Commonwealth Bank Royal Commission implementation update

This update is by exception and so where implementation of recommendations has been finalised and we have reported these previously, we do not reproduce those items in full.

Banking

Mortgage broking

Ensuring a strong and sustainable mortgage broking industry is important.

We have taken significant action to address issues identified during the Royal Commission. In relation to mortgage brokers this includes:

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

We continue to progress measures in line with (and where possible, ahead of) the Government's implementation timeframes, including recent changes due to the pandemic.

CBA notes legislation passed early this year, followed by the ASIC regulatory guide (RG 273, published 24 June 2020) introducing a best interest duty for brokers, to commence 1 January 2021. CBA has provided more information to brokers as part of our action plan to support the new best interests duty (1.2). Aussie Home Loans implemented the best interests duty for brokers in July (ahead of the January 2021 commencement).

We note the passage of legislation on conflicted remuneration early this year, and forthcoming final Regulations. In line with the Combined Industry Forum's (CIF) work, CBA has changed how we remunerate our mortgage brokers by paying upfront commissions based on the funds drawn down and utilised by a customer.

We have also banned volume / campaign based commissions, and set clear guidelines on soft dollar benefits. CBA will work to further change remuneration models as necessary to implement the detail contained in the Regulations once finalised, noting these new rules will now commence on 1 January 2021 (1.3).

On the information-sharing and reporting obligations, we are anticipating the passage of underlying legislation, and will constructively engage in any ASIC consultation on a draft Reference Checking / Information Sharing Protocol. In related work, CBA has implemented a range of measures to measure the quality and service provided by brokers and Head Groups. This information is shared with Head Groups through the Partner

Quality Assurance Scheme (PQAS) and with brokers through broker segmentation. CBA has also improved broker monitoring. We will continue to review and update the quality metrics to include additional CIF recommendations, such as arrears and customer complaints and align with CIF and Group guidance around information sharing and reporting as it is finalised. (1.6).

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 established a national external panel of valuation firms to undertake valuations on rural properties. We discontinued new internal valuations from 1 November 2019. Bankwest does not undertake internal valuations on rural properties (1.12).

In February 2019, we announced that we would no longer charge default interest on agricultural business term loans in the event of a drought or other natural disaster, aligning to the agreed ABA definition (1.13).

We have implemented our announcement from February 2019 that CBA will not charge default interest where there is no realistic prospect of recovery (1.14).

Where 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.

Financial advice

We conducted a thorough review of the Group's businesses and its optimal organisational structure to drive growth, and decided to sell or close our self-employed advice channels Count, Financial Wisdom and CFP-Pathways.

On 4 February 2019 we announced that CFP would not enter into any new ongoing service arrangements, and we commenced the process to stop charging ongoing service fees to existing customers. From 1 September 2019 CBA customers who receive advice from CFP will only be charged fees after service has been delivered. As well as ensuring transparency, this new system will give these customers greater flexibility and the power to choose how often they want their plans reviewed, rather than the annual reviews that are part of the ongoing service fee model.

We sold Count in October 2019 and the closure of Financial Wisdom and Pathways has been completed.

We support an industry-wide transition away from grandfathered commissions, in a manner that can provide uniformity and certainty in the industry. We committed to rebating all grandfathered commissions to CFP clients for investment and superannuation products, benefitting around 50,000 clients by approximately $20 million annually. By 30 July 2020, CFP had ceased or rebated 99% of all grandfathered commissions. Commonwealth Private has turned off all grandfathered commissions (2.4).

Noting the future passage of legislation underpinning improved breach reporting and responses to misconduct for the financial advice sector, CBA will make any necessary further changes to our processes based on detail in the final legislation and in regulatory guidance from ASIC on relevant reporting, investigation and remediation criteria (2.8, 2.9).

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, ahead of the new legislative implementation date of 1 January 2021.

CFS continues to work towards ensuring that members who pay ongoing advice service fees provide the trustee with an updated written consent to continue doing so; and to update advice fee disclosures (3.3).

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

Insurance

CBA has ceased the sale of new Credit Card Plus and Personal Loan Protection insurance. In relation to a deferred sales model for add-on insurance, CBA will make any further changes as required by forthcoming legislation (4.3).

Regarding the recommendation to extend the Banking Executive Accountability Regime (BEAR) to all APRA-regulated insurers (4.12), CBA via the ABA has engaged in the consultations by Government on the regime's expansion. Consistent with the views underpinning this recommendation, CBA has developed accountability statements for our extended leadership team, including those in our insurance and superannuation businesses. 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**).

CBA has continued to enhance the risk and remuneration consequences approach in FY20 focusing on risk culture, alignment of remuneration with prudent risk taking, risk assessments within the performance assessment process, and malus provisions.

We continue to review and revise employee variable remuneration and recognition programs, as well as our approach to coaching, communication and performance, to reflect this shift.

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.

CBA has implemented the recommendations of the Sedgwick Retail Banking Remuneration Review for Retail customer facing employees and their leaders (**5.5**). With the exception of lending roles, all retail frontline roles participate in the Group-wide discretionary STVR plan.

For FY20, for all employees across the Group, any financial KPI outcomes cannot have more than a 30% weighting attributed in the performance scorecard (for FY19, it was a maximum of 40% weighting); while customer measures are required have a minimum 25% weight. We have guidelines to reinforce the appropriate use of performance reporting (e.g. visual management boards) for retail customer-facing roles, which cannot be based solely on sales, and do not permit the use of leaderboards. An audit of performance reporting is conducted annually.

Additionally, we have implemented the process of annual reviews to examine the effectiveness of our remuneration frameworks for frontline roles (**5.4**). We also have very clear criteria to assess the overall effectiveness of our remuneration policy and practices, with a comprehensive review conducted every three years, and a defined scope review in intervening years.

On reforms to our overall approach to culture and governance (**5.6**), progress continues towards implementing the recommendations from the Prudential Inquiry. We remain on track to deliver on a comprehensive program of governance culture and accountability improvements, with 79% of milestones submitted to the independent reviewer, Promontory Australia.

CBA welcomed APRA's risk culture survey of CBA staff in the middle of this year. We fully support this survey and we have encouraged our staff to be open and honest in their responses.