4. Developments in the Financial System Architecture

The G20 – together with the Financial Stability Board (FSB) and standard-setting bodies – has played a key role in developing reforms to address the issues revealed by the financial crisis, and in assisting their implementation. This year, under Australia's presidency, the G20 has sharpened its focus on substantially completing key aspects of the four core areas of financial regulatory reform: (1) building resilient financial institutions through the Basel III reforms; (2) addressing the 'too big to fail' problem associated with systemically important financial institutions; (3) addressing shadow banking risks; and (4) making derivatives markets safer. Policy development and implementation have continued in recent months across these core areas. Australian regulatory agencies are contributing to these efforts.

In Australia, the government established a Financial System Inquiry with wide-ranging terms of reference. The Bank will make a detailed submission to the inquiry on financial system trends and regulatory issues at the end of this month. In other developments, the Australian Prudential Regulation Authority (APRA) finalised its standard implementing the Basel III Liquidity Coverage Ratio (LCR) in Australia, and also released its framework for domestic systemically important banks (D-SIBs).

International Regulatory Developments and Australia

Building resilient financial institutions

Enhancing international capital and liquidity standards for banks – through the Basel III reforms – was a central element of the global policy response to the crisis. The Basel Committee on Banking Supervision (BCBS) continues to monitor the implementation of Basel III and the broader capital framework by its members, and recently it issued reports covering different elements of its monitoring work.

- As part of its Regulatory Consistency Assessment Programme, the BCBS recently completed a 'Level 2' peer review of Australia, which is a detailed examination of whether a jurisdiction's regulations are consistent with the Basel capital framework. The assessment concluded that Australia's regime is compliant overall. Specifically, APRA's prudential standards were found to be compliant with 12 of the 14 key components of the Basel capital framework and 'largely compliant' with the remaining two components (related to the definition of capital and the internal ratings-based approach for credit risk). APRA is reviewing the findings, but does not consider that any significant changes to its regulatory regime will be necessary.
- The BCBS regularly monitors the progress of banks in its member jurisdictions in meeting the new Basel III capital requirements – the latest available results from this exercise are as at 30 June 2013. The largest banks that participated in the exercise ('Group 1' banks) reported an average common equity Tier 1 (CET1) capital ratio of 9.5 per cent, assuming the new Basel III definitions of capital and risk-weighted assets (RWAs) are fully taken into account and ignoring any phase-in arrangements. Internationally,

several banks were yet to reach the 4.5 per cent CET1 minimum that is required under Basel III, though the aggregate capital shortfall at these banks was relatively small, at €3.3 billion. The amount of additional capital Group 1 banks needed to meet a CET1 target ratio of 7 per cent (including the capital conservation buffer that will eventually be required under Basel III) as well as any capital surcharge for global systemically important banks (G-SIBs), was €57.5 billion. This was half the size of the shortfall as at end December 2012, implying that banks' capital positions have been strengthened.

Following endorsement in January by its oversight body (the Group of Governors and Heads of Supervision) the BCBS finalised or progressed several outstanding elements of the Basel III capital and liquidity reforms. In particular, the BCBS:

- agreed on a common definition of the leverage ratio, which is complementary to the risk-based capital framework and aims to restrict the build-up of excessive leverage in the banking sector. Following an earlier consultation, the BCBS clarified the treatment of items (such as derivatives and off-balance sheet exposures) in the denominator of the leverage ratio calculation. The BCBS continues to monitor banks' leverage ratio data to assess whether the previously announced calibration of the requirement (i.e. a minimum leverage ratio of 3 per cent, based on Tier 1 capital) is appropriate over a full credit cycle and for different types of business models. It is also tracking the impact of using either CET1 or total regulatory capital as the capital measure in the leverage ratio calculation. Any final changes to the leverage ratio will be made by 2017, with a view to migrating to a Pillar 1 (minimum capital requirement) treatment from 2018. The BCBS also announced requirements for banks to disclose information relating to their leverage ratio, which will take effect from January 2015
- issued for consultation proposed changes to the Net Stable Funding Ratio (NSFR). The NSFR is the Basel III long-term (structural) funding liquidity standard, which complements the short-term LCR. The proposed revisions aim to better align the NSFR with the LCR, reduce cliff effects within the measurement of funding stability, and alter the calibration of the NSFR to focus greater attention on short-term, potentially volatile funding sources. The consultation closes in April
- agreed to permit a wider use of committed liquidity facilities (CLFs) provided by central banks. To date, the use of CLFs within the LCR has been limited to those jurisdictions (such as Australia) with relatively low government debt and therefore insufficient high-quality liquid assets (HQLA) to meet the needs of the banking system. Following work by a BCBS sub-group co-chaired by a senior Reserve Bank executive, the BCBS has agreed that a restricted version of a CLF may be used by all jurisdictions subject to specific conditions, including central bank approval
- issued final requirements for banks' LCR-related disclosures, and further guidance on how national authorities can use market-based indicators of liquidity within their own frameworks for assessing whether assets qualify as HQLA under the LCR.

In December, APRA issued its liquidity standard implementing the LCR in Australia, which is largely unchanged from the draft proposals issued for consultation mid last year. The LCR will start in full in January 2015, at which time the Bank's CLF will also become active. In January, APRA released further detail on the operation of the CLF, following a trial exercise involving 35 authorised deposit-taking institutions (ADIs) to determine the appropriate size of the CLF for each ADI subject to the LCR requirement. In the exercise, ADIs submitted an application for a pro forma CLF to cover their expected Australian dollar LCR shortfall for the calendar year 2014. A more formal CLF application process will take place this year, with APRA aiming to finalise the size of each ADI's CLF by 30 September. (Further information is provided in the chapter 'The Australian Financial System'.)

The BCBS is continuing its work on completing reforms to trading book requirements – a second consultative document was issued in October – and addressing excessive variability of banks' RWAs. On the latter, a second report on market risk RWAs was released in December, which extended the earlier analysis to more representative and complex trading positions. Consistent with the findings in the previous report on RWA calculations, the results show significant variation in the outputs of market risk internal models used to calculate regulatory capital. In addition, the results show that variability typically increases for more complex trading positions. The analysis also confirms the finding that differences in modelling choices are a significant driver of variation in market risk RWAs across banks. In response, the BCBS is considering reforms in several areas to improve consistency and comparability in bank capital ratios, such as: (a) improving public disclosure and the collection of regulatory data to aid the understanding of market risk RWAs; (b) narrowing the range of modelling choices for banks; and (c) further harmonising supervisory practices with regard to model approvals.

Systemically important financial institutions (SIFIs)

As discussed in previous *Reviews*, efforts to address the 'too big to fail' problem associated with SIFIs involve applying measures from a policy framework developed by the FSB, and endorsed by the G20 in 2010. The broad policy framework covers higher capital charges, enhanced resolution regimes, recovery and resolution planning, and more intensive supervision for SIFIs. Related to this policy framework is the development of methodologies to assess the systemic importance of institutions as a precursor to their designation as SIFIs. International and national bodies have continued to take steps in these areas recently.

With the support of the G20, the FSB is leading the development of proposals on 'gone-concern loss absorbing capacity' (GLAC) for global SIFIs. GLAC refers to the ability of an insolvent financial institution to be returned to viability, or otherwise resolved, by exposing liabilities to loss – for example, by 'bailing in' private creditors – rather than using taxpayer funds for recapitalisation. This is a complicated area covering many issues, often technical and legal. The measures being considered are to be applied to G-SIBs, so will not apply to Australian-owned banks. However, as G20 Chair and members of various international groups working on these proposals, Australian authorities are involved in the effort to see that these complex issues are addressed in a considered manner before the proposals are finalised in time for the Brisbane G20 Leaders Summit in November. International regulatory developments around resolution, and crisis management issues more generally, are regularly discussed at meetings of the Council of Financial Regulators (CFR).

More broadly, bail-in is an element of the *Key Attributes of Effective Resolution Regimes for Financial Institutions* (*Key Attributes*), issued by the FSB in 2011, which the FSB has urged all G20 countries to meet by end 2015. Several jurisdictions have recently taken steps in developing or implementing bail in powers. In December, European authorities reached an initial agreement on a new resolution regime for banks in Europe. The *Bank Recovery and Resolution Directive* gives European supervisors the legal powers to resolve failing banks, as specified in the *Key Attributes*. The directive introduces a form of depositor preference for retail depositors and, from January 2016, supervisors would have the power to bail in private creditors by writing down their claims or converting them to equity. The agreement remains subject to formal approval by the European authorities. In January, Hong Kong regulators proposed a new resolution regime for banks, insurers, financial market infrastructures and other financial institutions which includes bail-in powers among a menu of options available to resolve SIFIs. Australian authorities are monitoring these developments in the context of ongoing work on domestic resolution arrangements.

In January, the FSB and the International Organization of Securities Commissions (IOSCO) issued for consultation their proposed methodologies for identifying non-bank non-insurer global SIFIs. In particular, these methodologies cover finance companies, securities broker-dealers and investment funds. The methodologies are broadly in line with those for identifying G-SIBs and global systemically important insurers (G-SIIs): they are indicator-based approaches for assessing global systemic importance, based on impact factors such as size, interconnectedness, substitutability, complexity and cross-jurisdictional presence. In the proposed methodologies, domestic authorities will have a key role in assessing the global systemic importance of non-bank non-insurer entities (with an international oversight group providing a mechanism for consistency across countries). This contrasts with the G-SIB and G-SII methodologies, where a central body (the relevant standard-setter) conducted the assessments. The proposed materiality thresholds, and the exclusion of subsidiaries of banks and insurers already assessed by the G-SIB and G-SII methodologies, work to limit the potential number of entities likely to be considered by the methodologies. The consultation closes in April.

In February, the International Association of Insurance Supervisors (IAIS) concluded its first stage of consultation on possible approaches to setting 'basic capital requirements' (BCR) for G-SIIs. The BCR aims to improve the comparability of capital held by insurers operating in different jurisdictions by, for example, developing an agreed approach to the valuation of insurance liabilities and significant asset classes. Over coming months the IAIS will conduct impact assessments of the BCR to test its effectiveness and likely effects on business. The BCR is due to be finalised by the G20 Summit in November.

In December 2013, APRA released its framework for D-SIBs in Australia. APRA's framework is based on the D-SIB principles issued by the BCBS; D-SIB frameworks have also been recently announced in other countries, such as Canada (which was discussed in the September 2013 *Review*). As discussed in 'The Australian Financial System' chapter, the four major banks have been designated as D-SIBs and they will be required to hold an additional 1 percentage point of CET1 capital by January 2016. APRA indicated that the four D-SIBs currently hold significant management capital buffers above minimum requirements; they also have strong capital generation capacity through earnings retention. As such, in APRA's view, phase-in arrangements for the additional capital requirement, beyond the two-year lead time, were unnecessary. APRA's risk-based approach to supervision already subjects institutions that pose greater systemic risks to more intensive oversight and other prudential requirements; APRA considers this heightened supervisory attention to be a key aspect of their regulatory arrangements for D-SIBs.

Jurisdictions are also proposing, or implementing, 'structural banking reforms' to help address the risks posed by SIFIs. By making institutions less complex or interconnected, such reforms aim to make it easier to resolve them without the need for taxpayer bailouts or depositors suffering losses. Recent structural banking measures are noted below.

- In the United States, regulators issued a final standard in December 2013 implementing the 'Volcker Rule', which prohibits prudentially regulated institutions from engaging in most forms of proprietary trading (i.e. short-term, speculative risk-taking by the institution unrelated to client business, as opposed to market-making) and limits their investments in managed funds. In February, the Federal Reserve finalised a new standard for 'foreign banking organisations' (FBOs) operating in the United States. Depending on the size of their US assets and their consolidated global assets, FBOs will need to comply with enhanced capital and other prudential standards. Larger FBOs will also be required to consolidate their bank and non-bank subsidiaries under an 'intermediate holding company', which would be subject to supervisory requirements generally applicable to US bank holding companies. These requirements start to come into effect in 2016.

- In January, the European Commission proposed a set of structural reforms for the European Union (EU) banking sector, based on the recommendations of a 2012 report by the 'High-level Expert Group' (the 'Liikanen' report). Under the proposal, supervisors would be given the power to require systemically important banks to transfer their high-risk trading activities, including market-making, into a separately capitalised subsidiary. Supervisors would use a number of metrics to assess whether a separation is warranted, including measures of a bank's size, leverage, complexity, market risk and interconnectedness. The proposal also includes a ban on certain proprietary trading activities. Once approved by European authorities, the ban on proprietary trading would become effective in 2017 and the potential separation requirements in 2018.
- In the United Kingdom, the Banking Reform Act was passed in December 2013, implementing the key recommendations of the 2011 report by the Independent Commission on Banking (the 'Vickers' report). The reforms are largely consistent with those by the European Commission noted above, though they are somewhat broader. They require that retail banking activities in the United Kingdom are 'ring-fenced' into an entity that is legally and operationally separate from the bank's investment banking and high-risk wholesale banking activities. Intragroup exposures between the ring-fenced entity and the rest of the bank will be limited, and ring-fenced entities will be prohibited from operating outside the European Economic Area (EEA).

  The UK Prudential Regulation Authority (PRA) released a consultation paper in February which mainly detailed its framework for supervising UK branches of banks from non-EEA countries. In particular, this framework is based on two key tests: (1) whether the supervision of a bank in its home jurisdiction is equivalent to that of the PRA; and (2) whether the PRA has assurance from the home supervisor over the bank's resolution plan in a way that reduces the impact on financial stability in the United Kingdom. In line with these tests, the PRA will determine whether the bank undertakes any critical economic functions in the United Kingdom. Depending on what these are, and their potential impact on UK financial stability, the PRA will judge whether it is content for the bank to operate as a branch in the United Kingdom. This will affect both new and existing branches of non-EEA banks.

A concern expressed by some observers is that in attempting to protect domestic taxpayers and depositors, structural banking reforms may, unintentionally, lead to harmful fragmentation of global banking and capital markets. The G20 has tasked the FSB, together with the International Monetary Fund and the Organisation for Economic Co-operation and Development, to assess the cross-border consistency and global financial stability implications of structural banking reforms, with a report due to the G20 Summit in November.

Shadow banking

The FSB continues to coordinate international work to strengthen the oversight and regulation of shadow banking systems and address the risks posed by certain entities and activities. As mentioned in the previous *Review*, recommendations have now been finalised in three areas: money market funds (MMFs), other shadow banking entities, and securitisation. The focus is now switching to implementation, using a 'roadmap' of timelines released at the September 2013 G20 Leaders Summit. IOSCO is to conduct peer reviews this year on the implementation of its MMF and securitisation recommendations, while the FSB is continuing to develop an information sharing process, as part of its policy framework relating to shadow banking entities other than MMFs.

Policy development is continuing in two other areas.

- The BCBS is working on addressing the risks arising from banks' links with shadow banks. In December 2013, the BCBS issued its policy on capital requirements for banks' equity investments in funds, which is based on the general principle that banks should apply a 'look-through' approach, by risk weighting the underlying exposures of a fund as if the exposures were directly held. As discussed in the previous *Review*, the BCBS is working on finalising its framework for measuring and controlling banks' large exposures to a single counterparty (including shadow banking entities) or group of connected counterparties. The BCBS is also continuing its work on the scope of consolidated (i.e. group-wide) supervision, given that many shadow banking entities prior to the crisis were in fact subsidiaries of banking groups.
- The FSB is progressing work in the area of securities financing transactions (SFTs), such as repurchase agreements. A particular focus is developing minimum standards for methodologies to calculate haircuts on non-centrally cleared SFTs, and a framework of numerical haircut floors. The FSB recently conducted a second quantitative impact study (QIS) on minimum haircut proposals for SFTs.

In addition to the work on shadow banking coordinated by the FSB, standard-setting bodies and national authorities are taking measures related to particular shadow banking activities. In December 2013, the BCBS released for consultation a second set of proposed revisions to the treatment of securitisation exposures held in the banking book. The financial crisis revealed several shortcomings in the existing capital treatment of banks' securitisation exposures, which meant that capital requirements were either too low or increased rapidly when credit conditions deteriorated, creating incentives for banks to sell their exposures at a loss, thus giving rise to a 'fire sale' dynamic. The revised framework has therefore been designed to be more risk-sensitive, to reduce cliff effects, and to reduce banks' mechanistic reliance on the ratings provided by credit rating agencies. It does so using a new hierarchy of approaches for banks to follow when calculating their capital requirements for securitisation exposures. A risk-weight floor of 15 per cent would apply across the proposed approaches, to account for the possibility of model risk. The BCBS will undertake a second QIS to assess the potential impact of the proposed revisions, with a view to finalising the framework by the end of 2014.

In November 2013, APRA provided an update on possible changes to its prudential regulatory framework for securitisation. APRA will consult on its proposed new framework which is based on simple, low-risk structures that make it straightforward for ADIs to use securitisation as a funding tool and for capital relief. This in turn should lead to a reduction in industry complexity, and an improvement in ADI risk allocation and management.

Domestic authorities continue to monitor developments in Australia's relatively small shadow banking sector. For example, in September 2013 the Australian Securities and Investments Commission (ASIC) released its review of the level of systemic risk posed by 'single-strategy' hedge funds. The report, which also reviewed the results of ASIC's 2012 hedge funds survey, found that Australian hedge funds do not currently appear to pose a systemic risk to the Australian economy. In December 2013, the CFR considered developments in shadow banking. CFR members agreed that risks to financial stability in Australia from shadow banking were limited, though regular attention to potential risks emerging outside the regulatory perimeter remained necessary.

Over-the-counter (OTC) derivatives markets

The cross-border reach of some jurisdictions' rules and the potential for conflicts, inconsistencies and duplicated requirements remain an important international focus for authorities overseeing OTC derivatives reforms. At the February 2014 meeting of G20 Finance Ministers and Central Bank Governors, the G20 reiterated its commitment to progressing OTC derivatives reforms in an 'outcomes-focused' manner, whereby regulators are able to defer to each other when it is justified by the quality of their respective regulatory and enforcement regimes. This commitment is being matched by recent developments in several jurisdictions, and at the international level.

- In February, authorities in the United States and the EU reached agreement on resolving their cross-border issues relating to the regulation of European trading platforms, as part of their July 2013 'Path Forward' framework.
- The OTC Derivatives Regulators Group (which comprises authorities responsible for OTC derivatives regulation in several markets, including Australia) will in April provide the G20 a list of remaining cross-border implementation issues. For the November Summit, the Group will prepare a report on how it has resolved or intends to resolve cross-border issues together with a timeline for implementing solutions.
- The FSB is to present a report to the G20 by September on jurisdictions' processes to enable them to defer to each other's OTC derivatives rules in cross-border contexts where these achieve similar outcomes. This report in turn will be used to inform discussions on whether flexible outcomes-based approaches to resolve cross-border market regulation issues can be used more widely (i.e. beyond OTC derivatives markets).

The European Securities and Markets Authority (ESMA) and the US Commodity Futures Trading Commission (CFTC) continue to assess the equivalence of other jurisdictions' regulation of OTC derivatives markets.

- ESMA's assessments of a number of countries' regimes, including Australia's, were published in late 2013. ESMA found that Australia's regulatory regimes for central counterparties (CCPs), trade repositories (TRs) and trade reporting were broadly equivalent to the EU's regulatory framework. A finding of equivalence in CCP regulation was particularly important given that ASX Clear (Futures) will need to be recognised in the EU in order to continue to admit European entities as clearing participants. However, ESMA did not find other aspects of Australia's OTC derivatives regulation to be equivalent. In particular, ESMA found no equivalent rules for risk management of non-centrally cleared trades, which in part reflects the current lack of international standards in this area. It is therefore likely that Australian market participants will need to continue complying directly with EU rules on risk management of non-centrally cleared trades, where they are either trading with European entities or if their activity is otherwise deemed to be connected to the EU.
- In December 2013, the CFTC published comparability assessments for several jurisdictions, including Australia. The CFTC granted substituted compliance for several requirements to the five Australian banks that have registered as Swap Dealers under the Dodd-Frank Act, meaning that they avoid being subject to largely duplicated regulations and only need to adhere to Australian rules. The CFTC has not yet concluded its assessment of foreign trade reporting regimes, but has extended transitional relief from reporting requirements until December 2014, or earlier if it makes a decision on comparability. The lack of international standards for risk management of non-centrally cleared trades contributed to the CFTC's decision not to grant substituted compliance in this area. Australia also does not currently have comparable mandatory clearing rules. In both cases, Australian Swap Dealers will therefore need to comply directly with CFTC rules, as well as Australian regulations.
- Separately, in February, the CFTC granted ASX Clear (Futures) 'no action' relief from the requirement to register as a Derivatives Clearing Organisation under the Dodd-Frank Act. This relief permits ASX Clear (Futures) to clear Australian or New Zealand dollar-denominated OTC interest rate derivatives for the Australian

branches of US banks. The Australian trading platform, Yieldbroker, has also received 'no action' relief by the CFTC from the requirement to register as a Swap Execution Facility, which allows US persons to continue to trade OTC derivatives on Yieldbroker. It is expected that the CFTC will develop alternative compliance regimes for facilities like ASX Clear (Futures) and Yieldbroker, which will allow the CFTC to place reliance on foreign regulators.

Australian regulators continue to implement internationally agreed reforms in OTC derivatives markets. Much of this work is progressed through the CFR.

- The government recently published a proposal to introduce mandatory clearing of interest rate derivatives denominated in US dollars, euro, British pounds and Japanese yen, which are already subject to mandatory clearing in the United States. At this stage, it is proposed that the obligation would only be applied to trades between large financial institutions with significant cross-border activity in these products. The government's proposal is consistent with recommendations from APRA, ASIC and the Bank, which were discussed in the September 2013 *Review*.
- Regulators are due to publish a third report on the Australian OTC derivatives market in early April. Among other matters, the report will consider whether to recommend mandatory clearing of Australian dollar-denominated interest rate derivatives, and also whether any mandatory clearing requirements should extend to the non-dealer community. Even without a local clearing mandate, the transition to central clearing is accelerating (see the chapter 'The Australian Financial System' for further details).
- On 1 October 2013, the four major Australian banks and Macquarie Bank started reporting OTC derivatives transactions to TRs. On 1 April 2014, a number of large financial institutions, mainly global investment banks, will start reporting under the regime, and on 1 October 2014 remaining financial entities will do the same.

In February, the FSB issued a consultation paper on a proposed feasibility study which would set out and analyse the various options for aggregating OTC derivatives data collected by TRs. The paper, developed by a group which includes the FSB, the Committee on Payment and Settlement Systems and IOSCO, discusses the key requirements and issues involved in the aggregation of TR data, and proposes criteria for assessing different aggregation models. A report with recommendations will be submitted by the group to the FSB in May.

Other developments

As part of the FSB's work on financial benchmarks, which was discussed in the previous *Review*, the Official Sector Steering Group (OSSG) established to progress this work has set up a new sub-group on foreign exchange (FX) benchmarks, co-chaired by a senior Reserve Bank executive. This follows concerns raised about the integrity of FX benchmarks, and an assessment of FX benchmarks has now been incorporated into the FSB's ongoing programme of financial benchmark analysis. The FSB will present recommendations to improve the governance and oversight of financial benchmarks, including those for FX, to the November G20 Leaders Summit. In related work, an IOSCO group, at the request of the OSSG, is currently reviewing the implementation of IOSCO's *Principles for Financial Benchmarks* by the administrators of the key interest rate benchmarks (LIBOR, EURIBOR and TIBOR). ASIC is co-chairing this group and a report is due to the OSSG in May 2014.

In November 2013, the FSB published two papers to assist supervisors in strengthening risk management practices at financial institutions. The first, *Principles for an Effective Risk Appetite Framework*, was finalised after a consultation last year, with additional clarity provided on the extent to which a financial institution's risk appetite should be applied to individual legal entities and business units. The FSB sought comments on a second paper, *Guidance on Supervisory Interaction with Financial Institutions on Risk Culture*, which aims to assist supervisors in assessing the risk culture at financial institutions. The risk culture (i.e. the institution's attitude toward, and acceptance of, risk) is an important influence on the level of risk appetite within a financial institution. The consultation ended in January, with the FSB now working on finalising the guidance.

In March, IOSCO released a consultation report, *A Comparison and Analysis of Prudential Standards in the Securities Sector*, to highlight similarities, differences and gaps among the key prudential/capital frameworks for securities firms. IOSCO is seeking feedback on the findings of the report, with a view to updating its capital standards for securities firms issued in 1989. In particular, IOSCO identifies two areas which might be considered in any update of the capital standards, namely: to identify opportunities for regulatory capital arbitrage arising from differences in prudential regulations across jurisdictions; and to assess the implications of the increasing use of internal models to determine capital requirements.

Other Domestic Regulatory Developments

Financial System Inquiry

In November, the government established a Financial System Inquiry, with wide-ranging terms of reference. The Bank will shortly make a submission to the inquiry which will provide a comprehensive overview of key developments since the Wallis Committee reported in 1997, including reforms to financial regulation and issues around funding, competition, systemic risk, payments and the role of superannuation in the Australian financial system. The inquiry is to release an interim report by mid 2014, with a final report to the government due by November.

Prudential standards

Following a consultation with industry, APRA released in January its final package of amendments designed to enhance the risk management and governance practices of APRA-regulated institutions. As discussed in the previous *Review*, the enhanced cross-industry standards for risk management and governance will apply from January 2015 to ADIs, insurers, single industry (Level 2) groups and financial conglomerates (Level 3 groups).