), and are based on properly maintained financial records as per subsection 41(2) of the PGPA Act.

In our opinion, at the date of this statement, there are reasonable grounds to believe that the Australian Prudential Regulation Authority will be able to pay its debts as and when they fall due.

Mr Wayne Byres
Chair

17 August 2020

Mr Steve Matthews
Chief Operating Officer

17 August 2020

Statement of comprehensive income

for the year ended 30 June 2020

	Notes	2020 $'000	2019 $'000
Net cost of services			
Expenses			
Employee benefits	1.1A	**132,774**	112,063
Suppliers	1.1B	**44,333**	37,515
Depreciation and amortisation	2.2	**17,961**	8,535
Grants and scholarships		**103**	119
Finance costs	1.1C	**1,011**	51
Losses from asset disposals		**47**	137
Total expenses		**196,229**	158,420
Own-source revenue			
Revenue from contracts with customers		**2,904**	2,814
Other revenue	1.2A	**1,339**	1,936
Rental income		**38**	43
Total own-source revenue		**4,281**	4,793
Net cost of services		**191,948**	**153,627**
Revenue from Government	1.2B	**188,086**	143,690
Operating deficit		**(3,862)**	(9,937)
Other comprehensive income			
Items not subject to subsequent reclassification to net cost of services			
Increase in asset revaluation reserve		**42**	333
Other comprehensive income		**42**	333
Total comprehensive loss		**(3,820)**	(9,604)

The above statement should be read in conjunction with the accompanying notes.

Statement of financial position
as at 30 June 2020

	Notes	2020 $'000	2019 $'000
Assets			
Financial assets			
Cash and cash equivalents	2.1A	**72,828**	71,678
Trade and other receivables	2.1B	**2,071**	4,579
Total financial assets		**74,899**	76,257
Non-financial assets[1]			
Property, plant and equipment	2.2	**69,685**	20,112
Intangibles	2.2	**37,604**	22,285
Prepayments		**3,756**	3,779
Total non-financial assets		**111,045**	46,176
Total assets		**185,944**	122,433
Liabilities			
Payables			
Suppliers	2.3A	**6,555**	6,964
Other payables	2.3B	**2,937**	26,353
Total payables		**9,492**	33,317
Interest bearing liabilities[2]			
Leases	2.4	**52,232**	-
Total interest bearing liabilities		**52,232**	-
Provisions			
Employee provisions	4.1	**49,697**	44,162
Other provisions	2.5	**12,752**	3,271
Total provisions		**62,449**	47,433
Total liabilities		**124,173**	80,750
Net assets		**61,771**	41,683
Equity			
Contributed equity		**16,657**	16,657
Contingency Enforcement Fund		**12,000**	8,000
Asset revaluation reserve		**7,591**	7,549
Retained surpluses		**25,523**	9,477
Total equity		**61,771**	41,683

The above statement should be read in conjunction with the accompanying notes.

1. Right-of-Use assets are included in Property, plant and equipment
2. APRA has applied AASB 16 using the modified retrospective approach and as such comparative information has not been restated.

Statement of changes in equity
for the year ended 30 June 2020

	2020 $'000	2019 $'000
Contributed equity		
Opening balance	**16,657**	16,657
Closing balance as at 30 June	**16,657**	16,657
Retained surpluses		
Opening balance		
Balance carried forward from previous period	**9,477**	20,413
Opening balance adjustment due to AASB 15	**(888)**	-
Opening balance adjustment due to AASB 16	**24,796**	-
Revised opening balance	**33,385**	20,413
Transfer to Contingency Enforcement Fund	**(4,000)**	(1,000)
Deficit for the period	**(3,862)**	(9,937)
Closing balance as at 30 June	**25,523**	9,477
Asset revaluation reserve		
Opening balance	**7,549**	7,216
Increase in asset revaluation reserve	**42**	333
Closing balance as at 30 June	**7,591**	7,549
Contingency Enforcement Fund		
Opening balance	**8,000**	7,000
Transfer from retained surpluses	**4,000**	1,000
Closing balance as at 30 June	**12,000**	8,000
Total equity		
Opening balance		
Balance carried forward from previous period	**41,683**	51,286
Opening balance adjustment due to AASB 15	**(888)**	-
Opening balance adjustment due to AASB 16	**24,796**	-
Revised opening balance	**65,591**	51,286
Increase in asset revaluation reserve	**42**	333
Deficit for the period	**(3,862)**	(9,937)
Closing balance as at 30 June	**61,771**	41,683

The above statement should be read in conjunction with the accompanying notes.

Cash flow statement

for the year ended 30 June 2020

	Notes	2020 $'000	2019 $'000
Operating activities			
Cash received			
Appropriations		**200,767**	153,078
Rendering of services		**4,380**	4,249
GST received		**6,099**	4,111
Other		**447**	787
Total cash received		**211,693**	162,225
Cash used			
Employees		**(126,077)**	(107,948)
Suppliers		**(39,545)**	(42,083)
Lease liability - Interest payments		**(981)**	-
GST paid		**(271)**	-
Section 74 receipts transferred to Official Public Account (OPA)		**(11,410)**	(9,111)
Total cash used		**(178,284)**	(159,142)
Net cash from operating activities		**33,409**	3,083
Investing activities			
Cash used			
Purchase of property, plant and equipment		**(3,908)**	(3,095)
Purchase / development of software intangibles		**(21,120)**	(11,653)
Net cash used by investing activities		**(25,028)**	(14,748)
Financing activities			
Cash used			
Principal payments of lease liabilities		**(7,231)**	-
Net cash used by financing activities		**(7,231)**	-
Net increase / (decrease) in cash held		**1,150**	(11,665)
Cash and cash equivalents at the beginning of the reporting period		**71,678**	83,343
Cash and cash equivalents at the end of the reporting period	2.1A	**72,828**	71,678

The above statement should be read in conjunction with the accompanying notes.

Administered schedule of comprehensive income

for the year ended 30 June 2020

	Notes	2020 $'000	2019 $'000
Net cost of services			
Expenses			
Risk equalisation payments		**472,666**	463,146
Lloyds Security Trust Deposit interest expense	7.4	**55**	55
Total expenses administered on behalf of Government	7.1	**472,721**	463,201
Income			
Levy revenue			
Risk equalisation levy collections	7.2A	**472,666**	463,146
Financial Institutions Supervisory Levies	7.2A	**237,986**	215,364
Total levy revenue		**710,652**	678,510
Other revenue			
Enforcement recoveries	7.2B	**1,502**	-
Lloyds Security Trust Deposit interest income	7.4	**55**	55
Total other revenue		**1,557**	55
Total income		**712,209**	678,565
Surplus		**239,488**	215,364

The above schedule should be read in conjunction with the accompanying notes.

Administered schedule of assets and liabilities

as at 30 June 2020

	Notes	2020 $'000	2019 $'000
Assets			
Financial assets			
Cash and cash equivalents	7.3A	**835**	835
Receivables	7.3B	**2,197**	2,200
Total assets administered on behalf of Government		**3,032**	3,035
Liabilities			
Lloyds Security Trust Deposit	7.5	**2,000**	2,000
Total liabilities administered on behalf of Government		**2,000**	2,000
Net assets administered on behalf of Government		**1,032**	1,035

The above schedule should be read in conjunction with the accompanying notes.

Administered reconciliation schedule

	Notes	2020 $'000	2019 $'000
Opening assets less liabilities as at 1 July		**1,035**	1,038
Income		**712,209**	678,565
Expenses	7.1	**(472,721)**	(463,201)
Transfers (to) / from the Government:			
Appropriation transfers from Official Public Account (OPA)		**472,666**	463,146
Appropriation transfers to OPA		**(712,157)**	(678,513)
Closing assets less liabilities as at 30 June		**1,032**	1,035

The above schedule should be read in conjunction with the accompanying notes.

Administered cash flow statement

for the year ended 30 June 2020

	Notes	2020 $'000	2019 $'000
Operating activities			
Cash received			
Financial Institutions Supervisory Levies		**237,989**	215,387
Enforcement recoveries		**1,502**	-
Risk equalisation levy collections		**472,666**	463,146
Total cash received		**712,157**	678,533
Cash used			
Financial Institutions Supervisory Levies - refunds made		**-**	(20)
Risk equalisation levy payments		**(472,666)**	(463,146)
Total cash used		**(472,666)**	(463,166)
Net cash received from operating activities		**239,491**	215,367
Cash from Official Public Account for:			
APRA Special Account: Supervisory Levies		**-**	20
Risk equalisation levy collections		**472,666**	463,146
Total cash received from Official Public Account		**472,666**	463,166
Cash to Official Public Account for:			
Financial Institutions Supervisory Levies		**(237,989)**	(215,387)
Enforcement recoveries		**(1,502)**	-
Risk equalisation levy payments		**(472,666)**	(463,146)
Total cash to Official Public Account		**(712,157)**	(678,533)
Net increase / (decrease) in cash held		**-**	-
Cash at the beginning of the reporting period		**835**	835
Cash at the end of the reporting period	7.3	**835**	835

The above statement should be read in conjunction with the accompanying notes.

Overview

Objectives of the Australian Prudential Regulation Authority (APRA)

APRA's mission is to establish and enforce prudential standards and practices designed to ensure that, under all reasonable circumstances, financial promises made by institutions APRA supervises are met within a stable, efficient and competitive financial system. APRA also acts as a national statistical agency for the Australian financial sector and plays a role in preserving the integrity of Australia's retirement incomes policy. In performing and exercising its functions and powers, APRA needs 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. APRA is a not-for-profit entity.

APRA's activities contributing toward these outcomes are classified as either 'departmental' or 'administered'. Departmental activities involve the use of assets, liabilities, revenues and expenses controlled or incurred by APRA in its own right. Administered activities involve the management or oversight by APRA, on behalf of the Government, of items controlled or incurred by the Government.

APRA's continued existence in its present form and with its present programs is dependent on Government policy and on continuing appropriations from Parliament.

Basis of preparation of the financial statements

The financial statements and notes are required by section 42 of the *Public Governance, Performance and Accountability Act 2013* and are general purpose financial statements.

The financial statements and notes have been prepared in accordance with:
- the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* (FRR); and
- Australian Accounting Standards and Interpretations - Reduced Disclosure Requirements issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial statements have been prepared on an accrual basis and in accordance with the historical cost convention, except for certain assets and liabilities that are recognised at fair value. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position. The financial statements are presented in Australian dollars.

New Accounting Standards

AASB 15 & 16 came into effect from 1 July 2019 and were applicable to the current reporting period and had a material effect on APRA's financial statements:

AASB 15 *Revenue from Contracts with Customers*

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including *AASB 118 Revenue, AASB 111 Construction Contracts* and Interpretation 13 *Customer Loyalty Programmes*. The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

APRA adopted AASB 15 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 July 2019. Accordingly, the comparative information presented for 2019 is not restated, that is, it is presented as previously reported under the various applicable accounting standards and related interpretations.

Under the new income recognition model APRA shall first determine whether an enforceable agreement exists and whether the promises to transfer services to the customer are 'sufficiently specific'. If an enforceable agreement exists and the promises are 'sufficiently specific' (to a transaction or part of a transaction), APRA applies the general AASB 15 principles to determine the appropriate revenue recognition. If these criteria are not met, APRA shall consider whether AASB 1058 applies.

In relation to AASB 15, APRA elected to apply the new standard to all new and uncompleted contracts from the date of initial application. APRA is required to aggregate the effect of all of the contract modifications that occur before the date of initial application.

Impact on transition

The impact on transition is summarised below:

Departmental	**1 July 2019 $'000**
Liabilities	
Other payables	888
Total liabilities	**888**
Total adjustment recognised in retained earnings	**(888)**

Set out below are the amounts by which each financial statement line item is affected as at and for the year ended 30 June 2020 as a result of the adoption of AASB 15. The first column shows amounts prepared under AASB 15 and the second column shows what the amounts would have been had AASB 15 not been adopted:

	AASB 15 $'000	**Previous Accounting Standard** $'000	**Increase / (Decrease)** $'000
Revenue			
Other revenue	631	350	281
Total Revenue	**631**	**350**	**281**
Net contribution by services	**631**	**350**	**281**
Assets			
Cash and cash equivalents	350	350	-
Total assets	**350**	**350**	**-**
Liabilities			
Other payables	281	-	(281)
Total liabilities	**281**	**-**	**(281)**
Retained earnings	**(631)**	**(350)**	**281**

AASB 16 *Leases*

This new standard has replaced *AASB 117 Leases,* Interpretation 4 *Determining whether an Arrangement contains a Lease* , Interpretation 115 *Operating Leases - Incentives and* Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease* .

AASB 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, together with options to exclude leases where the lease term is 12 months or less, or where the underlying asset is of low value. AASB 16 substantially carries forward the lessor accounting in AASB 117, with the distinction between operating leases and finance leases being retained. The details of the changes in accounting policies, transitional provisions and adjustments are disclosed below and in the relevant notes to the financial statements.

APRA adopted AASB 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 July 2019. Accordingly, the comparative information presented for 2019 is not restated, that is, it is presented as previously reported under AASB 117 and related interpretations.

APRA elected to apply the practical expedient to not reassess whether a contract is, or contains a lease at the date of initial application. Contracts entered into before the transition date that were not identified as leases under AASB 117 were not reassessed. The definition of a lease under AASB 16 was applied only to contracts entered into or changed on or after 1 July 2019.

AASB 16 provides for certain optional practical expedients, including those related to the initial adoption of the standard. APRA applied the following practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 117:

- Exclude initial direct costs from the measurement of Right-of-Use assets at the date of initial application for leases where the Right-of-Use asset was determined as if AASB 16 had been applied since the commencement date;
- Reliance on previous assessments on whether leases are onerous as opposed to preparing an impairment review under AASB 136 Impairment of assets as at the date of initial application; and
- Applied the exemption not to recognise Right-of-Use assets and liabilities for leases with less than 12 months of lease term remaining as of the date of initial application.

As a lessee, APRA previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Operating leases were previously accounted for on a straight-line basis. Under AASB 16, APRA recognises Right-of-Use assets (RoU) and lease liabilities for most leases. However, APRA has elected not to recognise RoU assets and lease liabilities for some leases of low value or for short-term leases with a lease term of 12 months or less.

On adoption of AASB 16, APRA recognised RoU assets and lease liabilities in relation to leases of office space which had previously been classified as operating leases. APRA has adjusted the RoU assets at the date of initial application by the amount of any provision for onerous leases recognised immediately before the date of application.

The lease liabilities were measured at the present value of the remaining lease payments, discounted using APRA's incremental borrowing rate as at 1 July 2019. APRA's incremental borrowing rate is the rate at which a similar borrowing could be obtained from an independent creditor under comparable terms and conditions. The weighted-average rate applied was 1.9%.

The RoU assets were measured as follows:

- Office space: measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

Impact on transition

On transition to AASB 16, APRA recognised additional Right-of-Use assets and additional lease liabilities, recognising the difference in retained earnings. Previous lease incentive liabilities under AASB 117 were written off to retained earnings on initial adoption of AASB16. The overall impact on transition is summarised below:

	1 July 2019 $'000
Assets	
Right of Use - property, plant and equipment	57,782
Total assets	**57,782**
Liabilities	
Payables	
Other payables - Minimum lease liabilities	(13,753)
Other payables - Lease incentives	(11,043)
Interest bearing liabilities	
Leases	57,782
Total liabilities	**32,986**
Total adjustment recognised in retained earnings	**24,796**

The following table reconciles the minimum lease commitments disclosed in APRA's 30 June 2019 financial statements to the amount of lease liabilities recognised on 1 July 2019:

	1 July 2019 $'000
Minimum operating lease commitment at 30 June 2019	**67,737**
Less: short-term leases not recognised under AASB 16	(255)
Less: lease GST not recognised under AASB 16	(6,191)
Plus: effect of extension options reasonably certain to be exercised	143
Undiscounted lease payments	**61,434**
Less: effect of discounting using the incremental borrowing rate as at the date of initial application	(3,652)
Lease liabilities recognised at 1 July 2019	**57,782**

Taxation

APRA is exempt from all forms of taxation except Fringe Benefits Tax (FBT) and Goods and Services Tax (GST).

Reporting of administered activities

Administered revenues, expenses, assets, liabilities and cash flows are disclosed in the Administered Schedules and related notes. These administered items are distinguished from departmental items throughout these financial statements by background shading.

Except where otherwise stated below, administered items are accounted for on the same basis and using the same policies as for departmental items, including the application of Australian Accounting Standards.

Events after the reporting period

Departmental

There were no significant events occurring after the statement of financial position date that have the potential to significantly affect the ongoing structure or financial activities of APRA.

Administered

There were no significant events occurring after the statement of financial position date that have the potential to significantly affect the administered activities of APRA.

FINANCIAL PERFORMANCE

This section analyses the financial performance of the Australian Prudential Regulation Authority for the year ended 30 June 2020.

1.1 Expenses

1.1A: Employee benefits

	2020 $'000	2019 $'000
Wages and salaries	**105,421**	87,052
Superannuation		
Defined benefit plans	**1,167**	1,288
Defined contribution plans	**10,071**	8,358
Leave and other entitlements	**14,764**	14,501
Separation and redundancies	**471**	706
Other employee benefits	**880**	158
Total employee benefits	**132,774**	112,063

Accounting policy

Employee benefits

Accounting policies for employee-related expenses are detailed in section 4: People and relationships.

1.1B: Suppliers

	2020 $'000	2019 $'000
Services rendered		
Professional services & consultants	**20,732**	13,915
Information, communication and technology	**5,810**	4,631
Contractors	**8,193**	3,838
Administrative	**3,214**	3,183
Property	**2,500**	2,286
Travel-related	**1,631**	2,233
Training and conferences	**1,801**	1,644
Other	**5**	-
Total services rendered	**43,886**	31,730
Other suppliers		
Operating lease rentals[1]	**253**	5,563
Workers compensation expenses	**194**	222
Total other suppliers	**447**	5,785
Total suppliers	**44,333**	37,515

1. APRA has applied AASB 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under AASB 117.

Accounting policy

Short-term leases and leases of low value assets

APRA has elected not to recognise right-of-use assets and lease liabilities for short-term leases of assets that have a lease term of 12 months or less and leases of low-value assets (less than $10,000). Correspondingly, payments under an operating lease (minimum lease payments) are expensed on a straight-line basis which is representative of the pattern of benefits received.

1.1 Expenses - continued

1.1C: Finance costs

	2020 $'000	2019 $'000
Interest on lease liabilities[2]	**981**	-
Adjustment to discount on restoration provisions	**25**	84
Bond rate movement	**-**	(44)
Banking fees	**5**	11
Total finance costs	**1,011**	51

2. APRA has applied AASB 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under AASB 117.

The above lease disclosures should be read in conjunction with the accompanying notes 2.2 and 2.4.

1.2 Own-source revenue and gains

	Notes	2020 $'000	2019 $'000
1.2A: Other revenue			
Licence fees from finance sector entities		**631**	1,125
Resources received free of charge		**240**	640
Superannuation trustee application fees		**-**	35
Fees from foreign bank representative offices		**58**	33
Other		**410**	103
Total other revenue		**1,339**	1,936

Accounting policies

Rendering of services and other revenue

Revenue from rendering of services is recognised by reference to the stage of completion of contracts at the reporting date. The revenue is recognised when:

- the amount of revenue, stage of completion and transaction costs incurred can be reliably measured; and
- the probable economic benefits associated with the transaction will flow to APRA.

The stage of completion of contracts at the reporting date is determined by how the proportion of costs incurred to date relate to the estimated total cost of the transaction.

Revenue and receipts from sources other than an Appropriation Act are classified as Section 74 receipts.

Receivables for services, which have 30-day terms, are recognised at the nominal amounts due less any impairment allowance. Collectability of debts is reviewed at balance date. Allowances are made when collectability of the debt is no longer probable.

Resources received free of charge

Resources received free of charge are recognised as revenue or gains when, and only when, a fair value can be reliably determined and the services would have been purchased if they had not been donated. Use of those resources is recognised as an expense. Resources received free of charge are recorded as either revenue or gains depending on their nature. The resources received free of charge by APRA are audit services from the Australian National Audit Office (ANAO) of $240,000 (2019: $240,000) and some research work valued at $400,000 in 2019.

	Notes	2020 $'000	2019 $'000
1.2B: Revenue from Government			
Appropriations:			
Special appropriation	6.1	**188,086**	143,564
Departmental appropriation		**-**	126
Total revenue from Government		**188,086**	143,690

Accounting policy

Revenue from Government

Amounts appropriated for the year (adjusted for any formal additions and reductions) are recognised as revenue from Government when APRA gains control of the appropriation, except for certain amounts that relate to activities that are reciprocal in nature, in which case revenue is recognised only when it has been earned.

Appropriations receivable are recognised at their nominal amounts.

FINANCIAL POSITION

This section analyses the Australian Prudential Regulation Authority's assets used to conduct its operations and the operating liabilities incurred as a result.

Employee-related information is disclosed in the People and Relationship section (section 4).

2.1 Financial assets

	2020 $'000	2019 $'000
2.1A: Cash and cash equivalents		
Cash in special account	**69,275**	68,840
Cash on hand or on deposit	**3,553**	2,838
Total cash and cash equivalents	**72,828**	71,678
2.1B: Trade and other receivables		
Services receivable		
Services receivable	**1,563**	2,700
Total services receivable	**1,563**	2,700
Appropriations receivable		
Appropriation receivable	**-**	1,270
Special appropriations receivable	**-**	3
Total appropriations receivable	**-**	1,273
Other receivables		
GST receivable from the Australian Taxation Office	**392**	542
Other	**116**	64
Total other receivables	**508**	606
Total trade and other receivables (gross)	**2,071**	4,579
Less: impairment loss allowance	**-**	-
Total trade and other receivables (net)	**2,071**	4,579

Credit terms for services rendered were within 30 days (2019: 30 days).

Accounting policies

Financial assets

Trade receivables, loans and other receivables that are held for the purpose of collecting the contractual cash flows where the cash flows are solely payments of principal and interest, that are not provided at below-market interest rates, are subsequently measured at amortised cost using the effective interest method adjusted for any loss allowance.

Impairment of financial assets

Financial assets are individually assessed for impairment at each balance date.

2.2 Non-financial assets

2.2: Reconciliation of the opening and closing balances of property, plant and equipment and intangibles - 2020

	Right of Use lease assets $'000	Leasehold improvements $'000	Computer hardware and office equipment $'000	Total property plant and equipment $'000	Computer software internally developed $'000	Computer software purchased $'000	Total intangibles $'000	Grand Total $'000
As at 1 July 2019								
Gross book value	-	21,927	7,325	**29,252**	58,309	8,977	**67,286**	**96,538**
Accumulated depreciation, amortisation and impairment	-	(6,623)	(2,517)	**(9,140)**	(37,020)	(7,981)	**(45,001)**	**(54,141)**
Net book value from previous period	**-**	**15,304**	**4,808**	**20,112**	**21,289**	**995**	**22,285**	**42,397**
Opening adjustment due to AASB 16	57,786	-	-	**57,786**	-	-	**-**	**57,786**
Adjusted net book value 1 July 2019	**57,786**	**15,304**	**4,808**	**77,898**	**21,289**	**995**	**22,285**	**100,183**
Additions:								
By purchase	1,727	472	1,709	**3,908**	-	702	**702**	**4,610**
Internally developed	-	-	-	**-**	20,418	-	**20,418**	**20,418**
Reclassification	-	(104)	467	**363**	16	(379)	**(363)**	**-**
Assets assessed as impaired at 30 June 2020[1]	-	-	-	**-**	(369)	-	**(369)**	**(369)**
Revaluations recognised in other comprehensive income	3	452	-	**455**	-	-	**-**	**455**
Depreciation and amortisation:								
Depreciation and amortisation expense	(8,694)	(2,456)	(1,722)	**(12,872)**	(4,711)	(378)	**(5,089)**	**(17,961)**
Reclassification	-	-	(63)	**(63)**	-	63	**63**	**-**
Disposals:								
Write-off (at cost)	-	(523)	(18)	**(541)**	(370)	(176)	**(546)**	**(1,087)**
Write-off (accumulated depreciation)	-	523	14	**537**	362	141	**503**	**1,040**
Net book value 30 June 2020	**50,822**	**13,668**	**5,195**	**69,685**	**36,635**	**969**	**37,604**	**107,289**
Net book value as at 30 June 2020 represented by:								
Gross book value	59,516	22,224	9,483	**91,223**	78,004	9,123	**87,127**	**178,350**
Accumulated depreciation, amortisation and impairment	(8,694)	(8,556)	(4,288)	**(21,538)**	(41,369)	(8,154)	**(49,523)**	**(71,061)**
Net book value 30 June 2020	**50,822**	**13,668**	**5,195**	**69,685**	**36,635**	**969**	**37,604**	**107,289**

[1] $1.1 million of internally developed assets were assessed as being impaired at 30 June 2020. $0.8 million of this amount has been reversed through the statement of comprehensive income as the related expenditure was incurred during the 2019/20 financial year.

Revaluations of non-financial assets

Revaluations are conducted in accordance with the revaluation policy stated in Note 2.2. Due to the COVID-19 pandemic, a desktop revaluation was undertaken by an independent valuer in May 2020 and revaluation adjustments have been applied as appropriate.

No significant non-financial assets are expected to be sold, disposed of or retired within the next 12 months.

No material contractual commitments for the purchase of property, plant and equipment and intangible assets currently exist.

2.2 Non-financial assets - continued

Accounting policies

Assets are recorded at cost on acquisition, except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken. Financial assets are initially measured at their fair value plus transaction costs where appropriate.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and income at their fair value at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. In the latter case, assets are initially recognised as contributions by owners at the amounts at which they were recognised in the transferor's accounts immediately prior to the restructuring.

Asset recognition threshold

Purchases of leasehold improvements and computer hardware / software are initially recognised at cost in the statement of financial position, except for purchases costing less than $5,000, which are expensed in the year of acquisition (other than where they form part of a group of similar items that are significant in total).

The initial cost of an asset includes an estimate of the cost of dismantling and removing the item and restoring the site on which it is located. This is particularly relevant to restoration provisions in property leases where there exists an obligation to restore the property to its original condition. These costs are included in the value of APRA's leasehold improvements with a corresponding provision for the restoration recognised.

Lease Right of Use (RoU) Assets

Leased RoU assets are capitalised at the commencement date of the lease and comprise the initial lease liability amount, direct costs incurred when entering into the lease less any lease incentives received. These assets are accounted for by APRA as separate asset classes to assets owned outright, but included in the same column as where the corresponding underlying assets would be presented if they were owned.

Following initial application, an impairment review is undertaken for any Right of Use lease asset that shows indicators of impairment and an impairment loss is recognised against any Right of Use lease asset that is impaired. Lease RoU assets continue to be measured at cost after initial recognition in the financial statements.

Revaluations

Following initial recognition at cost, property, plant and equipment (excluding RoU assets) are carried at fair value, less subsequent accumulated depreciation and accumulated impairment losses. Valuations are conducted with sufficient frequency such that the carrying amounts of assets do not differ materially from the assets' fair values at the reporting date. The regularity of independent valuations depend on the volatility of movements in market values for the relevant assets. APRA conducts such valuations every three years as at 30 June (last valuation occurred in May 2020). For 2020 a desktop valuation was undertaken.

Revaluation adjustments are made on a class basis. Any revaluation increment is credited to equity under the heading of asset revaluation reserve except to the extent that it reversed a previous revaluation decrement of the same asset class that was previously recognised in the surplus / deficit. Revaluation decrements for a class of assets are recognised directly in the surplus / deficit except to the extent that they reversed a previous revaluation increment for that asset class.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the asset restated to the revalued amount.

2.2 Non-financial assets - continued

Depreciation
Depreciable computer hardware / software assets are written-off over their estimated useful lives to APRA using, in all cases, the straight-line method of depreciation. Leasehold improvements are depreciated on a straight-line basis over the lesser of the estimated useful life of the improvements or the unexpired period of the lease.

Depreciation rates (useful lives) and residual values and methods are reviewed at each reporting date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate.

Depreciation rates applying to each class of depreciable asset are based on the following useful lives:

	2020	2019
Right of Use finance lease assets*	Lease term	Not applicable
Leasehold improvements	Lesser of 10 years or lease term	Lesser of 10 years or lease term
Computer hardware & Intangibles	3 to 5 years	3 to 5 years

* The depreciation rates for RoU assets are based on the commencement date to the earlier of the end of the useful life of the RoU asset or the end of the lease term.

Impairment
All assets were assessed for indications of impairment as at 30 June 2020. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset. Where the future economic benefit of an asset is not primarily dependent on the asset's ability to generate future cash flows, and the asset would be replaced if APRA were deprived of the asset, its value in use is taken to be its depreciated replacement cost.

Derecognition
Leasehold improvements or computer hardware / software are derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Intangibles
APRA's intangibles comprise internally developed software and purchased software for internal use. These assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Software is amortised on a straight-line basis over its anticipated useful life. The useful lives of APRA's software are 3 to 5 years (2019: 3 to 5 years).

All software assets were assessed for indications of impairment as at 30 June 2020.

Significant accounting judgements and estimates
Management performs a detailed review each reporting period to assess whether there are any indicators of impairment. This review involves the use of management judgement.

2.3 Payables

	2020 $'000	2019 $'000
2.3A: Suppliers		
Trade creditors and accruals	**6,555**	6,964
Total suppliers	**6,555**	6,964

Suppliers are expected to be settled in less than 12 months.

	2020 $'000	2019 $'000
2.3B: Other payables		
Minimum lease liabilities[1]	**-**	13,774
Lease incentives[1]	**-**	11,088
Salaries and wages	**1,982**	840
Unearned revenue	**667**	354
GST payable to the Australian Taxation Office	**248**	245
Other	**40**	52
Total other payables	**2,937**	26,353
Total payables	**9,492**	33,317

[1.] APRA has applied AASB 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under AASB 117.

Accounting policy

Financial liabilities

APRA classifies its financial liabilities as 'payables'. Supplier and other payables are recognised at amortised cost.

Liabilities are recognised to the extent that the goods or services have been received, irrespective of having been invoiced.

2.4 Interest bearing liabilities

	2020 $'000	2019 $'000
2.4: Leases		
Lease liabilities[1]	**52,232**	-
Total lease liabilities	**52,232**	-

[1.] APRA has applied AASB 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under AASB 117.

Total cash outflow for leases for the year ended 30 June 2020 was $8,212,000.

Accounting policy

Leases

Refer to Overview section for accounting policy on leases.

2.5 Other provisions

	Leasehold improvements provision for restoration $'000	Legal costs provision $'000	**Total other provisions $'000**
Carrying amount as at 1 July	3,271	**-**	**3,271**
Additional provisions made	456	9,000	**9,456**
Adjustment to discount on restoration provisions	25	-	**25**
Closing balance as at 30 June	**3,752**	**9,000**	**12,752**

At 30 June 2020, APRA leased premises in Sydney, Melbourne, Brisbane, Canberra and Adelaide.

In the lease conditions of the Sydney (1 Martin Place), Melbourne and Adelaide locations there is a requirement for APRA, upon expiration of the lease, to restore the premises to the original condition they were in at the conclusion of the lease. For the other locations the requirement is to leave the premises in a clean & tidy condition at the end of the lease. APRA has made the required provisions to reflect the present value of these obligations.

Significant accounting judgements and estimates

Estimated cost per square metre ($ sqm) to restore the leased properties to the required condition are:
Sydney (1 Martin Place) - $375 sqm; Sydney (9 Castlereagh Street) - $75 sqm; Melbourne - $300 sqm; Adelaide - $150 sqm; Canberra - $80 sqm and Brisbane - $60 sqm.

These estimates have been based on input from a recent valuation undertaken.

The legal costs provision has been based on an initial claim, received just prior to finalising the financial statements, for court-awarded counterparty costs provided to APRA. The quantum of the provision is not an indication of APRA's acceptance of the costs as presented. APRA will rigorously assess the claim and this assessment may result in a lower final settlement amount.

Accounting policy

Leasehold improvements provision for restoration

Leasehold improvements provisions for restoration are initially measured at fair value, net of transaction costs. These are adjusted each year using an effective interest rate method to estimate the present value of the future obligation at the end of the reporting period. The effective interest rate is the rate that exactly discounts the estimated future cash payments at the end of the expected life of the provision.

The annual adjustment to the provision is recognised in the statement of comprehensive income as an expense or gain as required.

Legal costs provisions

Legal costs provisions reflect best estimates available at the time of the signing of the financial statements. These estimates may be derived from APRA's previous experience of court cases and costs incurred, or may be based on indications of claims received from counterparties. Final settlement amounts as such may differ to the amount provided.

Upon conclusion of a legal matter APRA may access its Contingency Enforcement Fund (CEF), if it meets the requirements of the fund (see Statement of changes in equity).

FUNDING

This section identifies the Australian Prudential Regulation Authority's funding structure.

3.1 Appropriations

3.1A: Annual appropriations ('recoverable GST exclusive')

Annual appropriations for 2020

	Annual appropriation	Adjustments to appropriation[1]	Total appropriation	Appropriation applied in 2020 (current and prior years)	Variance[2]
	$'000	$'000	$'000	$'000	$'000
Departmental					
Ordinary annual services	-	11,410	11,410	11,410	-
Total departmental	-	11,410	11,410	11,410	-
Administered					
Other services					
New administered outcomes	-	-	-	-	-
Total administered	-	-	-	-	-

Annual appropriations for 2019

	Annual appropriation	Adjustments to appropriation[1]	Total appropriation	Appropriation applied in 2019 (current and prior years)	Variance[2]
	$'000	$'000	$'000	$'000	$'000
Departmental					
Ordinary annual services	126	9,111	9,237	7,967	1,270
Total departmental	126	9,111	9,237	7,967	1,270
Administered					
Other services					
New administered outcomes	-	-	-	-	-
Total administered	-	-	-	-	-

[1] PGPA Act Section 74 receipts

[2] The variance between the total appropriation and the appropriation applied is undrawn appropriations at year end relating to section 74 receipts submitted to the Official Public Account.

3.1 Appropriations - continued

3.1B: Unspent annual appropriations ('recoverable GST exclusive')

	2020 $'000	2019 $'000
Departmental		
Appropriation Act (No. 1) 2019-20	-	-
Appropriation Act (No. 1) 2018-19	-	1,270
Total	-	1,270

3.1C: Special appropriations applied ('recoverable GST exclusive')

Authority	Type	Purpose	Appropriation applied 2020 $'000	Appropriation applied 2019 $'000
Australian Prudential Regulation Authority Act 1998 – section 50, Departmental	Unlimited	To provide an appropriation for levy money received that exceeds the amount determined by the Minister under section 50(1) of the *Australian Prudential Regulation Act 1998.*	**188,086**	143,564
Total			**188,086**	143,564

3.2 Special Accounts

	APRA Special Account (Departmental)[1]		Financial Claims Scheme Special Account (Administered)[2]		Risk Equalisation Special Account (Administered)[3]	
	2020 $'000	2019 $'000	**2020 $'000**	2019 $'000	**2020 $'000**	2019 $'000
Balance brought forward from previous period	**71,678**	83,343	**835**	835	**-**	-
Increases:						
Total departmental increases	**211,693**	162,225	**-**	-	**-**	-
Special appropriation for reporting period	**-**	-	**-**	-	**472,666**	463,146
Total administered increases	**-**	-	**-**	-	**472,666**	463,146
Available for payments	**283,371**	245,568	**835**	835	**472,666**	463,146
Decreases:						
Total departmental decreases	**(210,543)**	(173,890)	**-**	-	**-**	-
Administered						
Repayments made from the Special Account	**-**	-	**-**	-	**(472,666)**	(463,146)
Total administered decreases	**-**	-	**-**	-	**(472,666)**	(463,146)
Balance represented by						
Cash in APRA official bank accounts	**3,553**	2,838	**-**	-	**-**	-
Cash with the Official Public Account (OPA)	**69,275**	68,840	**835**	835	**-**	-
Total balance carried to the next period	**72,828**	71,678	**835**	835	**-**	-

3.2 Special Accounts - continued

[1] Appropriation: *Public Governance, Performance and Accountability Act 2013, section 80.*
Establishing Act: *Australian Prudential Regulation Authority Act 1998, section 52.*
Purpose: To pay the costs and other obligations incurred by APRA in the performance of its functions or the exercise of its powers; to pay any remuneration or allowances payable to persons appointed or engaged under the APRA Act; and to make any other payments that APRA is authorised or required to make under the APRA Act or any other law of the Commonwealth (refer subsection 54(1) of the *Australian Prudential Regulation Authority Act 1998).*

[2] Appropriation: *Public Governance, Performance and Accountability Act 2013, section 80.*
Establishing Act: *Australian Prudential Regulation Authority Act 1998, section 54A.*
There were no transactions debited or credited to the Financial Claims Scheme Special Account in the current reporting period.
Purpose: To meet account-holders' entitlements under Subdivision C (Payment of account-holders with declared ADI) of Division 2AA of Part II of the *Banking Act 1959*; meet persons' entitlements under Division 3 (Early payment of claims) of Part VC of the *Insurance Act 1973*; pay APRA's agents or delegates amounts equal to the entitlements the agents or delegates meet on APRA's behalf or in the performance of APRA's delegated functions; and repayment of principal, interest and other costs connected with the borrowings under Part 5, Division 2 of the APRA Act (refer to section 54C of the *Australian Prudential Regulation Authority Act 1998*).

[3] Appropriation: *Public Governance, Performance and Accountability Act 2013, section 80.*
Establishing Act: *Private Health Insurance Act 2007, section 318-1.*
There were 146 (2019: 148) transactions debited and credited to the Risk Equalisation Special Account in the current reporting period.
Purpose: To make payments to private health insurers in accordance with the *Private Health Insurance (Risk Equalisation Policy) Rules 2015* (refer to section 318-10 of the *Private Health Insurance Act 2007*).

<u>Collapsed Insurer Special Account</u>
Appropriation: *Public Governance, Performance and Accountability Act 2013, section 80*.
Establishing Act: *Australian Prudential Regulation Authority Act 1998, section 54F*.
There were no transactions debited or credited to the Collapsed Insurer Special Account in the current reporting period, which keeps the account with a $nil balance.
Purpose: To make payments to help meet a collapsed insurer's liabilities to the people insured under its complying health insurance policies that the collapsed insurer is unable to meet itself; to make payments by way of refund of amounts paid by way of the collapsed insurer levy or late payment penalty in respect of unpaid amounts of the collapsed insurer levy; and to meet APRA's associated administrative costs under subsection 54H(1) of the *Australian Prudential Regulation Authority Act 1998*.

3.3 Regulatory charging summary

	2020 $'000	2019 $'000
Amounts applied		
Departmental		
Special appropriations (including special accounts)	**188,086**	143,564
Own source revenue	**4,003**	4,474
Administered	**-**	-
Total amounts applied	**192,089**	148,038
Expenses		
Departmental	**195,951**	157,974
Administered	**-**	-
Total expenses	**195,951**	157,974
External revenue		
Departmental	**192,089**	148,038
Administered	**-**	-
Total revenue	**192,089**	148,038

Regulatory charging activities:

- Financial Industry Supervisory Levies
- Statistical information provided to RBA
- Statistical information provided to ABS
- Assessment of models-based capital adequacy requirements for ADIs - Basel II
- Committed Liquidity Facility (CLF) reviews, assessment, size determination and approvals for ADIs - Basel III

Cost recovery implementation statements for the above activities, excluding charges to the RBA and ABS as these are intra-governmental, are available at:

https://www.apra.gov.au/adis-fees-and-levies

PEOPLE AND RELATIONSHIPS

This section describes a range of employment and post employment benefits provided to our people and our relationships with other key people.

4.1 Employee provisions

	2020 $'000	2019 $'000
4.1: Employee provisions		
Leave	**41,340**	36,362
Other employee provisions	**8,357**	7,800
Total employee provisions	**49,697**	44,162

Accounting policies

Liabilities for 'short-term employee benefits' and termination benefits expected within 12 months of the balance date are measured at their nominal amounts.

All other long-term employee benefits are measured as the net total of the present value of the defined benefit obligation at the end of the reporting period minus the fair value at the end of the reporting period of plan assets (if any) out of which the obligations are to be settled directly.

Leave

The liability for employee benefits includes provision for annual leave and long service leave.

The annual and long service leave liabilities are calculated on the basis of employees' remuneration at the estimated salary and superannuation rates that will be applied at the time the leave is taken during service rather than paid out on termination. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

Separation and redundancy

Provision is made for separation and redundancy benefit payments in cases where APRA has developed a detailed formal plan for the terminations, and has informed those employees affected that it will carry out the terminations.

Superannuation

Certain employees of APRA are members of the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS). The CSS and PSS are defined benefit schemes for the Australian Government. The liability for defined benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course. This liability is reported in the Department of Finance's administered schedules and notes.

APRA makes employer contributions to the employees' superannuation scheme at rates determined by an actuary to be sufficient to meet the current cost to the Government. APRA accounts for the contributions as if they were contributions to defined contribution plans. APRA also makes employer contributions to the Reserve Bank Officers' Superannuation Fund and to State-based superannuation schemes for former employees of the Reserve Bank of Australia and State-based regulators respectively. These are defined benefit schemes and the liability for the defined benefits are recognised in the financial statements of the relevant fund.

For all other employees, employer contributions are made to the PSS accumulation plan or other superannuation (accumulation) funds as nominated by the employee.

Significant accounting judgements and estimates

The employee leave provision has been determined by reference to standard parameters provided by the Department of Finance as well as an estimate of the proportion of leave likely to be taken in-service as compared to taken on termination. The leave taken was analysed given the current pandemic and reviewed against the estimated leave to be taken and factored into the calculation. The salary growth rate assumption used in the calculation was 3.5%.

4.2 Key management personnel remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. In 2019/20 APRA has determined the key management personnel to be the Cabinet Ministers and the APRA Members.

The key management personnel remuneration reported here excludes the remuneration and other benefits of the Cabinet Ministers. Their remuneration and other benefits are set by the Remuneration Tribunal and are not paid by APRA.

The total number of key management personnel included in the table below are: 4 (2019: 4).

2019/20 APRA key management personnel	**Position**	**Period**
Wayne Byres	Chair	Full Year
Helen Rowell	Deputy Chair	Full Year
John Lonsdale	Deputy Chair	Full Year
Geoff Summerhayes	Member	Full Year

Key management personnel remuneration is reported in the table below:

	2020	2019
	$'000	$'000
Short-term employee benefits	**2,847**	2,577
Post-employment benefits	**253**	213
Other long-term benefits	**182**	284
Total key management personnel remuneration expenses	**3,282**	3,074

4.3 Related party disclosures

Related party relationships
APRA is an Australian Government controlled entity. Related parties to APRA are the key management personnel, including Cabinet Ministers and other Australian Government entities.

Transactions with related parties
Given the breadth of Government activities, related parties may transact with the government sector in the same capacity as ordinary citizens. Such transactions include the payment or refund of taxes, receipt of a Medicare rebate or higher education loans. These transactions have not been separately disclosed in this note.

Refer to Note 4.1 Employee provisions for details on superannuation arrangements in the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS), and the PSS accumulation plan (PSSap).

APRA transacts with other Australian Government controlled entities consistent with normal day-to-day business operations provided under normal terms and conditions, including the payment of workers compensation and insurance premiums. These are not considered individually significant to warrant separate disclosure as related party transactions.

MANAGING UNCERTAINTIES

This section analyses how the Australian Prudential Regulation Authority manages financial risks within its operating environment.

5.1 Contingent assets and liabilities

Significant contingent assets
APRA has no significant contingent assets as at the balance date (2019: Nil).

Quantifiable contingencies (APRA departmental)
APRA has no quantifiable contingencies as at the balance date (2019: Nil).

Unquantifiable contingencies (APRA departmental)
APRA has no unquantifiable contingencies as at the balance date (2019: 1).

Accounting policy

Contingent assets and contingent liabilities
Contingent assets and contingent liabilities are not recognised in the *Statement of financial position* but are reported in this note. They may arise from uncertainty as to the existence of an asset or liability, or represent an asset or liability in respect of which the amount cannot be reliably measured. Contingent assets are disclosed when settlement is probable but not virtually certain and contingent liabilities are disclosed when the probability of settlement is greater than remote.

5.2 Financial instruments

5.2A: Categories of financial instruments	Notes	2020 $'000	2019 $'000
Financial assets at amortised cost			
Cash and cash equivalents	2.1A	**72,828**	71,678
Trade receivables	2.1B	**2,071**	4,579
Total financial assets at amortised cost		**74,899**	76,257
Total financial assets		**74,899**	76,257
Financial liabilities			
Financial liabilities measured at amortised cost			
Trade creditors and accruals	2.3A	**6,555**	6,964
Leases	2.4	**52,232**	-
Total financial liabilities		**58,787**	6,964
Total financial liabilities		**58,787**	6,964

Accounting policy

Financial instruments

Financial assets

With the implementation of *AASB 9 Financial Instruments* for the first time in 2019, APRA classified its financial assets in the following categories:

a) financial assets at fair value through profit or loss;
b) financial assets at fair value through other comprehensive income; and
c) financial assets measured at amortised cost.

The classification depends on both APRA's business model for managing the financial assets and contractual cash flow characteristics at the time of initial recognition. Financial assets are recognised when APRA becomes a party to a contract and, as a consequence, has a legal right to receive or a legal obligation to pay cash and derecognised when the contractual rights to the cash flows from the financial asset expire or are transferred upon trade date.

Financial assets at amortised cost

Financial assets included in this category need to meet two criteria:

1. the financial asset is held in order to collect the contractual cash flows; and
2. the cash flows are solely payments of principal and interest on the principal outstanding amount.

Amortised cost is determined using the effective interest method.

Effective interest method

Income is recognised on an effective interest rate basis for financial assets that are recognised at amortised cost.

Impairment of financial assets

Financial assets are assessed for impairment at the end of each reporting period based on expected credit losses, using the general approach which measures the loss allowance based on an amount equal to lifetime expected credit losses where risk has significantly increased, or an amount equal to 12-month expected credit losses if risk has not increased.

The simplified approach for trade, contract and lease receivables is used. This approach always measures the loss allowance as the amount equal to the lifetime expected credit losses.

A write-off constitutes a derecognition event where the write-off directly reduces the gross carrying amount of the financial asset.

Financial liabilities

Financial liabilities are classified as either financial liabilities ‘at fair value through profit or loss’ or other financial liabilities. Financial liabilities are recognised and derecognised upon ‘trade date’.

Financial liabilities at amortised cost

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. These liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective interest basis.

Supplier and other payables are recognised at amortised cost. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).

5.2 Financial instruments - continued

5.2B: Net gains or losses on financial assets

There were no net gains or losses on financial assets.

5.2C: Net gains or losses on financial liabilities

There were no net gains or losses on financial liabilities.

5.2D: Fair value of financial instruments

	Carrying amount 2020 $'000	**Fair value 2020 $'000**	Carrying amount 2019 $'000	Fair value 2019 $'000
Financial assets				
Trade receivables	**2,071**	**2,071**	4,579	4,579
Total financial assets	**2,071**	**2,071**	4,579	4,579
Financial Liabilities				
Trade creditors and accruals	**6,555**	**6,555**	6,964	6,964
Leases	**52,232**	**52,232**	-	-
Total financial liabilities	**58,787**	**58,787**	6,964	6,964

5.3 Fair value measurements

Accounting policy

Fair value measurement

Accounting policies for fair value measurements of tangible non-financial assets are included in Note 2.2.

		Fair value measurements at the end of the reporting period	
		2020	2019
	Notes	**$'000**	$'000
Non-financial assets[1]			
Leasehold improvements	2.2	**13,668**	15,304
Computer hardware and office equipment	2.2	**5,195**	4,808
Total non-financial assets		**18,863**	20,112

[1] No non-financial assets were measured at fair value on a non-recurring basis as at 30 June 2020 (2019: nil).

OTHER INFORMATION

6.1 Calculation of APRA Special Appropriation

The APRA Special Appropriation is calculated in accordance with the provisions of section 50 of the *Australian Prudential Regulation Authority Act 1998* .

	2020 $'000	2019 $'000
Table 1: Summary of APRA levy funding		
Current year levies and penalties (see Note 7.2, Table 1)	**237,986**	215,364
Risk equalisation receipts	**472,666**	463,146
Net current year levies and penalties (see Table 2 below)	**710,652**	678,510
Less: Amount retained in the Consolidated Revenue Fund (see Table 3 below)	**(49,900)**	(71,800)
Less: Risk equalisation payments to private health insurers	**(472,666)**	(463,146)
Total APRA levy funding (see Table 4 below)	**188,086**	143,564
Table 2: Net current year levies and penalties by levy type		
Superannuation funds	**91,120**	83,066
Authorised deposit-taking institutions	**88,954**	83,551
General insurers	**31,583**	27,306
Life insurers and friendly societies	**20,239**	16,908
Private health insurers	**6,090**	4,533
Risk equalisation receipts from private health insurers	**472,666**	463,146
Total	**710,652**	678,510
Table 3: Amounts retained in the Consolidated Revenue Fund by levy type[1]		
Superannuation funds	**(45,600)**	(49,600)
Authorised deposit-taking institutions	**(4,100)**	(13,800)
General insurers	**(100)**	(4,800)
Life insurers and friendly societies	**(100)**	(3,600)
Total	**(49,900)**	(71,800)
Table 4: Amounts of levy payable to APRA under the APRA Special Appropriation by levy type[2]		
Superannuation funds	**45,520**	33,466
Authorised deposit-taking institutions	**84,854**	69,751
General insurers	**31,483**	22,506
Life insurers and friendly societies	**20,139**	13,308
Private health insurers	**6,090**	4,533
Total	**188,086**	143,564
This is represented by:		
Special Appropriation	**188,086**	143,564
Total	**188,086**	143,564

[1] Including amounts as determined by the Minister in accordance with subsection 50(1) of the *Australian Prudential Regulation Authority Act 1998* .

[2] Table 4 above represents the total amount of levies payable to APRA for its operations.

6.1 Calculation of APRA Special Appropriation - continued

Accounting Policy

APRA is funded primarily through levies imposed on the industries it supervises. These levies, known as the Financial Institutions Supervisory Levies, are administered transactions collected on behalf of the Government and paid into the Consolidated Revenue Fund (CRF). An amount equal to the net levy revenue, less an amount specified by the Minister in an annual determination made under subsection 50(1) of the *Australian Prudential Regulation Authority Act 1998 (APRA Act)* , is credited to the APRA Special Account as a Special Appropriation, in accordance with subsections 50(2), (3) and (5) of the APRA Act. The amounts specified in the Minister’s Determinations are retained in the CRF to cover: the costs of activities of the Australian Taxation Office (ATO) for unclaimed monies, lost member functions and for the administration of claims for early release of superannuation benefits on compassionate grounds; the Australian Securities and Investments Commission (ASIC) for consumer protection and market integrity functions; the Australian Competition and Consumer Commission (ACCC) to investigate foreign exchange and specific competition issues in Australia's financial system and the Gateway Network Governance Body to facilitate transmission of SuperStream data.

APRA administers the collection of Financial Institutions Supervisory Levies and Financial Assistance Levies on behalf of the Government. While the revenues from Financial Institutions Supervisory Levies are in part used to fund the operations of APRA, they are not directly available to APRA for its own purposes upon receipt. The revenues from the Financial Assistance Levy are also not available to APRA for its own purposes. All administered collections are remitted to the Official Public Account with APRA's portion being transferred to its special account in accordance with annual determinations made by the Minister. Transactions and balances relating to levies are reported in Note 7.2: Administered income.

APRA also administers the Risk Equalisation Special Account whereby revenue collected by APRA for the purposes of risk equalisation across the private health insurance industry is treated by the Government as revenue and expenses. The transactions to and from this account are recorded within the Official Public Account (OPA) by way of notional receipts and payments.

6.2 Budgetary reports and explanations of major variances

The following tables provide a comparison of the original budget as presented in the 2019/20 Portfolio Budget Statements (PBS) to the 2019/20 final outcome as presented in accordance with Australian Accounting Standards. The budget is not audited.

6.2 Departmental budgetary reports

Summary of key variances to budget

Expenses

- Employee benefits are higher than budget due to a fall in the Government 10 year bond yield (used to value leave provisions) adversely impacting employee year-end leave balances. In addition less staff have taken leave recently as a result of the pandemic. This impact is slightly offset by a lower average staffing level;
- Supplier expenses are higher than budget due to a provision for likely legal settlement costs being raised, offset by deferral of some projects and some Business-As-Usual (BAU) activities as a result of the pandemic; and
- Depreciation and amortisation expenses are higher than budget due to accounting changes following the introduction of AASB 16 - *Leases* .

Own-source income

- Rendering of services is lower than budget due to lower cost recovery activities undertaken in the year; and
- Other revenue is higher than budget due to higher licensing and other fees received.

Revenue from Government is higher than budget due to a small over-collection of Financial Institutions Supervisory Levies. This is due to slightly higher than projected June quarter assets growth within the superannuation industry. This resulted in a minor over-estimate in the required levy rate for 2019-20.

Statement of comprehensive income

for the year ended 30 June 2020

	Actual	Budget estimate	Variance
		Original	
	2020	2020	2020
	$'000	$'000	$'000
Expenses			
Employee benefits	**132,774**	132,027	(747)
Suppliers	**45,494**	41,872	(3,622)
Depreciation and amortisation	**17,961**	10,324	(7,637)
Total expenses	**196,229**	184,223	(12,006)
Less:			
Own-source revenue			
Other revenue	**1,339**	1,056	283
Rendering of services	**2,904**	4,417	(1,513)
Rental income	**38**	-	38
Total own-source revenue	**4,281**	5,473	(1,192)
Net cost of services	**191,948**	178,750	(13,198)
Revenue from Government	**188,086**	187,044	1,042
Operating surplus / (deficit)	**(3,862)**	8,294	(12,156)
Other comprehensive income			
Items not subject to subsequent reclassification to net cost of services			
Changes in asset revaluation reserve	**42**	-	42
Total other comprehensive income	**42**	-	42
Total comprehensive income / (loss)	**(3,820)**	8,294	(12,114)

6.2 Budgetary reports and explanations of major variances - continued

6.2 Departmental budgetary reports - continued

Summary of key variances to budget

Assets

- Financial assets are higher than budget due to lower expenditure on projects and BAU activities largely due to the pandemic impacting activity at the end of the year;
- Non-financial assets are substantially higher than budget due to the creation of AASB-16 Right-of-Use (RoU) lease assets slightly offset by project deferrals.

Liabilities

- Total payables are lower than budget due to the impact of AASB 16, writing off minimum lease and lease incentive liabilities against retained earnings;
- Interest bearing liabilities are higher than budget due to the impact of AASB 16; and
- Provisions are higher than budget due to a provision for legal settlement costs based on an initial claim received by APRA, as well as less leave taken by staff as a result of the pandemic and the impact of a fall in the Government 10 year bond yield.

Equity

The variance in retained surpluses is due the impact of new accounting standards (AASB16 and AASB15) adopted for the first time this year.

Statement of financial position

as at 30 June 2020

	Actual	Budget estimate	Variance
		Original	
	2020	2020	2020
	$'000	$'000	$'000
Assets			
Financial assets			
Cash and cash equivalents	**72,828**	59,246	13,582
Trade and other receivables	**2,071**	2,975	(904)
Total financial assets	**74,899**	62,221	12,678
Non-financial assets			
Property, plant and equipment	**69,685**	18,391	51,294
Intangibles	**37,604**	48,477	(10,873)
Prepayments	**3,756**	2,830	926
Total non-financial assets	**111,045**	69,698	41,347
Total assets	**185,944**	131,919	54,025
Liabilities			
Payables			
Suppliers	**6,555**	17,104	10,549
Other payables	**2,937**	12,411	9,474
Total payables	**9,492**	29,515	20,023
Interest bearing liabilities			
Leases	**52,232**	-	(52,232)
Total interest bearing liabilities	**52,232**	-	(52,232)
Provisions			
Employee provisions	**49,697**	47,541	(2,156)
Other provisions	**12,752**	3,183	(9,569)
Total provisions	**62,449**	50,724	(11,725)
Total liabilities	**124,173**	80,239	(43,934)
Net assets	**61,771**	51,680	10,091
Equity			
Contributed equity	**16,657**	16,657	-
Contingency Enforcement Fund	**12,000**	12,000	-
Reserves	**7,591**	7,216	375
Retained surpluses	**25,523**	15,807	9,716
Total equity	**61,771**	51,680	10,091

6.2 Budgetary reports and explanations of major variances - continued

6.2 Departmental budgetary reports - continued

Summary of key variances to budget
Equity and reserves variance to budget is due the impact of new accounting standards (AASB16 and AASB15) adopted for the first time this year, slightly offset by a smaller surplus made in the year.

Statement of changes in equity
for the year ended 30 June 2020

	Actual 2020 $'000	Budget estimate Original 2020 $'000	Variance 2020 $'000
Contributed equity			
Opening balance	**16,657**	16,657	-
Closing balance as at 30 June	**16,657**	16,657	-
Retained surpluses			
Opening balance			
Balance carried forward from previous period	**9,477**	11,513	(2,036)
Opening balance adjustment due to AASB 15 & AASB 16	**23,908**	-	23,908
Revised opening balance	**33,385**	11,513	21,872
Transfer to Contingency Enforcement Fund	**(4,000)**	(4,000)	-
(Deficit) / surplus for the period	**(3,862)**	8,294	(12,156)
Closing balance as at 30 June	**25,523**	15,807	9,716
Asset revaluation reserve			
Opening balance	**7,549**	7,216	333
Increase in revaluation reserve	**42**	-	42
Closing balance as at 30 June	**7,591**	7,216	375
Contingency Enforcement Fund			
Opening balance	**8,000**	8,000	-
Transfer from retained surpluses	**4,000**	4,000	-
Closing balance as at 30 June	**12,000**	12,000	-
Total equity			
Opening balance			
Balance carried forward from previous period	**41,683**	43,386	(1,703)
Opening balance adjustment due to AASB 15 & AASB 16	**23,908**	-	23,908
Opening balance	**65,591**	43,386	22,205
Comprehensive income / (loss)			
Increase in revaluation reserve	**42**	-	42
(Deficit) / surplus for the period	**(3,862)**	8,294	(12,156)
Closing balance as at 30 June	**61,771**	51,680	10,091

6.2 Budgetary reports and explanations of major variances - continued

6.2 Departmental budgetary reports - continued

Summary of key variances to budget

Operating cash received - Higher than budget due to a small over-recovery of levies in 2019/20 (see comprehensive income statement commentary) plus increased GST received (and then re-recovered through appropriation post Section 74 remittance to the OPA) from higher suppliers expenditure and lease principal payments made during the year.

Operating cash used - Lower than budget largely due to AASB-16 re-categorisation of lease payments from operating activities to financing activities.

Investing cash used - Lower than budget projects capital expenditure due to deferral as a result of the pandemic.

Financing cash used - Higher than budget due to impact of AASB-16 lease payments.

Cash flow statement

for the year ended 30 June 2020

	Actual	Budget estimate	Variance
		Original	
	2020	2020	2020
	$'000	$'000	$'000
Operating Activities			
Cash received			
Appropriations	**200,767**	196,512	4,255
Rendering of services	**4,380**	4,417	(37)
Net GST received	**6,099**	4,191	1,908
Other	**447**	860	(413)
Total cash received	**211,693**	205,980	5,713
Cash used			
Employees	**(126,077)**	(130,374)	4,297
Suppliers	**(39,545)**	(46,098)	6,553
Lease liability - Interest payments	**(981)**	-	(981)
Net GST paid	**(271)**	-	(271)
Section 74 receipts transferred to Official Public Account (OPA)	**(11,410)**	(9,468)	(1,942)
Total cash used	**(178,284)**	(185,940)	7,656
Net cash from operating activities	**33,409**	20,040	13,369
Investing activities			
Cash used			
Purchase of property, plant and equipment and intangibles	**(25,028)**	(32,491)	7,463
Net cash used by investing activities	**(25,028)**	(32,491)	7,463
Financing activities			
Cash used			
Principal payments of lease liabilities	**(7,231)**	-	(7,231)
Total cash used	**(7,231)**	-	(7,231)
Net cash used by financing activities	**(7,231)**	-	(7,231)
Net increase / (decrease) in cash held	**1,150**	(12,451)	13,601
Cash and cash equivalents at the beginning of the reporting period	**71,678**	71,697	(19)
Cash and cash equivalents at the end of the reporting period	**72,828**	59,246	13,582

6.3 Aggregate assets and liabilities

	2020 $'000	2019 $'000
Assets expected to be recovered in:		
More than 12 months	**106,456**	42,423
No more than 12 months	**79,488**	80,010
Total assets	**185,944**	122,433
Liabilities expected to be settled in:		
More than 12 months	**94,226**	53,156
No more than 12 months	**29,947**	27,594
Total liabilities	**124,173**	80,750

INCOME AND EXPENSES ADMINISTERED ON BEHALF OF GOVERNMENT

This section analyses the activities that the Australian Prudential Regulation Authority does not control but administers on behalf of the Government. Unless otherwise noted, the accounting policies adopted are consistent with those applied for departmental reporting.

7.1 Administered expenses

	Notes	2020 $'000	2019 $'000
Expenses			
7.1B: Other expenses			
Risk equalisation levy payments	6.1	**472,666**	463,146
Lloyds security deposit interest expense	7.4	**55**	55
Total other expenses		**472,721**	463,201
Total administered expenses		**472,721**	463,201

Accounting policy

Expenses

Private health insurance risk equalisation expenses reflecting amounts returned to relevant industry participants are recognised at the time of payment as administered expenses.

7.2 Administered income

Income	2020 $'000	2019 $'000
7.2A: Levy revenue		
Risk equalisation levy receipts	**472,666**	463,146
Financial Institutions Supervisory Levies and penalties (see Table 1)[1]	**237,986**	215,364
Total levy revenue	**710,652**	678,510

Accounting policy

Revenue

All administered revenues relate to the ordinary activities performed by APRA on behalf of the Government. These revenues are not directly available to be used by APRA for its own purposes and are remitted to the OPA, or in the case of the private health insurance risk equalisation levies, returned to the relevant industry participants in accordance with the *Private Health Insurance (Risk Equalisation Policy) Rules 2015* (the Rules).

APRA undertakes the collection of certain levies on behalf of the Government. These comprise Financial Institutions Supervisory Levies, Financial Assistance Levies and late payment penalties collected under the *Financial Institutions Supervisory Levies Collection Act 1998*.

Administered revenue arising from levies (including Financial Assistance Levies) is recognised on an accrual basis, in line with the Minister's regulations and determinations. The collectability of debts is reviewed at balance date. Provisions are made when collection of the debt is judged to be less, rather than more likely.

Table 1: Financial Institutions Supervisory Levies revenue by type

	2020 $'000	2019 $'000
Levy:		
Superannuation funds	**91,011**	83,022
Authorised deposit-taking institutions	**88,954**	83,551
General insurers	**31,583**	27,306
Life insurers and friendly societies	**20,239**	16,908
Private health insurers	**6,090**	4,533
Total Financial Industry Supervisory Levies	**237,877**	215,320
Late payment penalties:		
Superannuation funds	**109**	44
Total late payment penalties	**109**	44
Total current year financial industry levies and penalties	**237,986**	215,364

[1] Financial Institutions Supervisory Levies are detailed in the annual consultation paper released by the Department of The Treasury. In addition, APRA publishes a Cost Recovery Implementation Statement in relation to its component of the Financial Institutions Supervisory Levies.

The Financial Institutions Supervisory Levies are set to recover the operational costs of APRA, and other specific costs incurred by certain Commonwealth agencies and departments. The proportion of total current year levies and penalties attributable to APRA is set out in Note 6.1.

The risk equalisation levy receipts are set to equalise risk across the private health insurance industry, and are returned to relevant industry participants in accordance with the Rules shortly after they are collected.

Waivers of levy debts are recognised as an offset to invoiced revenue at the time of approval by delegated APRA officials. Waivers generally occur due to a change of status of a supervised entity during the year, resulting in the annual levy being wholly or partly waived.

	2020 $'000	2019 $'000
7.2B: Other revenue		
Enforcement recoveries	**1,502**	-
Lloyds security deposit interest income	**55**	55
Total other revenue	**1,557**	55
Total revenue	**712,209**	678,565

ASSETS AND LIABILITIES ADMINISTERED ON BEHALF OF THE GOVERNMENT

This section analyses assets used to conduct operations and the operating liabilities incurred as a result of activities that the Australian Prudential Regulation Authority does not control but administers on behalf of the Government. Unless otherwise noted, the accounting policies adopted are consistent with those applied for departmental reporting.

7.3 Administered financial assets

	2020 $'000	2019 $'000
7.3A: Cash and cash equivalents		
Financial Claims Scheme	**835**	835
Total cash and cash equivalents	**835**	835

The closing balance of Cash in special accounts does not include amounts held in trust: $2,000,000 (2019: $2,000,000). See Note 7.4 assets held in trust for more information.

	2020 $'000	2019 $'000
7.3B: Receivables		
Lloyds security held in trust	**2,000**	2,000
Financial Assistance Levy	**197**	197
Financial Institutions Supervisory Levies	**-**	3
Total receivables	**2,197**	2,200
Receivables were aged as follows:		
Not overdue	**2,000**	2,003
Overdue by:		
more than 90 days	**197**	197
Total receivables	**2,197**	2,200

There is no impairment allowance in 2020 (2019: Nil). The receivables greater than 90 days relate to the previous Financial Assistance Levy (FAL) that were charged to superannuation funds that were no longer APRA-regulated institutions at the levy date. This outstanding amount will be added to the next FAL and collected at that point.

7.4 Administered assets held in trust

Monetary assets

The Lloyds Security Deposit is held by APRA in trust. Responsibility for the administration of the Lloyds Security Deposit Trust was transferred from the Department of The Treasury to APRA on 26 May 2008. The purpose is to disburse amounts in accordance with section 92Q of the *Insurance Act 1973* .

	2020 $'000	2019 $'000
Lloyds Deposit Trust Security		
Total amount held at the beginning of the reporting period	**2,000**	2,000
Receipts	**(55)**	(55)
Payments	**55**	55
Total amount held at the end of the reporting period	**2,000**	2,000
Total	**2,000**	2,000

The market valuation as at 30 June 2020 for the Lloyd's Security Deposit Trust was $2,016,142 (2019: $2,021,043).

Non-monetary assets

APRA has no non-monetary assets held in trust.

7.5 Administered liabilities

	2020 $'000	2019 $'000
Other payables		
Lloyds Security Trust Deposit	**2,000**	2,000
Total other payables	**2,000**	2,000

7.6 Administered contingent assets and liabilities

Unquantifiable administered contingencies

APRA is responsible for the administration of the Financial Claims Scheme (FCS). The FCS provides depositors of authorised deposit-taking institutions (ADIs) and claimants of general insurers (GIs) with timely access to their funds in the event of a financial institution failure.

Under the *Banking Act 1959* the Scheme provides a mechanism for making payments to depositors under the Government's guarantee of deposits in ADIs. Payments are capped at $250,000 per account holder per ADI. As at 31 December 2019, deposits eligible for coverage under the Scheme were estimated to be $950 billion, compared to $920 billion as at 31 December 2018, reflecting overall deposit growth in the financial system.

Under the *Insurance Act 1973* the Scheme provides a mechanism for making payments to eligible beneficiaries with a valid claim against a failed GI. It is not possible to estimate these claims.

In the very unlikely event of an ADI or GI failure, any payments made under the FCS would be recovered through the liquidation of the failed institution. If there was a shortfall in the amount recovered through the liquidation of the failed institution, a levy could be applied to the relevant industry to recover the difference between the amount expended and the amount recovered in the liquidation.

Under the FCS, any payments to account-holders with protected accounts or eligible claimants would be made from APRA's FCS Special Account. Under the legislation, initial amounts available to meet payments, in the event of activation, are up to $20 billion per institution and up to $100 million for administration.

It is not possible to estimate the amounts of any eventual payments that may be required in relation to either the ADI FCS or GI FCS and as such no amount is included in this note.

7.7 Administered financial instruments

7.7A: Categories of financial instruments

	2020 $'000	2019 $'000
Financial assets at amortised cost		
Other receivables	**2,000**	2,000
Total financial assets at amortised cost	**2,000**	2,000
Total financial assets	**2,000**	2,000
Financial liabilities		
Financial liabilities measured at amortised cost		
Trade creditors and accruals	**2,000**	2,000
Total financial liabilities measured at amortised cost	**2,000**	2,000
Total financial liabilities	**2,000**	2,000

7.7B: Net gains or losses on financial assets

There were no net gains or losses on financial assets.

7.7C: Net gains or losses on financial liabilities

There were no net gains or losses on financial liabilities.

7.7D: Fair value of financial instruments

	Carrying amount 2020 $'000	Fair value 2020 $'000	Carrying amount 2019 $'000	Fair value 2019 $'000
Financial assets				
Other receivables	**2,000**	**2,016**	2,000	2,021
Total financial assets	**2,000**	**2,016**	2,000	2,021
Financial Liabilities				
Trade creditors and accruals	**2,000**	**2,016**	2,000	2,021
Total financial liabilities	**2,000**	**2,016**	2,000	2,021

7.8 Administered budgetary reports and explanations of major variances

Administered budgetary reports

Summary of key variances to budget
The budgeted private health insurance industry risk equalisation levy is a broad estimate based on a historic growth profile. 2020 results, which are dependent on the spread of risk across the industry, came in higher than budget. The difference drives the overall magnitude of the risk equalisation levy collections and payments across the industry.

The Financial Institutions Supervisory Levies over-collection against budget is due to a higher than expected June quarter assets growth in the superannuation industry. This caused a small under-estimation in the size of the industry at the superannuation levy date and therefore a small over-estimation in the required levy rate.

Enforcement recoveries received during 2020 were not known at the time of setting the budget.

Administered schedule of comprehensive income
for the year ended 30 June 2020

	Actual	Budget estimate	Variance
		Original	
	2020	2020	2020
	$'000	$'000	$'000
Expenses			
Risk equalisation levy payments	**472,666**	450,000	(22,666)
Lloyd's security interest expense	**55**	55	-
Total expenses administered on behalf of Government	**472,721**	450,055	(22,666)
Less:			
Income			
Risk equalisation levy collections	**472,666**	450,000	22,666
Financial Institutions Supervisory Levies	**237,986**	236,861	1,125
Enforcement recoveries	**1,502**	-	1,502
Lloyd's security interest income	**55**	55	-
Total income	**712,209**	686,916	25,293
Surplus	**239,488**	236,861	2,627

Summary of key variances to budget
Administered receivables are lower than the original budget following a collection during the year of 2018/19 Financial Institutions Supervisory Levies in 2019/20.

Administered schedule of assets and liabilities
as at 30 June 2020

	Actual	Budget estimate	Variance
		Original	
	2020	2020	2020
	$'000	$'000	$'000
Assets			
Financial assets			
Receivables	**2,197**	2,203	(6)
Cash and cash equivalents	**835**	835	-
Total assets administered on behalf of Government	**3,032**	3,038	(6)
Liabilities			
Liabilities administered on behalf of Government	**2,000**	2,000	-
Total liabilities administered on behalf of Government	**2,000**	2,000	-
Net assets administered on behalf of Government	**1,032**	1,038	(6)

7.9 Administered aggregate assets and liabilities

	2020 $'000	2019 $'000
Assets expected to be recovered in:		
More than 12 months	**3,032**	3,032
Not more than 12 months	**-**	3
Total assets	**3,032**	3,035
Liabilities expected to be recovered in:		
More than 12 months	**2,000**	2,000
Total liabilities	**2,000**	2,000

INDEPENDENT AUDITOR'S REPORT

To the Treasurer

Opinion

In my opinion, the financial statements of the Australian Prudential Regulation Authority (the Entity) for the year ended 30 June 2020:

(a) comply with Australian Accounting Standards – Reduced Disclosure Requirements and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and

(b) present fairly the financial position of the Entity as at 30 June 2020 and its financial performance and cash flows for the year then ended.

The financial statements of the Entity, which I have audited, comprise the following as at 30 June 2020 and for the year then ended:

- Statement by the Accountable Authority and Chief Operating Officer;
- Statement of Comprehensive Income;
- Statement of Financial Position;
- Statement of Changes in Equity;
- Cash Flow Statement;
- Administered Schedule of Comprehensive Income;
- Administered Schedule of Assets and Liabilities;
- Administered Reconciliation Schedule;
- Administered Cash Flow Statement; and
- Notes to the financial statements, comprising a summary of significant accounting policies and other explanatory information.

Basis for opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Entity in accordance with the relevant ethical requirements for financial statement audits conducted by the Auditor-General and his delegates. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) to the extent that they are not in conflict with the *Auditor-General Act 1997*. I have also fulfilled my other responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Accountable Authority's responsibility for the financial statements

As the Accountable Authority of the Entity, the Chair is responsible under the *Public Governance, Performance and Accountability Act 2013* (the Act) for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards – Reduced Disclosure Requirements and the rules made under the Act. The Chair is also responsible for such internal control as the Chair determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chair is responsible for assessing the ability of the Entity to continue as a going concern, taking into account whether the Entity's operations will cease as a result of an administrative restructure or for any other reason. The Chair is also responsible for disclosing, as applicable, matters related to

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going concern and using the going concern basis of accounting unless the assessment indicates that it is not appropriate.

Auditor's responsibilities for the audit of the financial statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian National Audit Office Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Accountable Authority;
- conclude on the appropriateness of the Accountable Authority's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Accountable Authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Australian National Audit Office

J George

Jodi George

Executive Director

Delegate of the Auditor-General

Canberra

17 August 2020

List of requirements

The following list of mandatory annual reporting requirements, as outlined in the *Resource Management Guide No. 135 - Annual Reports for Non-corporate Commonwealth Entities*, has been annotated with the location of the information in this Report.

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