

APRA Outlines its Approach to New International Accounting Standards

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The Australian Prudential Regulation Authority (APRA) today outlined the approach it will be taking during the implementation of International Financial Reporting Standards (IFRS) in Australia. This follows confirmation of the Australian equivalents to these Standards by the Australian Accounting Standards Board earlier this month. All Australian reporting entities must adopt the Standards for reporting periods beginning on or after 1 January 2005.

The adoption of IFRS will require APRA to revise its prudential standards and statistical requirements for authorised deposit-taking institutions, life and general insurance companies, although the impact is not uniform across these industries. APRA's intention is to avoid undue disruption to any prudentially regulated institution or industry by rushing its normal consultation processes.

Starting over the next few months, APRA will be releasing a series of discussion papers on the main implications of IFRS for the prudential framework in Australia. APRA will identify the potential changes to prudential standards and statistical requirements, categorised into four groups:

- changes expected to be implemented in 2005(thoughno earlier than 1 July);
- changes expected to be implemented in 2005, but harmonised with the approaches of prudential regulators in other countries;
- possible changes to be effective after 2005, once APRA has had the opportunity of monitoring the prudential impact of IFRS; and
- areas where no change is expected.

As a priority, APRA intends to review its prudential approach in the following areas:

- the treatment of innovative capital instruments for capital adequacy purposes;
- the treatment of superannuation fund surpluses and deficits; and
- the treatment of Excess of Market Value over Net Assets (EMVONA) for life insurance subsidiaries.

APRA will not make any IFRS-related changes to the existing prudential framework until it has completed relevant consultations, and not before 1 July 2005 at the earliest. In the interim, APRA regulated institutions will need to continue to comply with, and report in terms of, current prudential standards.

According to its Chairman, Dr John Laker, APRA recognises that the implementation of IFRS will be a significant exercise for APRA regulated institutions, which will demand considerable board and management attention.

"APRA does not wish to overload this process by rushing through changes to its prudential framework to coincide with the starting date of IFRS. It prefers a more measured approach to ensure a full evaluation of the prudential implications of IFRS and extensive industry consultations."

For further details on APRA's conversion strategy for IFRS, please refer to 'Other information' under the relevant industry sector on APRA's website at: www.apra.gov.au

The Australian Prudential Regulation Authority (APRA) is the prudential regulator of the financial services industry. It oversees banks, credit unions, building societies, general insurance and reinsurance companies, life insurance, friendly societies, and most members of the superannuation industry. APRA is funded largely by the industries that it supervises. It was established on 1 July 1998. APRA currently supervises institutions holding approximately \$1.8 trillion in assets for 20 million Australian depositors, policyholders and superannuation fund members.

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