

Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry

Westpac Group implementation progress update – April 2021

Overview

Since our last update to the Committee, the Government has progressed the implementation of Royal Commission recommendations in accordance with the updated timeline it announced on 8 May 2020. Westpac has completed implementation of changes relating to several recommendations which came into effect on 1 January 2021 and is progressing programs of work on a number of other recommendations which will become effective at later dates.

Of the Royal Commission's 76 recommendations, 47 recommendations presently apply to Westpac. So far:

- 15 have been implemented. This includes proactive implementation ahead of the legislative and regulatory agenda where appropriate.
- 19 are being implemented. In many cases Westpac has put in place processes to comply with legislative requirements pending completion of its internal governance. Some recommendations will require legislative or regulatory action before implementation can be completed.
- 13 require legislative or regulatory action before implementation work can commence. We are undertaking preparatory work where possible, including through participation in Government consultation.

Since the last update, we have identified one additional recommendation that now applies to Westpac given an expected change to the small business definition in the Banking Code of Practice, and we have now classified four recommendations as "non applicable" given they require action by industry associations and not Westpac in the first instance.

Updates on status against the full set of recommendations that presently apply to Westpac are included in the accompanying table.



ROYAL COMMISSION RECOMMENDATIONS APPLICABLE TO WESTPAC

The table below includes a status update against the 47 recommendations that presently apply to Westpac.

RECOMMENDATION	WESTPAC STATUS
BANKING	
<p>Recommendation 1.2: Mortgage broker best interests duty</p> <p>The law should be amended to provide that, when acting in connection with home lending, mortgage brokers must act in the best interests of the intending borrower. The obligation should be a civil penalty provision.</p>	<p>Legislation has been passed to introduce the Best Interests Duty and Westpac has processes and controls to monitor compliance with the Best Interests Duty</p>
<p>Recommendation 1.3: Mortgage broker remuneration</p> <p>The borrower, not the lender, should pay the mortgage broker a fee for acting in connection with home lending.</p> <p>Changes in brokers' remuneration should be made over a period of two or three years, by first prohibiting lenders from paying trail commission to mortgage brokers in respect of new loans, then prohibiting lenders from paying other commissions to mortgage brokers.</p>	<p>Legislation has been passed to change broker remuneration and Westpac has processes and controls to monitor compliance with these changes</p>
<p>Recommendation 1.5: Mortgage brokers as financial advisers</p> <p>After a sufficient period of transition, mortgage brokers should be subject to and regulated by the law that applies to entities providing financial product advice to retail clients.</p>	<p>The Government stated in its Implementation Roadmap that this recommendation will be progressed following the review of financial advice reforms (recommendation 2.3), given that review may recommend changes to the regulation of financial advisers.</p> <p>Once the outcome of that review is known, Westpac will review and determine what action is required to comply.</p>
<p>Recommendation 1.6: Misconduct by mortgage brokers</p> <p>ACL holders should:</p> <ul style="list-style-type: none"> be bound by information-sharing and reporting obligations in respect of mortgage brokers similar to those referred to in Recommendations 2.7 and 2.8 for financial advisers; and take the same steps in response to detecting misconduct of a mortgage broker as those referred to in Recommendation 2.9 for financial advisers. 	<p>Legislation implementing this recommendation has now been passed with a commencement date of 1 October 2021. ASIC has consulted on a draft legislative instrument and information sheet on a reference checking protocol.</p> <p>Westpac has a program of work underway to implement any changes necessary to comply both with the legislation and the ASIC legislative instrument (once finalised).</p>
<p>Recommendation 1.7: Removal of point-of-sale exemption</p> <p>The exemption of retail dealers from the operation of the NCCP Act should be abolished.</p>	<p>Draft legislation has not been released yet.</p> <p>Westpac will review the draft legislation once it is released and determine what action is required to comply.</p>



RECOMMENDATION	WESTPAC STATUS
<p>Recommendation 1.8: Amending the Banking Code</p> <p>The ABA should amend the Banking Code to provide that:</p> <ul style="list-style-type: none"> • banks will work with customers: <ul style="list-style-type: none"> ○ who live in remote areas; or ○ who are not adept in using English, to identify a suitable way for those customers to access and undertake their banking; • if a customer is having difficulty proving his or her identity, and tells the bank that he or she identifies as an Aboriginal or Torres Strait Islander person, the bank will follow AUSTRAC's guidance about the identification and verification of persons of Aboriginal or Torres Strait Islander heritage; • without prior express agreement with the customer, banks will not allow informal overdrafts on basic accounts; and • banks will not charge dishonour fees on basic accounts. 	<p>The revised Code took effect on 1 March 2020. Westpac has implemented changes to comply with the recommendation, as reflected in the revised Code.</p>
<p>Recommendation 1.10: Definition of 'small business'</p> <p>The ABA should amend the definition of 'small business' in the Banking Code so that the Code applies to any business or group employing fewer than 100 full-time equivalent employees, where the loan applied for is less than \$5 million.</p>	<p>The ABA has completed an independent review of the definition of 'Small Business' and has notified ASIC that it intends to increase the monetary borrowing cap to \$5 million as part of its 2021 review of the Banking Code of Practice.</p> <p>Westpac will undertake a program of work to ensure that we are compliant with the expanded definition when it comes into force.</p>
<p>Recommendation 1.11: Farm debt mediation</p> <p>A national scheme of farm debt mediation should be enacted.</p>	<p>Westpac has long advocated for a nationally harmonised farm debt mediation scheme modelled on the Farm Debt Mediation Act 1994 (NSW), which it believes is the most robust scheme. This will ensure consistency and certainty for customers and the bank.</p> <p>Westpac will review the scheme once established and determine if any action is required by Westpac to comply with the scheme and this recommendation.</p>
<p>Recommendation 1.12: Valuations of land</p> <p>APRA should amend Prudential Standard APS 220 to:</p> <ul style="list-style-type: none"> • require that internal appraisals of the value of land taken or to be taken as security should be independent of loan origination, loan processing and loan decision processes; and • provide for valuation of agricultural land in a manner that will recognise, to the extent possible: <ul style="list-style-type: none"> ○ the likelihood of external events affecting its realisable value; and ○ the time that may be taken to realise the land at a reasonable price affecting its realisable value. 	<p>APRA issued a final draft of revised Prudential Standard APS 220 in December 2019. The revised Standard has a proposed effective date of 1 January 2022.</p> <p>A program of work is underway to implement changes required by APS 220 and in respect of the first limb of this recommendation Westpac has appointed external valuers to carry out all agricultural land valuations.</p>
<p>Recommendation 1.13: Charging default interest</p> <p>The ABA should amend the Banking Code to provide that, while a declaration remains in force, banks will not charge default interest on loans secured by agricultural land in an area declared to be affected by drought or other natural disaster.</p>	<p>Westpac has already addressed this recommendation through implementing a solution to not charge default interest on business loans secured by agricultural land in the event of a drought or other natural disaster.</p>

RECOMMENDATION	WESTPAC STATUS
<p>Recommendation 1.14: Distressed agricultural loans</p> <p>When dealing with distressed agricultural loans, banks should:</p> <ul style="list-style-type: none"> • ensure that those loans are managed by experienced agricultural bankers; • offer farm debt mediation as soon as a loan is classified as distressed; • manage every distressed loan on the footing that working out will be the best outcome for bank and borrower, and enforcement the worst; • recognise that appointment of receivers or any other form of external administrator is a remedy of last resort; and • cease charging default interest when there is no realistic prospect of recovering the amount charged. 	<p>Westpac has updated its policies and procedures to address each aspect of this recommendation.</p> <p>Westpac has experienced agricultural bankers in place to manage distressed loans and additional processes, such as the use of ethical checklists to ensure that the appointment of receivers or other enforcement steps are only ever used as a last resort.</p>
<p>Recommendation 1.17: BEAR product responsibility</p> <p>After appropriate consultation, APRA should determine for the purposes of section 37BA(2)(b) of the Banking Act, a responsibility, within each ADI subject to the BEAR, for all steps in the design, delivery and maintenance of all products offered to customers by the ADI and any necessary remediation of customers in respect of any of those products.</p>	<p>On 28 June 2019, APRA provided a consultation letter to all authorised deposit-taking institutions, including Westpac. Westpac provided a formal submission on 23 August 2019 in response to the consultation paper. The submission was supportive of end-to-end product responsibility and sought clarification on our interpretation.</p> <p>The Government has announced that the work and outcomes of this consultation on end-to-end product responsibility will be subsumed into the Government's Financial Accountability Regime. APRA intends to release further information on product responsibility when the Government consults on the exposure draft legislation and the implementation timeframe for the new regime.</p>

RECOMMENDATION
WESTPAC STATUS
FINANCIAL ADVICE
Recommendation 2.1: Annual renewal and payment

The law should be amended to provide that ongoing fee arrangements (whenever made):

- must be renewed annually by the client;
- must record in writing each year the services that the client will be entitled to receive and the total of the fees that are to be charged; and
- may neither permit nor require payment of fees from any account held for or on behalf of the client except on the client's express written authority to the entity that conducts that account given at, or immediately after, the latest renewal of the ongoing fee arrangement.

Although Westpac exited the provision of personal financial advice by salaried financial planners and authorised representatives on 30 September 2019, this recommendation applies to Westpac as it provides platform services and products to customers.

Legislation giving effect to this recommendation has now been passed with an effective date of 1 July 2021 for Ongoing Fee Arrangements entered into on or after that date and there are transitional provisions applying until 1 July 2022 in relation to OFAs in force immediately before 1 July 2021.

Westpac has a program of work underway to implement the necessary changes applicable to product providers to accept and process client consents in conjunction with the changes under recommendation 3.3 (see below).

Recommendation 2.2: Disclosure of lack of independence

The law should be amended to require that a financial adviser who would contravene section 923A of the Corporations Act by assuming or using any of the restricted words or expressions identified in section 923A(5) (including 'independent', 'impartial' and 'unbiased') must, before providing personal advice to a retail client, give to the client a written statement (in or to the effect of a form to be prescribed) explaining simply and concisely why the adviser is not independent, impartial and unbiased.

Legislation giving effect to this recommendation has now been passed with an effective date of 1 July 2021 for FSGs provided to new clients on or after that date. A transitional period applies where an FSG has been given to the client before 1 July 2021 and the financial services are to be provided on or after 1 July 2021, which will require an updated FSG or Supplementary FSG that contains the relevant disclosure to be provided to the client before the financial services is provided.

Westpac will implement any changes necessary to comply.

Recommendation 2.4: Grandfathered commissions

Grandfathering provisions for conflicted remuneration should be repealed as soon as is reasonably practicable.

Legislation came into effect on 1 January 2021 to end grandfathered commissions and requiring product manufacturers to pass through to their retail clients the benefits of any previously grandfathered conflicted commissions still in contracts after 1 January 2021. Westpac undertook a program of work to cease the payment of grandfathered commissions and will be complying with its obligations to pass through any applicable rebates to retail clients.

RECOMMENDATION	WESTPAC STATUS
<p>Recommendation 2.7: Reference checking and information sharing</p> <p>All AFSL holders should be required, as a condition of their licence, to give effect to reference checking and information-sharing protocols for financial advisers, to the same effect as now provided by the ABA in its 'Financial Advice – Recruitment and Termination Reference Checking and Information Sharing Protocol'.</p>	<p>Westpac provides references consistent with the ABA reference checking protocol to any requesting licensee provided we have received adviser consent.</p> <p>On 30 September 2019, the exit of the provision of personal financial advice by Westpac Group salaried financial planners and authorised representatives was completed, however, we have retained a team with the capabilities to continue managing the reference checking process.</p> <p>Legislation implementing this recommendation has now been passed with a commencement date of 1 October 2021. The legislation provides for ASIC to issue a legislative instrument in respect of reference checking. Westpac has actively engaged in ASIC's consultation on the draft legislative instrument and will review and amendments to draft instrument once it is finalised and will make any changes necessary to comply.</p>
<p>Recommendation 2.8: Reporting compliance concerns</p> <p>All AFSL holders should be required, as a condition of their licence, to report 'serious compliance concerns' about individual financial advisers to ASIC on a quarterly basis.</p>	<p>Westpac currently has a well-developed process of reporting 'serious compliance concerns' about financial advisers to ASIC, as soon as possible (as opposed to on a quarterly basis).</p> <p>Westpac exited the provision of personal financial advice by salaried financial planners and authorised representatives on 30 September 2019. Accordingly, this recommendation can only apply to financial adviser conduct arising prior to that date.</p> <p>Legislation implementing this recommendation has now been passed with a commencement date of 1 October 2021.</p> <p>Westpac has a program of work underway to implement any changes necessary to comply.</p>
<p>Recommendation 2.9: Misconduct by financial advisers</p> <p>All AFSL holders should be required, as a condition of their licence, to take the following steps when they detect that a financial adviser has engaged in misconduct in respect of financial advice given to a retail client (whether by giving inappropriate advice or otherwise):</p> <ul style="list-style-type: none"> • make whatever inquiries are reasonably necessary to determine the nature and full extent of the adviser's misconduct; and • where there is sufficient information to suggest that an adviser has engaged in misconduct, tell affected clients and remediate those clients promptly. 	<p>Westpac has well-developed processes to determine the nature and full extent of an adviser's misconduct, tell affected clients and remediate those clients promptly.</p> <p>Westpac exited the provision of personal financial advice by salaried financial planners and authorised representatives on 30 September 2019. Accordingly, this recommendation can only apply to financial adviser conduct arising prior to that date.</p> <p>Legislation implementing this recommendation has now been passed with a commencement date of 1 October 2021.</p> <p>Westpac has a program of work underway to implement any changes necessary to comply.</p>

RECOMMENDATION	WESTPAC STATUS
<p>Recommendation 2.10: A new disciplinary system</p> <p>The law should be amended to establish a new disciplinary system for financial advisers that:</p> <ul style="list-style-type: none"> a) requires all financial advisers who provide personal financial advice to retail clients to be registered; b) provides for a single, central, disciplinary body; c) requires AFSL holders to report 'serious compliance concerns' to the disciplinary body; and d) allows clients and other stakeholders to report information about the conduct of financial advisers to the disciplinary body. 	<p>On 30 September 2019, the exit of the provision of personal financial advice by Westpac Group salaried financial planners and authorised representatives was completed and accordingly this recommendation, once implemented through amending legislation, is not expected to have any application to Westpac.</p> <p>As and when the new disciplinary system is established Westpac will consider further whether it applies to Westpac (in any way) – including whether any changes to our processes are required in order to comply with sub-recommendation (c).</p>

RECOMMENDATION	WESTPAC STATUS
SUPERANNUATION	
<p>Recommendation 3.1: No other role or office</p> <p>The trustee of an RSE should be prohibited from assuming any obligations other than those arising from or in the course of its performance of the duties of a trustee of a superannuation fund.</p>	<p>Legislation giving effect to this recommendation has now been passed with an effective date of 1 July 2021.</p> <p>Westpac has a program of work underway to assess and implement any changes necessary to comply.</p>
<p>Recommendation 3.2: No deducting advice fees from MySuper accounts</p> <p>Deduction of any advice fee (other than for intra-fund advice) from a MySuper account should be prohibited.</p>	<p>Legislation prohibiting the deduction of ongoing advice fees from MySuper has now been passed with an effective date of 1 July 2021 for fees payable under an arrangement entered into on or after that date, with a transitional period applying until 1 July 2022 in relation to any existing arrangements entered into before 1 July 2021.</p> <p>Westpac implemented this recommendation by 31 December 2020, prohibiting the deduction of both one-off and ongoing advice fees from MySuper based on draft legislation. The final legislation as passed only prohibited the deduction of ongoing advice fees from MySuper and therefore the ability to charge one-off advice fees on MySuper accounts was reintroduced in February 2021 for BT Super/ BT Super for Life/ Westpac Group Plan.</p>
<p>Recommendation 3.3: Limitations on deducting advice fees from choice accounts</p> <p>Deduction of any advice fee (other than for intra fund advice) from superannuation accounts other than MySuper accounts should be prohibited unless the requirements about annual renewal, prior written identification of service and provision of the client's express written authority set out in Recommendation 2.1 in connection with ongoing fee arrangements are met.</p>	<p>Legislation giving effect to this recommendation has now been passed with an effective date of 1 July 2021 for fees payable under an arrangement entered into on or after that date, with a transitional period applying until 1 July 2022 in relation to any existing arrangements entered into before 1 July 2021.</p> <p>Westpac has a program of work underway to implement any changes necessary to comply (refer 2.1 commentary).</p>
<p>Recommendation 3.4: No hawking</p> <p>Hawking of superannuation products should be prohibited. That is, the unsolicited offer or sale of superannuation should be prohibited except to those who are not retail clients and except for offers made under an eligible employee share scheme. The law should be amended to make clear that contact with a person during which one kind of product is offered is unsolicited unless the person attended the meeting, made or received the telephone call, or initiated the contact for the express purpose of inquiring about, discussing or entering into negotiations in relation to the offer of that kind of product.</p>	<p>Legislation giving effect to this recommendation has now been passed with an effective date of 5 October 2021.</p> <p>Westpac has a program of work underway to implement any necessary changes to comply.</p>

RECOMMENDATION	WESTPAC STATUS
<p>Recommendation 3.5: One default account</p> <p>A person should have only one default account. To that end, machinery should be developed for ‘stapling’ a person to a single default account.</p>	<p>In February 2021 the Government introduced Treasury Laws Amendment (Your Future, Your Super) Bill 2021 to Parliament which would give effect to this recommendation from 1 July 2021. Westpac is supporting employer groups in understanding their obligations as part of this change.</p>
<p>Recommendation 3.6: No treating of employers</p> <p>Section 68A of the SIS Act should be amended to prohibit trustees of a regulated superannuation fund and associates of a trustee, doing any of the acts specified in section 68A(1)(a), (b) or (c) where the act may reasonably be understood by the recipient to have a substantial purpose of having the recipient nominate the fund as a default fund or having one or more employees of the recipient apply or agree to become members of the fund.</p> <p>The provision should be a civil penalty provision enforceable by ASIC.</p>	<p>Legislation has been passed to implement this recommendation by amending section 68A of the Superannuation Industry (Supervision) Act 1993.</p> <p>Westpac has implemented this recommendation and has processes and controls to monitor compliance with the expanded “no treating” obligations under s68A.</p>
<p>Recommendation 3.9: Accountability regime</p> <p>Over time, provisions modelled on the BEAR should be extended to all RSE licensees, as referred to in Recommendation 6.8.</p>	<p>Westpac’s current BEAR mapping processes extend to its RSE subsidiaries.</p> <p>The Government published for consultation a proposal paper to extend the BEAR on 22 January 2020. The consultation closed on 14 February 2020 and Westpac made a submission.</p> <p>The Government has not yet determined an implementation timeframe and intends to consult on timeframes as part of the consultation on the exposure draft legislation.</p> <p>Westpac will review exposure draft legislation once released and make any changes necessary to comply.</p>

RECOMMENDATION	WESTPAC STATUS
INSURANCE	
<p>Recommendation 4.1: No hawking of insurance</p> <p>Consistently with recommendation 3.4, which prohibits the hawking of superannuation products, hawking of insurance products should be prohibited.</p>	<p>Legislation giving effect to this recommendation has now been passed with an effective date of 5 October 2021.</p> <p>Westpac has a program of work underway to implement this legislation.</p>
<p>Recommendation 4.3: Deferred sales model for add-on insurance</p> <p>A Treasury-led working group should develop an industry-wide deferred sales model for the sale of any add-on insurance products (except policies of comprehensive motor insurance). The model should be implemented as soon as is reasonably practicable.</p>	<p>Legislation giving effect to this recommendation has now been passed with an effective date of 5 October 2021.</p> <p>Westpac has a program of work underway to implement this legislation.</p>
<p>Recommendation 4.5: Duty to take reasonable care not to make a misrepresentation to an insurer</p> <p>Part IV of the Insurance Contracts Act should be amended, for consumer insurance contracts, to replace the duty of disclosure with a duty to take reasonable care not to make a misrepresentation to an insurer (and to make any necessary consequential amendments to the remedial provisions contained in Division 3).</p>	<p>Legislation giving effect to this recommendation has now been passed with an effective date of 5 October 2021</p> <p>Westpac has a program of work underway to implement this legislation.</p>
<p>Recommendation 4.6: Avoidance of life insurance contacts</p> <p>Section 29(3) of the Insurance Contracts Act should be amended so that an insurer may only avoid a contract of life insurance on the basis of non-disclosure or misrepresentation if it can show that it would not have entered into a contract on any terms.</p>	<p>Legislation giving effect to this recommendation has now been passed with an effective date of 1 January 2021.</p> <p>Westpac has completed its program of work to be compliant with this legislation.</p>
<p>Recommendation 4.7: Application of unfair contract terms provisions to insurance contracts</p> <p>The unfair contract terms provisions now set out in the ASIC Act should apply to insurance contracts regulated by the Insurance Contracts Act. The provisions should be amended to provide a definition of the 'main subject matter' of an insurance contract as the terms of the contract that describe what is being insured.</p> <p>The duty of utmost good faith contained in section 13 of the Insurance Contracts Act should operate independently of the unfair contract terms provisions.</p>	<p>Legislation has been passed to extend the unfair contract terms regime to insurance contracts, with application from 5 April 2021.</p> <p>Westpac is undertaking a program of work to update its product disclosure documentation and related collateral against the requirements of the legislation to comply with the unfair contracts terms regime.</p>

RECOMMENDATION	WESTPAC STATUS
<p>Recommendation 4.8: Removal of claims handling exemption</p> <p>The handling and settlement of insurance claims, or potential insurance claims, should no longer be excluded from the definition of 'financial service'.</p>	<p>Legislation giving effect to this recommendation has been passed with mandatory compliance from 1 January 2022.</p> <p>Westpac has a program of work underway to implement this legislation.</p>
<p>Recommendation 4.11: Co-operation with AFCA</p> <p>Section 912A of the Corporations Act should be amended to require that AFSL holders take reasonable steps to co-operate with AFCA in its resolution of particular disputes, including, in particular, by making available to AFCA all relevant documents and records relating to issues in dispute.</p>	<p>Westpac has principles and processes in place to engage with AFCA co-operatively, including being open and co-operative in providing relevant documents related to issues in dispute.</p>
<p>Recommendation 4.12: Accountability regime</p> <p>Over time, provisions modelled on the BEAR should be extended to all APRA-regulated insurers, as referred to in Recommendation 6.8.</p>	<p>Westpac's current BEAR mapping processes extend to its insurance business subsidiaries.</p> <p>The Government published for consultation a proposal paper to extend the BEAR on 22 January 2020. The consultation closed on 14 February 2020 and Westpac made a submission.</p> <p>Westpac understands that the Government intends to consult on implementation timeframes as part of its consultation on the exposure draft legislation..</p> <p>Westpac will review exposure draft legislation once released and determine any actions that are required to comply.</p>
<p>Recommendation 4.13: Universal terms review</p> <p>Treasury, in consultation with industry, should determine the practicability, and likely pricing effects, of legislating universal key definitions, terms and exclusions for default MySuper group life policies.</p>	<p>Westpac is awaiting further updates from Treasury following its 2019 consultation. Westpac will review any proposed changes arising out of the Treasury review and determine if any actions are required to comply with any changes.</p>
<p>Recommendation 4.14: Additional scrutiny for related party engagements</p> <p>APRA should amend Prudential Standard SPS 250 to require RSE licensees that engage a related party to provide group life insurance, or who enter into a contract, arrangement or understanding with a life insurer by which the insurer is given a priority or privilege in connection with the provision of life insurance, to obtain and provide to APRA within a fixed time, independent certification that the arrangements and policies entered into are in the best interests of members and otherwise satisfy legal and regulatory requirements.</p>	<p>APRA issued a further consultation draft of SPS 250 in January 2021 for review. This draft indicates a commencement date of 1 January 2022.</p> <p>Westpac will review the final SPS 250 once released and determine any actions to comply with the Prudential Standard and this recommendation.</p>
<p>Recommendation 4.15: Status attribution to be fair and reasonable</p> <p>APRA should amend Prudential Standard SPS 250 to require RSE licensees to be satisfied that the rules by which a particular status is attributed to a member in connection with insurance are fair and reasonable.</p>	<p>As stated above for RC 4.14, the final version of SPS 250 has not yet been released.</p> <p>Westpac will review the final SPS 250 once released and take any actions required to ensure its existing practices comply with the Prudential Standard and this recommendation.</p>

RECOMMENDATION
WESTPAC STATUS
CULTURE, GOVERNANCE AND REMUNERATION
Recommendation 5.1: Supervision of remuneration – principles, standards and guidance

In conducting prudential supervision of remuneration systems, and revising its prudential standards and guidance about remuneration APRA should give effect to the principles, standards and guidance set out in the Financial Stability Board's publications concerning sound compensation principles and practices. Recommendations 5.2 and 5.3 explain and amplify aspects of this Recommendation.

On 23 July 2019, APRA released a discussion paper and draft Prudential Standard CPS 511 to strengthen remuneration practices across all APRA-regulated entities. Consultation on the proposed reforms took place in October 2019 and APRA has been considering the extensive feedback received. Westpac provided its response on 18 October 2019.

Due to the COVID-19 pandemic, APRA suspended all substantive public consultations and actions to finalise revisions to the prudential framework that are currently underway or upcoming, including consultations on prudential and reporting standards. On 12 November 2020, APRA released an updated draft Prudential Standard CPS 511 to strengthen remuneration practices across all APRA-regulated entities for a second round of consultation. Westpac provided its response by the deadline of 12 February 2021.

APRA intends to release the final CPS 511 Prudential Standard in mid-2021. Westpac will review the final CPS 511 and make any changes necessary to comply with the Prudential Standard and this recommendation.

Recommendation 5.2: Supervision of remuneration – aims

In conducting prudential supervision of the design and implementation of remuneration systems, and revising its prudential standards and guidance about remuneration, APRA should have, as one of its aims, the sound management by APRA-regulated institutions of not only financial risk but also misconduct, compliance and other non-financial risks.

Refer to 5.1.

Recommendation 5.3: Revised prudential standards and guidance

In revising its prudential standards and guidance about the design and implementation of remuneration systems, APRA should:

- require APRA-regulated institutions to design their remuneration systems to encourage sound management of non-financial risks, and to reduce the risk of misconduct;
- require the board of an APRA-regulated institution (whether through its remuneration committee or otherwise) to make regular assessments of the effectiveness of the remuneration system in encouraging sound management of non-financial risks, and reducing the risk of misconduct;
- set limits on the use of financial metrics in connection with long-term variable remuneration;
- require APRA-regulated institutions to provide for the entity, in appropriate circumstances, to claw back remuneration that has vested; and
- encourage APRA-regulated institutions to improve the quality of information being provided to boards and their committees about risk management performance and remuneration decisions.

Refer to 5.1.

RECOMMENDATION	WESTPAC STATUS
<p>Recommendation 5.4: Remuneration of frontline staff</p> <p>All financial services entities should review at least once each year the design and implementation of their remuneration systems for front line staff to ensure that the design and implementation of those systems focus on not only what staff do, but also how they do it.</p>	<p>Westpac conducts an annual review of the design and implementation of remuneration arrangements for our front-line roles (as defined by the Sedgwick Review). We have established governance committees to support the review and approval of front-line performance and reward frameworks and have a structured framework to annually test and understand the effectiveness of our remuneration arrangements.</p> <p>Key changes over the last few years have focused on continuing to support our service culture and strategy and ensure continued compliance with the Sedgwick recommendations.</p> <p>Examples include:</p> <ul style="list-style-type: none"> from 1 October 2020, most Branch and Call Centre frontline roles will be on a fixed pay only approach; this means we are replacing variable reward with a permanent fixed pay increase. This will empower our people to be more flexible, and to focus solely on doing exactly what our customers need, without being concerned about what is means for their pay; limiting financial measures in balanced scorecards for lender roles to no more than 30%; introducing a maximum variable reward cap for lending roles of 50% of fixed pay effective from 1 October 2019. Only a very small number of lender roles have earned above this level historically and the majority receive well below 50% of fixed pay in variable reward; and introducing consistent application for risk and conduct consequences across all roles, including front line roles within the group.
<p>Recommendation 5.5: The Sedgwick Review</p> <p>Banks should implement fully the recommendations of the Sedgwick Review.</p>	<p>Westpac has been compliant with the Sedgwick recommendations relating to its employees since 1 October 2018. Westpac has implemented all Sedgwick Recommendations relating to third-party arrangements effective from 1 January 2019 (excluding Recommendation 18 relating to mortgage broker remuneration given the Government's policy reform in this area).</p>
<p>Recommendation 5.6: Changing culture and governance</p> <p>All financial services entities should, as often as reasonably possible, take proper steps to:</p> <ul style="list-style-type: none"> Assess the entity's culture and its governance; Identify any problems with that culture and governance; Deal with those problems; and Determine whether the changes it has made have been effective. 	<p>Westpac has frameworks in place which encompass regular assessments of risk culture, organisational culture and governance.</p> <p>In addition to the regular assessments, other more detailed reviews of are undertaken to determine the effectiveness of our existing programs. In 2018, Westpac carried out a self-assessment of culture, governance and accountability (CGA) frameworks and practices. In 2019, a reassessment was conducted to determine whether the CGA Program remains appropriate and fit for purpose. The CGA Reassessment Report was submitted to APRA on 26 June 2020 (ahead of the 30 June 2020 deadline). The report was then publicly released on 17 July 2020. Since then, Westpac has launched a comprehensive Group-wide transformation program, CORE – Customer Outcomes and Risk Excellence – to manage our response and strengthen the management of non-financial risk.</p>

RECOMMENDATION

WESTPAC STATUS

REGULATORS

Recommendation 6.7: Statutory amendments

The obligations in sections 37C and 37CA of the Banking Act should be amended to make clear that an ADI and accountable person must deal with APRA and ASIC (as the case may be) in an open, constructive and co-operative way. Practical amendments should be made to provisions such as section 37K and section 37G(1) so as to facilitate joint administration.

Westpac's approach to dealing with regulators and its documented strategy in how we deal with regulators is to act in open, co-operative and constructive way.

The Government published for consultation a proposal paper to extend the executive accountability regime on 22 January 2020. The consultation closed on 14 February 2020 and Westpac made a submission.

Westpac understands that the Government intends to consult on implementation timeframes as part of its consultation on the exposure draft legislation.

Westpac will review any exposure draft legislation once released and determine any further actions required to comply.

Recommendation 6.8: Extending the BEAR

Over time, provisions modelled on the BEAR should be extended to APRA-regulated financial services institutions. APRA and ASIC should jointly administer those new provisions

Westpac's current BEAR mapping processes extend to all its APRA-regulated financial services subsidiaries.

The Government published for consultation a proposal paper to extend the BEAR on 22 January 2020. The consultation closed on 14 February 2020 and Westpac made a submission.

Westpac understands that the Government intends to consult on implementation timeframes as part of its consultation on the exposure draft legislation.

Westpac will review exposure draft legislation once released and determine any further actions required to comply.

OTHER IMPORTANT STEPS

Recommendation 7.1: Compensation scheme of last resort

The three principal recommendations to establish a compensation scheme of last resort made by the panel appointed by government to review external dispute and complaints arrangements made in its supplementary final report should be carried into effect.

The Government has confirmed that it proposes an industry-funded, forward-looking compensation scheme of last resort.

In December 2019, the Government released for public consultation a discussion paper to further explore and seek views on four aspects of the CSLR. The Consultation closed on 7 February 2020.

Recommendation 7.2: Implementation of recommendations

The recommendations of the ASIC Enforcement Review Taskforce made in December 2017 that relate to self reporting of contraventions by financial services and credit licensees should be carried into effect.

Legislation implementing this recommendation has now been passed with a commencement date of 1 October 2021.

Westpac has a program of work underway to implement any changes necessary to comply.

