

Royal Commission update –Commonwealth Bank, March 2021

This update is by exception and so where implementation of recommendations has been finalised and we have reported these previously, these are not reproduced in full. Relevant recommendation numbers are noted in brackets.

Banking

Mortgage broking

Commonwealth Bank has now finalised changes required to implement the best interest duty (1.2) and changes around mortgage broker remuneration (1.3). Our Aussie Home Loans mortgage broking business implemented the best interest duty requirements from the 1 January 2021 commencement date.

We have taken significant action to address issues identified in relation to mortgage brokers. We have:

- enhanced broker accreditation standards and training requirements;
- updating broker remuneration to pay net of offset and removed volume/campaign based commissions;
- increased our governance of Head Group relationships, and
- introduced better reporting on our accredited brokers across a number of quality and customer-focused metrics.

We note the passage of legislation in December 2020 governing reference checking with respect to broker misconduct (1.6), and in January 2021, CBA participated in ASIC's consultation on the relevant regulatory standard,¹ via the Australian Banking Association and the Financial Services Council. Once the standard is finalised we can complete implementation of associated requirements.

Agribusiness Loans

CBA supports the establishment of a national, consistent farm debt mediation scheme, to ensure all farmers, irrespective of where they are located, have access to a consistent and effective service (1.11).

We have now completed implementation of all Royal Commission recommendations required of lenders with respect to agribusiness lending, specifically:

- Standards for valuations of land (1.12);
- Charging of default interest (1.13);
- Requirements around management of distressed agricultural loans (1.14).

¹ CP 333: Reference checking and Information sharing protocol and a draft instrument

When agricultural loans are in distress we now:

- Make the offer of Farm Debt Mediation earlier in the process subject to the constraints of the individual state based legislation
- Manage the loan with a view that working out is the best option and enforcement is the worst option;
- Appoint receivers as a remedy of last resort; and
- Cease charging default interest where there is no realistic prospect of the business recovering.

Industry codes

We note the passage of legislation in January 2021 allowing for the enforceability of industry codes. We look forward to participating in ASIC's consultation process on the related regulations.

Financial advice

We note the passage of legislation in February 2021 governing requirements for an annual review of on-going advice (2.1) and disclosures around a lack of independence (2.2).

We are undertaking a review of our business procedures to confirm that we no longer have any ongoing fee arrangements with customers. We have also finalised implementation required to end grandfathered commissions (2.4).

We continue to take action to implement recommendations on Reporting compliance concerns about individual advisors (2.8) and misconduct by financial advisors (2.9). We are also engaging in Treasury's consultation with respect to the broader breach reporting regime.

Superannuation

CBA's superannuation business, CFS, continues to work towards implementing structural changes such that trustees will not hold other roles (3.1), engaging closely with APRA in relation to this.

We note passage in February 2021 of legislation limiting the deduction of advice fees from MySuper accounts (3.2) and requiring an annual review of on-going advice (3.3). We are working towards the Government's revised dates for commencement of these obligations.

CFS does not proactively sell new superannuation products through branches or cold calling (3.4).

Insurance

We note ASIC is currently running a consultation on a deferred sales model for add-on insurance products (4.3), and we will respond to this consultation through industry bodies, before implementing the finalised model.

The recommendation to extend the Banking Executive Accountability Regime (BEAR) to all APRA-regulated insurers (4.12) will be addressed as part of the introduction of the Financial Accountability Regime (FAR). We look forward to Government's consultation on FAR during the course of 2021. Consistent with the views underpinning this recommendation, CBA has already developed accountability statements for our extended leadership team. These statements have been developed based on the principles established by BEAR and will assist CBA to embed a strong accountability culture.

Culture, governance

We have already made significant reforms to our remuneration frameworks and practices flowing from APRA's Independent Prudential Inquiry into CBA ('the Prudential Inquiry') (5.1, 5.2, 5.3). Full implementation will require the release of APRA's revised remuneration prudential standard.²

We continue to elevate the focus on operational and non-financial risk for every role in our organisation. We continue to develop and improve CBA's Risk Management Framework to ensure it is robust and fit-for-purpose. This means evolving our risk management practices for better risk and compliance outcomes, and to take account of changes in our operating context.

We can confirm we have implemented reforms to the remuneration of frontline staff (5.4), fully implemented the reforms flowing from the Sedgwick Review (5.5) and finalised the relevant changes with respect to changing culture and governance (5.6).

In February 2021, Stephen Sedgwick commenced a final review of retail banking remuneration practices, facilitated by the ABA, to gauge progress towards the goals of his original 2017 review. We are actively contributing to this process, including by conducting a survey of in-scope staff. We expect Mr Sedgwick to complete his final report in May 2021.

² CPS 511.