

Case Study 9.1.3: The Australian Prudential Regulation Authority: Managing Regulatory Complexity with XBRL

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Abstract Financial markets worldwide have been experiencing dramatic changes since the mid-1990s. In particular, these markets have become more global with the removal of exchange controls and the opening up of equity and bond markets.

Until 1998, the regulation of Australia's financial services sector was complex, with eleven separate state and federal agencies responsible for the prudential regulation of banks, life and general insurance companies, building societies, credit unions, friendly societies, and pension funds. The Australian Prudential Regulation Authority (APRA) replaced these agencies on July 1st 1998, and intended to move to integrated supervision across different institutions so that like risks would be treated alike. However, APRA had inherited a rather diverse, sub-optimal and poorly documented set of IT systems. The process of modernising these systems led to a co-operative process between APRA, the Reserve Bank of Australia (central bank) and the Australian Bureau of Statistics to revolutionise reporting by financial institutions in Australia.

This case study describes how the three agencies modernised and harmonised reporting requirements through a gradual review of the reporting returns required by each agency. This harmonisation led to the reengineering of the reporting process, since each financial institution now had to submit just one set of figures to meet the needs of the all three agencies. The case also describes the XML-based systems developed to enable online reporting by the institutions. These systems used the Extensible Business Reporting Language (XBRL), making APRA one of the first organisations worldwide to integrate XBRL into its systems. The case proceeds by describing the changes that have taken place in the aftermath of the systems implementation. It discusses how the system has allowed APRA to concentrate on regulation rather than data aggregation, and outlines how APRA provides benchmark data to financial institutions so that management within these institutions can make more informed decisions regarding their activities. The case concludes by considering how the systems may change the face of prudential regulation and the financial information supply chain.

The case study is complemented by a Technical Annex, discussing XML and XBRL, and by a teaching note with recommendations for classroom use of the case.