

## HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

### REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS

#### Commonwealth Bank of Australia

**CBA79QW:** In relation to the sale of 55 per cent of Colonial First State to KKR:

- (a) How did CBA manage the risk to reputation for CBA's board and shareholders that may result from the sale, considering the findings and allegations of misconduct against KKR, including:
- Alleged misconduct relating to breach of fiduciary duties in its dealings with the public pension fund Kentucky Retirement System, currently before the courts in the United States;
  - Being charged by the US Securities and Exchange Commission with 'misallocating more than US\$17 million in so-called "broken-deal" expenses to its flagship private equity funds in breach of its fiduciary duty' in 2015; and
  - Allegations of misconduct against KKR and a number of other large private equity firms, raised in an anti-trust lawsuit, settled in 2014.
- (b) What specific due diligence procedures did CBA undertake in relation to the sale? Given the conduct and allegations outlined above, were these procedures in addition to standard practice?
- (c) What did CBA consider to ensure this conduct and allegations would not have negative impacts on members' outcomes?

**Answer:** (a) CBA considered KKR as a future shareholder and the benefits KKR could offer both CFS and its members through significant investment in the business. CBA believes the KKR partnership will bring significant member benefits through a commitment to invest in a range of transformation initiatives including:

- A simplified product offering with competitive pricing and choice for members;
- An improved service experience across multiple channels, including accelerated investment in digital channels;
- Modernised technology system to deliver a market leading superannuation service to members; and
- Better access to member education, support and self-service tools, to help Australians navigate the complexities of the superannuation and pension system.

(b) CBA undertook its standard buyer due diligence procedures prior to signing a transaction with KKR. These due diligence procedures included Anti-Bribery & Corruption, Know Your Customer/Anti-Money Laundering and Economic Trade & Sanctions checks.

(c) CBA undertook buyer due diligence on KKR prior to entering into the transaction. The superannuation funds within Colonial First State are managed by a trustee with a majority independent board whose primary duty is to members of its fund. All super funds in Australia are strictly regulated under the Superannuation Industry (Supervision) Act.