

# ASX Announcement



## Independent Review of CBA Remedial Action Plan 13th and Final Report

**Tuesday, 12 October 2021 SYDNEY:** Commonwealth Bank of Australia (CBA) today provides the attached Independent Review of CBA's Remedial Action Plan – Progress in Addressing Prudential Inquiry Recommendations, thirteenth and final report.

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The release of this announcement was authorised by the Continuous Disclosure Committee.

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# Independent Review of the Commonwealth Bank of Australia's Remedial Action Plan

*Progress in Addressing Prudential Inquiry Recommendations*

Prepared by Promontory Australia, a division of IBM

## Thirteenth Report

30 September 2021

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*Promontory Australia, a division of IBM has been engaged as the Independent Reviewer of the Commonwealth Bank of Australia's Remedial Action Plan to address the Recommendations of the Australian Prudential Regulation Authority's Prudential Inquiry into CBA.*

*In accordance with the terms of the Enforceable Undertaking agreed between APRA and CBA on 30 April 2018, Promontory's independent review role requires us to report on a quarterly basis:*

- *The status of CBA's compliance with certain requirements of the Enforceable Undertaking; and*
- *Items in the Remedial Action Plan that CBA considers are nearing completion.*

*This is Promontory's Thirteenth Report in relation to execution of the Remedial Action Plan. This Report describes actions CBA has taken to execute the Remedial Action Plan and the outcomes achieved.*

*A representative of CBA has reviewed a draft version of this Report for the purposes of identifying possible factual errors. Promontory is responsible for final judgement on all views and information in this Report.*

*This Report is provided solely for the purposes described above. Promontory's independent review role may not incorporate all matters that might be pertinent or necessary to a third party's evaluation of the Remedial Action Plan or any information contained in this Report. No third-party beneficiary rights are granted or intended. Any use of this Report by a third party is made at the third party's own risk.*

*Promontory is neither a law firm nor an accounting firm. No part of the services performed constitutes legal advice, the rendering of legal services, accounting advice, or the rendering of accounting or audit services.*

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## Definitions

3LoA	Three Lines of Accountability
APRA	Australian Prudential Regulation Authority
BAC	Board Audit Committee
BAU	Business-as-usual
BEAR	Banking Executive Accountability Regime
BRCC	Board Risk and Compliance Committee
BUs	Business Units
CAP	Control Assessment Program
CBA or the Bank	Commonwealth Bank of Australia
CCO	Chief Controls Officer
Central RAP Team	The central team that manages the Program (in the later stages of the RAP the title of this team was changed to the ‘Program Delivery Team’)
CEO	Chief Executive Officer
CIP	Change Investment Process
CPS 220	Prudential Standard CPS 220 – Risk Management
CRO	Chief Risk Officer
EGM	Executive General Manager
Eighth Report	Promontory’s eighth report dated 31 July 2020
Eleventh Report	Promontory’s eleventh report dated 30 April 2021
ELT	Executive Leadership Team
ES	Enterprise Services
EU	Enforceable Undertaking
FCC	Financial Crimes Compliance
Fifth Report	Promontory’s fifth report dated 31 October 2019
First Report	Promontory’s first report dated 28 September 2018
Fourth Report	Promontory’s fourth report dated 31 July 2019
GA&A	Group Audit and Assurance
GDF	Group Delivery Framework
GE	Group Executive
GPF	Group Policy Framework

# Independent Review of the Commonwealth Bank of Australia's Remedial Action Plan

Thirteenth Report

September 2021

IIAs	Initial Implementation Assessments
Independent Reviewer	Promontory Australia, a division of IBM
Inquiry	The Prudential Inquiry to examine whether governance, culture and accountability practices at CBA had contributed to a series of incidents that had led to adverse publicity and regulatory scrutiny
Inquiry Recommendations	The 35 Recommendations made in the <i>Inquiry Report</i>
<i>Inquiry Report</i>	<i>The Prudential Inquiry into the Commonwealth Bank of Australia (CBA) Final Report</i>
iRCSA	Improving Risk and Controls Self-Assessment
KPI	Key Performance Indicator
Milestones	The detailed set of actions taken to address the Panel's findings
NFR	Non-Financial Risk
NFRC	Non-Financial Risk Committee
Ninth Report	Promontory's ninth report dated 30 October 2020
OR&C	Operational Risk and Compliance
Pandemic	The Covid-19 Pandemic
Panel	The three-member Panel appointed to conduct the Inquiry
PRC	People and Remuneration Committee
Previous Reports	Promontory's previous reports dated 28 September 2018, 20 December 2018, 30 April 2019, 31 July 2019, 31 October 2019, 31 January 2020, 30 April 2020, 31 July 2020, 30 October 2020, 29 January 2021, 30 April 2021 and 30 July 2021
Prioritised Risk Types	Financial Crimes Compliance, Privacy and Conduct risk types
Program	Program of work to execute the RAP
Promontory	Promontory Australia, a division of IBM
RAP	Remedial Action Plan
RAS	Risk Appetite Statement
RCSA	Risk and Controls Self-Assessment
Recommendations	The 45 recommendations that make up the RAP
Reporting Date	The last day of the month before one of our Previous Report was due to be delivered
RiC	Risk in Change
RiS	RiskInSite

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RMAP	Risk Management Action Plan
Second Report	Promontory's second report dated 20 December 2018
Seventh Report	Promontory's seventh report dated 30 April 2020
Sixth Report	Promontory's sixth report dated 31 January 2020
SUs	Support Units
Sustainability Plan	Plan to ensure that the Target State of a Recommendation will be maintained on an ongoing basis
Tenth Report	Promontory's tenth report dated 29 January 2021
Theme	A shared theme of a series of Recommendations
Theme Lead	The individual assigned to manage each Theme
Third Report	Promontory's third report dated 30 April 2019
Thirteenth Report	Promontory's thirteenth report dated 30 September 2021
Transition Period	The period beyond submission of the final Recommendation of the RAP during which work in relation to the findings of the Prudential Inquiry will continue
Transition Period Plan	The plan developed for the body of work that is to be completed during the Transition Period
Twelfth Report	Promontory's twelfth report dated 30 July 2021



## Executive Summary

On 30 April 2018 the Commonwealth Bank of Australia entered into an Enforceable Undertaking with the Australian Prudential Regulation Authority. CBA's undertakings to APRA were designed to address the findings of the Prudential Inquiry commissioned by APRA into weaknesses in CBA's governance, culture and accountability.

Promontory was engaged under paragraph 13 of the Enforceable Undertaking as the Independent Reviewer to monitor and report on CBA's progress in addressing the findings of the Inquiry.

This is the Thirteenth Report under our engagement<sup>1</sup>. As this is our final Report, it describes the outcomes achieved by CBA and offers our reflections on CBA's journey in strengthening its governance, culture and accountability frameworks.

### **Program Outcomes**

In response to the findings set out in the *Inquiry Report*, CBA developed a Remedial Action Plan setting out the actions it planned to take to address the failings identified in the *Report*.

The Program implemented by CBA to give effect to the Remedial Action Plan was one of the most comprehensive, if not the most comprehensive, reforms of corporate culture in recent Australian memory. It was confronting, demanding on staff and resources, and carried out against the backdrop of the Pandemic that disrupted both the industry and the country. Despite these challenges, CBA completed the Program and achieved outcomes about which many readers of the *Inquiry Report* would have been deeply sceptical.

While closing all the actions that make up the Remedial Action Plan was necessary for CBA to consider its overall goal achieved, it was not by itself sufficient. As noted in the *Inquiry Report*, the incidents that led to the Inquiry arose from CBA's collective weaknesses across multiple areas. It was the collective weaknesses and the lack of obvious pillars of strength that created an operating environment in which the incidents could occur.

As a result of the actions taken under the Program, the weaknesses called out by the *Inquiry Report* have been addressed.

In terms of outcomes:

- The Board and Executive Leadership Team upgraded their approaches to oversight and challenge of non-financial risks. Reporting of non-financial risks and the quality of reported data have been greatly improved.
- There is now much greater clarity about accountabilities and risk ownership within CBA. Importantly, ownership of non-financial risk was migrated from Line 2 to Line 1. The introduction of Risk Stewards strengthened the end-to-end oversight of risks. The introduction of Chief Controls Officers at the Group, Business Unit and Support Unit levels improved Line 1 non-financial risk management practices, and provided a bridge between Line 1 and Line 2. Management of issues, incidents and risks improved materially. Importantly, the impact of these changes has extended well beyond non-financial risks.

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<sup>1</sup> Promontory's First, Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh and Twelfth Reports are available [here](#), [here](#), [here](#), [here](#), [here](#), [here](#), [here](#), [here](#), [here](#), [here](#) and [here](#) respectively.

- While CBA has further to go in reducing the complexity of its processes, there is now a clearer focus on outcomes, rather than processes.
- The resourcing capacity and capability of the Operational Risk and Compliance functions, and the status of these functions, were upgraded.
- CBA worked hard to change its previous reactive and insular culture into one that is more pro-active, inquiring and receptive to challenge. Senior managers are more reflective and open to learning from their mistakes and the mistakes of others. Challenge is now a consistent and powerful component of discussions about non-financial risk at senior levels within the Bank.
- CBA strengthened its incentive framework to allow consequences to be more readily applied when poor risk or customer outcomes materialise, and to reward positive risk decisions and behaviours.
- CBA made major advances in rebuilding its culture. The shift in CBA's thinking on customer outcomes was little short of transformative. The 'should we' question is now embedded throughout the Bank. CBA worked hard to replace its previous 'complacent' culture with one based on 'chronic unease'.

In many ways, CBA is now almost unrecognisable as the institution described in the *Inquiry Report*.

The success of the Program was attributable in large part to two key drivers.

The first driver was strong leadership. The CBA Board and Executive Leadership Team delivered a consistent and persistent tone from the top about the importance of managing non-financial risks. Unified leadership from the Board and Executive Leadership Team provided the critical foundation on which the Program was built.

The second driver was the rigorous Program delivery disciplines applied to the Remedial Action Plan. Given its unimpressive history on program delivery, CBA recognised the need to 'break the mould' in creating a new approach for delivering the Remedial Action Plan. The disciplines that characterised its new approach included clear accountabilities for delivery, a strong governance structure, an effective central team, strong cooperation between the central team and the Business Units and Support Units in coordinating implementation and embedment of changes, and a structured approach (known as the Drop Process) to designing and executing initiatives across the Group. If leadership from the Board and Executive Leadership Team laid the foundation for a successful Program at CBA, the effectiveness of Program delivery was the mortar that held the structure of the Program together and ensured that it delivered the required outcomes.

### ***The Road Ahead***

The *Inquiry Report* noted that regaining community trust will require time, hard work and an undistracted risk and customer focus.

Completing the Program, the remediation stage, was the 'short game' on this journey to regaining community trust. The 'long game', proving that the changes can be not only sustained but also improved, is still to come.

The 'long game' for CBA has three main elements:

- First, following the Foundational Reviews<sup>2</sup>, the decision was taken to prioritise certain components of the Remedial Action Plan, while the remaining non-prioritised components would be delivered at an

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<sup>2</sup> The Foundational Reviews are discussed in Chapter 4 below and, in more detail, in our Seventh and Eighth Reports.

appropriate time through business-as-usual mechanisms. These non-prioritised components are nevertheless material and will require significant effort to implement and embed.

- Second, there is a need to address certain commitments raised in some of our Recommendation closure assessments and to provide evidence of sustainability for those Recommendations where evidentiary cycles were still incomplete.
- Third, there is a need to monitor sustainability of the outcomes of the Remedial Action Plan and to uplift these outcomes through a program of continuous improvement. Without detracting from the achievements of the Remedial Action Plan, not all aspects of CBA's response to the *Inquiry Report* attained an equal level of excellence. In academic terms, some outcomes were accomplished with distinction; others just passed. While this was not surprising, given the wide range of challenges and complexities involved, it leaves considerable scope for further improvement.

To address the first two of these elements CBA has established a Transition Period, during which it will carry out further work on areas that were addressed by the Remedial Action Plan, or that reinforce the outcomes of the Remedial Action Plan. The idea of a Transition Period as a link between the Remedial Action Plan and the business-as-usual future is logical and sensible. Planning for the Transition Period commenced early, and has now been formalised into a Transition Period Plan with six main Focus Areas.

While motivated largely by the need to finish non-prioritised components of the Remedial Action Plan as originally designed, the scope of the Transition Period Plan extends beyond the scope of the Remedial Action Plan. The scope includes strengthening some Target States, significant work to improve CBA's Three Lines of Accountability risk governance model, significant work to improve its risk and control environment for non-prioritised risk types, addressing the sustainability commitments raised in some of Promontory's Recommendation closures, and addressing focus areas identified by APRA.

To address the third element, CBA has established a Sustainability Monitoring and Continuous Improvement program to be implemented by the Group Chief Controls Officer. This program is part of the activities to be conducted during the Transition Period and was an integral part of CBA's thinking about the concept of transition. However, while the Group Chief Controls Officer's initial program of monitoring will be undertaken during the Transition Period, the mandate for monitoring sustainability and continuous improvement will not end with the Transition Period. It is expected to be a permanent feature of CBA's ongoing approach to sustaining and improving the outcomes of the past three years.

There is a significant amount of work left to do during the Transition Period, and CBA is well aware that this work will require changes that are every bit as complex and difficult as those completed under the Remedial Action Plan.

CBA is likely to face some challenges in sustaining Program outcomes and delivering improved non-financial risk outcomes during the Transition Period. While some of these challenges are not new and were faced during the course of the Program, such as competing priorities, interdependencies and resourcing constraints, CBA will also face some challenges for the first time:

- In addition to refining the details, objectives and expectations of the Transition Period Plan, CBA will need to be especially cognisant of continuing to manage interdependencies with other new and existing remediation programs.

- Retaining the momentum and commitment to the important work scheduled for the Transition Period will become more challenging if there is a shift in the priority assigned to the Transition Period Plan relative to other remediation and uplift programs.
- A key challenge faced by the Program was inconsistent implementation of processes and frameworks across Business Units and Support Units. With the proposed shift, from the Central RAP Team to Business Units and Support Units, of responsibility for determining the timing of certain elements of the Transition Period Plan, it will be imperative for CBA to closely monitor and manage any inconsistencies that emerge between these Units in delivering the intended Transition Period outcomes.
- While the importance of continuous improvement is indisputable, there is nevertheless a risk that changes to policies and processes, made over time in the name of simplification or refinement, inadvertently undermine the objectives of the Program. Simplification must be more than just removing parts of an existing policy or process.
- Perhaps the greatest challenge in the period ahead will be countering the tendency to relax. The closure of the Program was a massive achievement by CBA. While some celebration is entirely reasonable, it is critical that CBA does not allow this to derail the longer-term objective of sustaining what has been achieved.

If CBA is to meet the challenges of the Transition Period it is critical that the two key drivers that supported the Remedial Action Plan are carried forward into the next stage. Strong leadership, from the Board and Executive Leadership Team down, will be fundamental to maintaining momentum as the Bank transitions from celebrating what has been achieved into addressing that which is still to be achieved. Maintaining the rigorous program delivery disciplines developed for the Remedial Action Plan will be just as critical during the Transition Period. Unless there is a commitment to continuing these disciplines, including strong governance, coordination through a central team, implementation support from the Chief Controls Officers, and structured delivery through continuation of the Drop Process, the prospect of delivering the targeted outcomes for the Transition Period will be greatly diminished.

### **Concluding Observations**

CBA has executed the Remedial Action Plan with the intention of permanently addressing the shortcomings identified in the *Inquiry Report*. As a result, CBA's operating environment is now very different to that described by the *Report*.

In the long run, however, the success of CBA's response to the *Inquiry Report* will be judged not by the quality of revised processes and documentation. It will be judged by outcomes, in particular outcomes experienced by the Bank's customers.

Sustaining the hard-fought gains of the past three years will require a permanent commitment by the Bank at all levels. The new culture will need to be tested and re-tested. Evidence of cultural markers will need to be analysed and re-analysed. Commitment to the new culture and values will need to be reinforced through actions as well as words. When issues arise in the future, as they inevitably will, the way in which they are handled must reflect CBA's new commitment to openness, proactivity and humility.

While much has been achieved by CBA over the past three years, there is still much left to be done.

# 1. Introduction

## 1.1. Preface

On 28 August 2017, the Australian Prudential Regulation Authority (**APRA**) announced a Prudential Inquiry (**Inquiry**) to examine whether governance, culture and accountability practices at the Commonwealth Bank of Australia (**CBA** or **the Bank**) had contributed to a series of incidents that had led to adverse publicity and regulatory scrutiny.

To conduct the Inquiry, APRA appointed a three-member Panel (**Panel**) with the following Terms of Reference<sup>3</sup>:

- to identify core organisational and cultural drivers that contributed to the incidents that prompted the Inquiry;
- to assess whether certain aspects of CBA's governance, culture, accountability, and risk management frameworks conflict with sound risk management or compliance outcomes;
- to consider whether current initiatives are sufficient to respond to any identified shortcomings; and
- to recommend how any remaining shortcomings should be rectified.

In conjunction with the release on 1 May 2018 of the *Prudential Inquiry into the Commonwealth Bank of Australia (CBA) Final Report (Inquiry Report)*, APRA accepted an Enforceable Undertaking (**EU**) offered by CBA. The EU required CBA to develop a Remedial Action Plan (**RAP**) to address the recommendations made by the Panel as set out in the *Report (Inquiry Recommendations)*.

CBA established a Program of work (**Program**) to develop and execute the RAP. Over the course of the following 60 days the Program worked to develop a detailed set of actions to address the Panel's findings (**Milestones**), which are set out in the RAP. While the *Inquiry Report* made 35 recommendations, the RAP splits some of these into multiple parts, resulting in 45 recommendations in the RAP (**Recommendations**). The RAP was endorsed by APRA on 29 June 2018.

CBA engaged Promontory (**Promontory, we** or **us**) to act as the independent reviewer (**Independent Reviewer**) tasked with monitoring CBA's execution of the RAP and assessing the effectiveness of the actions taken to address the Inquiry Recommendations as required under the EU. APRA confirmed our appointment on 29 June 2018.

As Independent Reviewer, Promontory is required to report to APRA on a quarterly basis on the status of compliance with the EU and the Milestones in the RAP that CBA considers are nearing completion. This is our Thirteenth and final Report (**Thirteenth Report** or **Report**).

Our Previous Reports have described the status of the Program as at the last day of the month before the Report was due to be delivered (**Reporting Date**). However, since all Milestones and Recommendations have now been closed, this Report summarises CBA's progress over the course of the entire Program and offers our reflections on CBA's journey in strengthening its approach to governance, culture and accountability.

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<sup>3</sup> The Inquiry's Terms of Reference are paraphrased here. The full Terms of Reference can be found in Appendix A of the [Inquiry Report](#).

## 1.2. Report Structure

The remainder of this Report is structured as follows:

- **Chapter 2** describes the findings and recommendations of the Prudential Inquiry.
- **Chapter 3** sets out CBA's approach to developing a set of actions to address these findings in the RAP.
- **Chapter 4** sets out CBA's approach to executing the RAP through the Program.
- **Chapter 5** sets out Promontory's approach to providing independent review of the Program's outcomes.
- **Chapter 6** describes the detail of the Inquiry's findings in relation to each thematic grouping of Recommendations and how CBA has addressed the Recommendations in each grouping.
- **Chapter 7** summarises the overall outcomes of the Program and how CBA has changed as a result.
- **Chapter 8** describes the learnings that can be taken from the Program to guide future non-financial risk (NFR) initiatives.
- **Chapter 9** discusses the next steps for CBA and the challenges it is likely to face in the future.

This Report also includes two Appendices. Appendix A summarises the outcomes of our assessment of Milestones and Recommendations that have been closed since the Twelfth Reporting Date. Appendix B summarises all Milestones and Recommendations in the RAP.

## 2. The Inquiry Report

For those associated with CBA, the *Inquiry Report* was not easy reading. While the Panel observed that CBA had achieved, over its long history, the status of an Australian financial icon – a status that was built on its enviable record of financial success and innovation in customer-facing technology – this image was badly tarnished by a succession of conduct and compliance incidents over a period of years that suggested that CBA may have become a victim of its own hubris. In the words of the *Report*, CBA had 'fallen from grace'.

The incidents that damaged CBA's reputation and public standing included (but were not limited to):

- charging ongoing service fees without providing financial advice services in return (2012 to 2015);
- the use of an outdated definition in insurance products to deny heart attack claims (2016);
- anti-money laundering breaches (2017); and
- the sale of credit card insurance to customers who were unable to make a claim (2013 to 2018).

The *Inquiry Report* described CBA as an organisation that exhibited complacency and in which the senses of senior leaders had been dulled with respect to risk management. The Board was seen as having a 'light hand on the tiller'. Executive Leaders were not held accountable for risk and compliance failures, and, where they were, limited consequences were applied by the remuneration framework. Collegiality led to over-confidence in circumstances where further scrutiny was required. Blinkered by its financial success, the voices of risk and of the customer were muted in decision-making forums. Risks were neither well understood nor owned, the frameworks for managing them were unwieldy or incomplete, and senior leadership was slow to act.

The *Inquiry Report* described a culture at CBA that was not aligned with regulatory or community expectations. In particular, it called out six tell-tale markers of this cultural misalignment:

1. Inadequate oversight and challenge by the Board and its gatekeeper committees of emerging non-financial risks.
2. Unclear accountabilities, starting with a lack of ownership of key risks at the Executive Committee level.
3. Weaknesses in how issues, incidents and risks were identified and escalated through the institution and a lack of urgency in their subsequent management and resolution.
4. Overly complex and bureaucratic decision-making processes that favoured collaboration over timely and effective outcomes and slowed the detection of risk failings.
5. An operational risk management framework that worked better on paper than in practice, supported by an immature and under-resourced compliance function.
6. A remuneration framework that had little sting for senior managers and above when poor risk or customer outcomes materialised, and that had provided incentives that did not necessarily produce good customer outcomes.

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While the tell-tale markers provided the evidence that CBA was culturally misaligned, the Panel was equally focused on identifying why this misalignment had occurred. In terms of the root causes of the misalignment, the *Inquiry Report* identified four cultural traits that the Panel believed lay at the heart of CBA's shortcomings:

1. A widespread sense of complacency.
2. A reactive stance in dealing with risks.
3. Insularity and not learning from experiences and mistakes.
4. An overly collegial and collaborative working environment which lessened the opportunity for constructive criticism, timely decision-making and a focus on outcomes.

The *Inquiry Report* observed that many of CBA's working practices and cultural traits were deeply ingrained and would need to be reset. Regaining community trust would require time and an undistracted focus on risk and customers.

While the *Inquiry Report* noted that CBA had already embarked on a new remediation program that was ambitious, and on a scale that exceeded previous risk management initiatives at CBA, it suggested that the new program had not anticipated some of the issues uncovered by the Inquiry. The *Report* made clear that the magnitude of the remediation task, and the commitment that would be needed from the CBA Board and senior management to see it through, was significant.

To guide CBA's journey towards addressing its shortcomings, the *Inquiry Report* set out a road-map consisting of 35 Inquiry Recommendations as shown in Table 2.1 below.

**Table 2.1: The Inquiry Recommendations**

#	Recommendation
1	<i>The CBA Board maintain its recent heightened visibility, promoting a clear tone at the top in both messaging and action.</i>
2	<i>The processes and practices of the Board and its Audit and Risk Committees be aligned with global better practice for risk management.</i>
3	<i>The Board ensure effective coordination between its Audit, Risk and Remuneration Committees.</i>
4	<i>The Board Audit Committee increase direct engagement with the business unit and support function owners of significant issues and hold them accountable for timely and effective closure of these issues.</i>
5	<i>The Board ensure it receives adequate non-financial risk information, including early indicators of emerging risks, to support constructive debate and challenge.</i>
6	<i>The Chief Executive Officer ensure that the Executive Committee accepts and embeds collective accountability for management of the Group.</i>



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#	Recommendation
7	<p><i>The Chief Executive Officer ensure that the Executive Committee:</i></p> <ul style="list-style-type: none"> <li><i>a) discusses, understands and takes action to mitigate the impact of risks that span business units;</i></li> <li><i>b) promotes the voice of support functions as an effective counterbalance to the business units; and</i></li> <li><i>c) engages in constructive challenge and debate.</i></li> </ul>
8	<p><i>CBA establish an effective Non-Financial Risk Committee at the Group Executive level.</i></p>
9	<p><i>CBA ensure that its Three Lines of Accountability principles are effectively embedded and subject to strict governance. In doing so, CBA must ensure that business units take primary ownership of risk management.</i></p>
10	<p><i>CBA ensure that business unit Chief Risk Officers have the necessary independence to provide effective challenge to the business.</i></p>
11	<p><i>CBA strengthen its Risk in Change process to ensure that there is effective risk-based oversight from Line 2 across the Group.</i></p>
12	<p><i>CBA strengthen its management of operational and compliance risk. In doing so, CBA must ensure that:</i></p> <ul style="list-style-type: none"> <li><i>a) the Group Risk Appetite Statement includes limits and triggers for more granular operational and compliance risk metrics by risk theme;</i></li> <li><i>b) minimum standards are clearly articulated in policies and embedded across the Group;</i></li> <li><i>c) there is a stronger focus on the 'big picture' and identification of emerging risks;</i></li> <li><i>d) Line 2 effectively fulfils its assurance responsibilities;</i></li> <li><i>e) the control environment is robust, reflecting effective control design and testing; and</i></li> <li><i>f) root causes and not merely issues are addressed in a timely and effective manner.</i></li> </ul>
13	<p><i>CBA build up the capabilities and subject matter expertise of operational and compliance risk staff through training and continued recruitment.</i></p>
14	<p><i>CBA elevate the stature of the compliance function by making the Head of Compliance a member of the Executive Committee and/or the recommended Non-Financial Risk Committee, by making their appointment and removal subject to approval by the Board Risk Committee, and by ensuring that they have direct access to the Board.</i></p>
15	<p><i>CBA review its conduct risk profile in business units, incorporate the findings in its Conduct Risk Strategy and ensure that conduct risk is fully considered in decision-making processes.</i></p>

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#	Recommendation
16	<i>The Executive Committee and Board improve their processes for monitoring issues raised by internal audit, regulators and other sources, and end any organisational tolerance for untimely or ineffective resolution of significant and outstanding matters of concern.</i>
17	<i>CBA report on customer complaints to the Board and Executive Committee in line with better practice peer organisations.</i>
18	<i>CBA prioritise investment in the identification of systemic issues from customer complaints.</i>
19	<i>CBA strengthen its dialogue and engagement with regulators.</i>
20	<i>CBA take in its investment prioritisation processes a more pre-emptive approach to investment decisions in risk management, compliance and resilience areas prior to these becoming 'high rated' issues.</i>
21	<i>CBA leadership champion the 'should we?' question in all interactions with customers and key decisions relating to customers.</i>
22	<i>CBA, building upon the foundation established by the Banking Executive Accountability Regime, incorporate the Accountability Principles set out in this Report.</i>
23	<i>The CBA Board exercise stronger governance to ensure the effective application of the remuneration framework. In particular, the Board assess remuneration outcomes for Group Executives to reflect individual and collective accountability for material adverse risk management and compliance outcomes. In turn, Group Executives cascade accountability throughout the Group on a consistent basis.</i>
24	<p><i>To support the effective oversight of the remuneration framework:</i></p> <ul style="list-style-type: none"> <li data-bbox="395 1429 1433 1518"><i>a) the Board require a comprehensive risk assessment from the Chief Risk Officer to assist it in determining appropriate risk adjustments for poor risk behaviours and outcomes for the Chief Executive Officer and Group Executives;</i></li> <li data-bbox="395 1529 1433 1597"><i>b) the Board require comprehensive analytics and reporting from management, including the assessment of Group values and the use of the risk gate opener; and</i></li> <li data-bbox="395 1608 1433 1675"><i>c) the Board Risk Committee actively support the Board Remuneration Committee in ensuring that risk outcomes are reflected in executive remuneration outcomes.</i></li> </ul>

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#	Recommendation
25	<p><i>In support of the effective application of the remuneration framework:</i></p> <ul style="list-style-type: none"> <li>a) <i>the CBA Board provide clear guidance to management on the Board's expectations in determining an appropriate level of risk adjustment for good and poor risk behaviours and outcomes;</i></li> <li>b) <i>the risk function assist in the application of the risk gate opener in the Group through applying more rigour in challenging outliers, observed inconsistencies and absolute levels of risk reductions; and</i></li> <li>c) <i>CBA, with due regard for confidentiality concerns, communicate the impact of both good and poor risk outcomes on remuneration across the Group to reinforce the link between accountability and consequence.</i></li> </ul>
26	<p><i>CBA review and update its remuneration framework and practices to include:</i></p> <ul style="list-style-type: none"> <li>a) <i>the potential for an upside for sound risk management and collective risk adjustments to promote collective accountability;</i></li> <li>b) <i>specific management guidance on the application of malus to both Short-Term Variable Remuneration and Long-Term Variable Remuneration; and</i></li> <li>c) <i>the adoption of the FSB supplementary guidance on sound compensation practices, including the potential for clawback in the case of serious misconduct.</i></li> </ul>
27	<p><i>Senior leaders reinforce key behaviours of increasing self-reflection, giving and receiving constructive challenge and dealing with conflict effectively.</i></p>
28	<p><i>CBA ensure that its senior leaders are capable of cascading the desired tone at the top in a personal and authentic manner.</i></p>
29	<p><i>The divide between business units and the risk function be bridged through effective working relationships at all levels.</i></p>
30	<p><i>The Vision and Values initiative focus on staff personally living ethical values, with due consideration of CBA's Conduct Risk Strategy, to close the gap between good intent and actions.</i></p>
31	<p><i>CBA senior leadership have 'skin in the game' and adequate time commitment to perform program director or oversight roles, rather than relying on external parties to provide leadership.</i></p>
32	<p><i>There is clear accountability for program delivery and remuneration consequences for unsuccessful outcomes.</i></p>
33	<p><i>CBA determine the programs or initiatives that may need to be deferred to create organisational capacity to deliver the Better Risk Outcomes Program<sup>4</sup> and its associated initiatives.</i></p>

<sup>4</sup> The *Inquiry Report* referred to the program to deliver NFR remediation work as the Better Risk Outcomes Program, reflecting the name of the program that CBA had in place at the time of the *Report*. The Better Risk Outcomes Program subsequent evolved into the program of work to deliver the RAP (i.e., the Program).

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#	Recommendation
34	<i>CBA develop and demand rigorous project disciplines and subject them to independent review.</i>
35	<i>CBA design, evaluate and implement Better Risk Outcomes Program in an end-to-end manner, that ensures formal frameworks are effectively embedded into day-to-day operations.</i>

The 35 Inquiry Recommendations range across a wide spectrum of NFR matters. To sharpen CBA's focus, the *Inquiry Report* identified five key levers of change that CBA would need to turn its mind to if it was to address the Inquiry Recommendations and strengthen the governance, culture and accountability framework within the Bank:

1. Governance – the need for more rigorous Board and Executive Committee governance of non-financial risks.
2. Remuneration – the need to establish exacting accountability standards reinforced by remuneration practices.
3. The NFR function – the need to upgrade the authority and capability of the operational risk management and compliance functions.
4. Prioritisation of customers' interests – the need to inject into CBA's DNA the 'should we' question in relation to all dealings with and decisions about customers.
5. Cultural change – the need to move the dial of CBA's culture from reactive and complacent to empowered, challenging and striving for best practice in risk identification and remediation.

In some cases, the key levers of change provide guidance about how particular tell-tale markers need to be addressed. For example, more rigorous governance of non-financial risks by the Board and Executive Committee should ensure adequate oversight and challenge by the Board and its gatekeeper committees of emerging non-financial risks. In other cases, key levers cut across several of the tell-tale markers. For example, establishing exacting accountability standards reinforced by remuneration practices should help address unclear accountabilities, weaknesses in the escalation of incidents, and poor alignment between remuneration incentives and targeted risk outcomes.

Thus, while the *Inquiry Report* was explicit that CBA's remediation work would need to address and meet all 35 Inquiry Recommendations, its implicit message was that the required overall outcome would need to achieve more than just meeting the Inquiry Recommendations. In that respect, the six tell-tale markers, four cultural traits, and five levers of change each provide benchmarks against which to measure the overall success of CBA's response to the Inquiry's findings. The overall success of the Program can therefore be judged by the extent to which:

- the tell-tale markers are no longer evident in CBA;
- CBA has eliminated the four debilitating pre-Inquiry cultural traits that lay at the root of CBA's failings and incorporated mechanisms that safeguard against their re-emergence; and

- CBA has exercised the five key levers to effect lasting change.

We summarise the overall outcomes of the Program and how CBA has changed as a result in Chapter 7 of this Report. In doing so we comment on the progress that CBA has made against each of these benchmarks, and note where we believe there is further work to do.

## 3. The Remedial Action Plan

As noted in Chapter 1, CBA established the Program to develop and execute the RAP<sup>5</sup>. The RAP set out the detailed actions CBA planned to take to address the Panel's findings.

In this Chapter we discuss the structure of the RAP and the thematic grouping of the Recommendations.

### 3.1. The Eight Unifying Themes

To provide coherence to the RAP, CBA organised the Recommendations into eight unifying themes (**Themes**). Each of these Themes grouped together individual Recommendations that touch on a related area of work<sup>6</sup>. The Themes, and the associated Recommendations, are:

- Board Governance (Recommendations 1 to 5);
- Management Governance (Recommendations 6 to 8, 14 and 19);
- Operating Model (3LoA) (Recommendations 9 and 10);
- Risk Appetite, Taxonomy and Standards (Recommendations 12a to 12d);
- Accountability and Controls Delivery (Recommendations 12e, 12f and 16);
- Customer Outcomes (Recommendations 15, 17, 18 and 21);
- Culture, Capability and Consequences (Recommendations 13 and 22 to 30); and
- Program Execution (Recommendations 11, 20 and 31 to 35).

While the components of some Themes evolved over the course of the RAP, the eight Themes nevertheless continued to provide the underlying structure for our reporting on CBA's progress in delivering the Program in our Previous Reports.

### 3.2. Program Milestones

Activities to address each Recommendation were organised into 'Design', 'Implement' and 'Embed' stages with Milestones developed for each stage. In broad terms:

- The Design stage involved defining a Group-wide approach to addressing the Recommendation.
- The Implement stage involved the initial roll-out or launch of the approach.

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<sup>5</sup> The RAP applied to all of CBA's Australian domestic entities and offshore branches. Some non-controlled and non-operational entities were excluded from this scope.

<sup>6</sup> CBA created nine work streams corresponding to the eight Themes plus an Enabling Systems, Data and Reporting work stream, which had responsibility for managing and overseeing technology, analytics and data support across each of the Themes. No Milestones were assigned to the Enabling Systems, Data and Reporting work stream.

- The Embed stage involved achieving demonstrated operational effectiveness and sustainability of the approach.

While the less complex Recommendations fitted easily into this simple structure with just three Milestones (one Design, one Implement and one Embed Milestone), the more complex Recommendations required multiple Milestones for one or more of their stages.

In cases where the *Inquiry Report* had identified sub-components within an Inquiry Recommendation (e.g., Inquiry Recommendation 12, which had six sub-components, and Inquiry Recommendations 24 and 25, each of which had three sub-components) the RAP treated each sub-component as a separate Recommendation, each with its own set of Milestones.

The net result of these decompositions was that the initial number of Milestones was 153, considerably greater than the 105 that might have been anticipated at the outset.

During the course of the Program the number of Milestones increased, as CBA continued to decompose the Milestones within certain Recommendations<sup>7</sup>. By August 2020 the number of Recommendations had increased to 45 and the number of Milestones to 177.

Each Recommendation was assigned a Target State that described how CBA intended to operate after the Recommendation had been addressed. These Target States are the cornerstones of each Recommendation and its underlying Milestones.

Milestones, in turn, were assigned specific Closure Criteria reflecting the outcomes that were expected to be achieved on the journey towards the Target State.

As noted in Chapter 2, the required overall outcome of the Program is more than just addressing the Inquiry Recommendations. In developing the RAP CBA therefore considered the *Inquiry Report* holistically. Specifically, in developing its Target State for each Recommendation, CBA sought to incorporate supporting commentary in the *Report*, including in relation to the six tell-tale markers and the four cultural traits.

Each Recommendation was assigned one or more Banking Executive Accountability Regime (**BEAR**) Accountable Executives. The BEAR Accountable Executives were ultimately accountable for delivering the changes required to achieve the Target State. Generally, a group of people, or in some cases a single person, at the Board or Executive Leadership Team (**ELT**) level, were identified as the BEAR Accountable Executives.

An individual was assigned to manage each Theme (**Theme Lead**). The Theme Lead was responsible for coordinating work on the Milestones under the Recommendations in that Theme. The Theme Lead was also responsible for coordinating the creation of Milestone and Recommendation Closure Packs for independent review as well as organising the necessary approvals. Each Milestone was also assigned an Execution Lead who was responsible for directly managing work under that Milestone.

A central team responsible for coordinating the execution of the RAP was also established (**Central RAP Team**). Theme Leads with responsibility for coordinating the execution of Recommendations under certain thematic grouping sat within the Central RAP Team (renamed towards the later stages of the RAP as the Program

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<sup>7</sup> In one case during the Program CBA also split its response to an Inquiry Recommendations into two Recommendation (i.e., Inquiry Recommendation 33 into Recommendations 33a and 33b).

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Delivery Team). The Execution Leads, who were not part of the Central RAP Team, worked in coordination with the relevant Theme Leads to execute the Milestones assigned to them.

Once work on a Milestone was completed, CBA produced a Milestone Closure Pack, which contained a document summarising the actions taken in completing the Milestone and evidence that these actions took place. Milestone Closure Packs ranged from as few as a dozen pages to over a thousand pages, including attachments, depending on the complexity of the Milestone.

Both the relevant Execution Lead and the BEAR Accountable Executive were required to provide sign off that the Milestone Closure Criteria had been met and that the material was ready for independent review by Promontory.

The number of Milestones delivered to Promontory by the Reporting Date for each of our Previous Reports is set out by Theme in Table 3.1 below.

**Table 3.1: Number of Milestones Delivered by Reporting Date and Theme**

Reporting Date	Number of Milestones Delivered								Total
	Board Governance	Management Governance	Operating Model (3LoA)	Risk Appetite, Taxonomy & Standards	Accountability and Controls and Delivery	Customer Outcomes	Culture, Capability & Consequences	Program Execution	
August 2018	0	0	0	2	0	1	2	0	5
November 2018	2	5	1	2	0	1	3	3	17
March 2019	9	7	3	4	4	4	10	6	47
June 2019	1	1	0	2	0	1	1	0	6
September 2019	1	1	0	0	0	0	4	2	8
December 2019	3	2	4	2	3	3	5	2	24
March 2020	0	3	1	0	1	0	5	3	13
June 2020	1	0	0	3	2	3	9	1	19
September 2020	2	0	0	3	1	1	5	6	18
December 2020	1	0	0	0	1	1	6	3	12
March 2021	0	0	2	1	1	1	0	0	5
June 2021	0	0	0	1	0	0	0	2	3
<b>TOTAL</b>	<b>20</b>	<b>19</b>	<b>11</b>	<b>20</b>	<b>13</b>	<b>16</b>	<b>50</b>	<b>28</b>	<b>177</b>



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As with Milestone Closures, CBA produced a Closure Pack for our independent review in relation to each Recommendation Closure.

The number of Closure Packs in relation to Recommendation Closures delivered to Promontory by the Reporting Date for each of the relevant Previous Reports is set out by Theme in Table 3.2 below.

**Table 3.2: Number of Recommendation Closure Packs Delivered by Reporting Date and Theme**

Reporting Date	Number of Recommendation Closure Packs Delivered								Total
	Board Governance	Management Governance	Operating Model (3LoA)	Risk Appetite, Taxonomy & Standards	Accountability and Controls Delivery	Customer Outcomes	Culture, Capability & Consequences	Program Execution	
March 2020	1	1	0	0	0	0	1	0	3
June 2020	1	1	1	0	0	1	0	0	4
September 2020	2	2	0	1	0	1	4	4	14
December 2020	1	1	0	1	2	1	9	3	18
March 2021	0	0	0	0	0	0	0	0	0
June 2021	0	0	1	2	1	1	0	1	6
<b>TOTAL</b>	<b>5</b>	<b>5</b>	<b>2</b>	<b>4</b>	<b>3</b>	<b>4</b>	<b>14</b>	<b>8</b>	<b>45</b>

## 4. The Program

The *Inquiry Report* identified a number of characteristics of successful risk remediation programs, including:

- Board and Executive Committee oversight.
- First Line executive sponsorship.
- Secondment from business lines or other non-risk roles into key Program roles.
- Clear objectives, detailed project planning, comprehensive resource planning, clear accountability and committed multi-year budgets.
- Sequencing of initiatives and sourcing skill sets to avoid bottlenecks.
- Engaging internal audit or an outside function to conduct assurance.
- Positive messaging from leadership to reinforce necessary cultural change.

CBA's approach to the Program drew extensively on these characteristics.

In this Chapter we summarise the approach CBA took to delivering the RAP, touching primarily on Program governance, Program management and Program delivery.

### 4.1. Program Governance

Consistent with guidance from the *Inquiry Report*, from the outset, and throughout the Program, CBA's Board and ELT actively oversaw and engaged with the work done to execute the RAP.

In terms of reporting, the Board received updates in relation to the Program at every Board meeting, which generally occurred six times per year. These updates included information in relation to Program progress and the status of each Theme.

The ELT received more frequent updates in relation to the Program, including information in relation to Program progress and status, and actions required in response to the challenges highlighted in our Previous Reports. The ELT often set aside time to discuss Program progress and execution risks.

Both the Board and ELT had periodic direct engagements with Promontory to discuss our Reports.

The status of the Program was highlighted by the establishment of the new Group Executive (**GE**) of Program Delivery position. The creation of this position as a member of the ELT elevated the status of the Program within CBA's management hierarchy.

As noted in section 3.2 above, the identified BEAR Accountable Executive for each Recommendation was generally a member of the Board or ELT, which helped ensure both engagement and accountability at the top levels of CBA.

During the Program, four main governance and operational forums operated: the RAP Governance Forum, the Business Unit and Support Unit (**BU/SU**) Delivery Governance Forum, the Planning and Dependencies Management Forum and the Cross-Stream Scrum.

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The RAP Governance Forum provided central oversight over all aspects of the Program. During meetings of the RAP Governance Forum participants:

- reviewed the progress of Program initiatives;
- assessed emerging Program risks and determined responses as appropriate; and
- ensured that activities were prioritised in line with Program requirements.

Throughout the Program the RAP Governance Forum met approximately monthly. Attendees included the GE of Program Delivery, the Group Chief Controls Officer (**CCO**), staff from Program Delivery, and representatives from Line 2 and Line 3.

Over the life of the Program the RAP Governance Forum adapted its agenda to focus more on emerging issues and less on the status of each individual Theme.

The BU/SU Delivery Governance Forum was established in April 2019 to monitor BU/SU progress in executing the RAP and to identify the associated risks. During the forum participants:

- reviewed BU/SU status;
- discussed approaches to executing the Program in the BU/SUs; and
- identified risks to executing the Program in the BU/SUs.

During most of the Program the forum met on a monthly basis. Members of this forum included the Group CCO, BU/SU CCOs, the RAP Chief Risk Officer (**CRO**), members of the Central RAP Team and a representative from Line 3.

Over its life the forum evolved to focus less on the status of the Program in BU/SUs and more on sharing the experiences of each BU/SU in executing the RAP.

The Planning and Dependencies Management Forum, which was established in March 2019, provided a venue to identify, monitor, and discuss Milestone dependencies and their impact on the Program. The Forum:

- reviewed Milestone dependencies; and
- discussed associated delivery risks.

The Forum met monthly and participants included Theme Leads, Lines 2 and 3 representatives, and members of the Central RAP Team.

The Cross-Stream Scrum facilitated engagement between stakeholders responsible for delivery of the RAP. This Forum, whose members included Theme Leads and certain Execution Leads, met weekly to discuss progress across each Theme and identify potential risks.

As noted in our Twelfth Report, two of the Program's governance and operational forums, the BU/SU Delivery Governance Forum and the Planning and Dependencies Management Forum were discontinued in the closing stages of the Program.

## 4.2. Program Management

The Program was managed by the Central RAP Team, BU/SU CCOs, Execution Leads and other staff across CBA.

As noted in section 3.2 the Central RAP Team was responsible for coordinating execution of the RAP. The Central RAP Team worked with individual BU/SUs to design, implement and embed CBA's response to the Inquiry Recommendations.

The core of the Central RAP team consisted of staff responsible for overall Program management, including Program governance, and quality control over Program deliverables. Theme Leads, who were responsible for coordinating the execution of the Milestones under specific Themes, were also part of the Central RAP Team.

Consistent with guidance from the *Inquiry Report* the Program appointed staff from BU/SUs into the Central RAP team and into BU/SU teams associated with the Program. The Central RAP team included experienced staff drawn from across the organisation. As discussed above, Execution Leads who, in consultation with Theme Leads, worked directly on executing Milestones were also drawn from across CBA.

### Introduction of Chief Controls Officers

During the Program a major innovation in the management structure was the establishment of the CCOs and their supporting offices. This evolution was inspired by trends in foreign financial institutions, and, to our knowledge, is the first time that a role of this kind has been established in an Australian bank.

The role of CCO was created within each BU/SU in late 2018. CCOs were tasked with improving Line 1 NFR management practices, monitoring risk reduction and the status of major risk projects, and ensuring consistent and effective deployment of NFR management practices throughout Line 1.

BU/SU CCOs played an important role in executing RAP-related activities. The CCOs also provided a bridge between Line 1 and Line 2 that helped facilitate the transfer of responsibility for non-financial risk from Line 2 to Line 1 as envisaged as part of Recommendation 9.

The new position of Group CCO was also created in late 2019. The Group CCO was given responsibility for coordinating and driving consistency in the operationalisation of the Group's NFR management approach by Line 1. Over the life of the Program, the Group CCO took on a pivotal role in executing the Program, particularly in relation to driving consistent implementation in the BU/SUs.

### Program Assurance

Consistent with guidance from the *Inquiry Report*, assurance over the Program was provided at multiple levels, including by Line 2 and Line 3:

- Line 2 was responsible for providing assurance that Milestones were delivered in accordance with the RAP. Line 2's approach to assurance evolved significantly over the course of the Program. Initially, Line 2 provided an assurance report in relation to the work done under each Milestone. Later in the Program,

Line 2 conducted an assurance review over the implementation within each BU/SU of the activities completed under the Drop Process<sup>8</sup>.

- Separately, the Group CRO and BU/SU CROs were responsible for providing assurance that the BEAR Accountable Executives fulfilled their obligations under the RAP.
- Line 2 was also responsible for providing reports on the completeness and accuracy of status reports provided by the Program to the RAP Governance Forum.
- Line 3 conducted a series of targeted audits over key aspects of the RAP throughout the term of the Program.

In addition to these internal assurance activities, as outlined earlier, CBA engaged Promontory as the Independent Reviewer to monitor CBA's execution of the RAP and to assess the effectiveness of the actions taken to address the Inquiry Recommendations as required under the EU. Our activities are described in more detail in Chapter 5.

### Budgeting and Resourcing

Consistent with guidance from the *Inquiry Report*, the RAP received a level of funding and priority within CBA not experienced by any previous CBA remediation exercise.

Throughout the life of the Program the Central RAP Team held regular touch points with BU/SUs to review the adequacy of their resourcing for delivering the RAP outcomes and to forecast, review and monitor resourcing needs across the following activities:

- resources required in SUs for the production of RAP deliverables;
- resources required in BU/SUs for the consumption of RAP deliverables; and
- resources required to achieve the Three Lines of Accountability (**3LoA**) Target State.

BU/SUs were asked to provide resource forecasts for the delivery of each upcoming Drop. During the Reporting Period these forecasts were approved by BU/SU CROs and signed off by the relevant GEs. The Central RAP Team considered the accuracy of individual BU/SU resourcing estimates and challenged BU/SUs at governance and operational forums to consider whether they had sufficient capacity and capability to deliver on the RAP.

In our Eighth and Ninth Reports we called out that resourcing constraints posed a significant risk to successfully implementing the RAP. In the Ninth Report we observed that resourcing constraints were most critical in Enterprise Services (**ES**). The number and complexity of projects, the need for ES to provide input into the Risk in Change (**RiC**) assessments for other initiatives being delivered across the Group, and imbalances in the ES 3LoA operating model resulted in a large proportion of the work falling on the ES CCO Team. CBA responded quickly to address these risks by better prioritising RAP-related activities and sharing resources across BU/SUs.

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<sup>8</sup> The Drop Process is the mechanism through which certain components of the RAP were executed in the BU/SUs. Section 4.3 provides further details on the Drop Process.

### 4.3. Program Delivery

Throughout the Program the Central RAP Team regularly reviewed the RAP. Those reviews addressed operational issues as well as Milestone-related issues. Proposed changes from those reviews can broadly be grouped into the following:

- minor changes, such as changes to Milestone numbering;
- changes to the description of Closure Criteria and Milestones to improve clarity and consistency; and
- changes, where needed, to the due date for certain Milestones.

Despite their largely administrative nature, many of these changes were reviewed by staff at the highest levels of the organisation as part of a formal change management process prior to sign off. We also signed off on these changes as the Independent Reviewer.

#### The Foundational Reviews

Separately from these regular reviews, the Program underwent two Foundational Reviews. As noted in our Fourth Report the first of these, instituted at the direction of the Board in March 2019, gave the Program the opportunity to step back and assess the RAP's ability to 'enable the Group to address present-day challenges while delivering meaningful, sustainable uplift in the Group's risk management capabilities and delivering better risk and customer outcomes'.

The First Foundational Review allowed CBA, approximately 12 months into the Program, to reflect on what had been an ambitious schedule of work developed as an urgent response to the Inquiry. This Foundational Review was important in assisting the Program to address some of the ongoing and intensifying challenges it had been facing in prioritising, and making resourcing decisions about, Program activities in the context of what had been assessed as Critical Risk Priorities across the Group.

The ELT identified the following as primary areas of focus for the review:

- ensuring capability uplift in Line 1 and Line 2;
- applying a pragmatic approach to minimum standards uplift; and
- ensuring an understanding of end-to-end processes to better assess risks and map controls.

The agreed actions from the First Foundational Review included:

- introducing into the 3LoA model the concept of Risk Stewards tasked with Group-wide responsibilities in relation to specific risk types;
- prioritising risk profiling activities;
- measures to support capability uplift;
- enhancements to the then existing Drop Process; and
- minimum standards to be prioritised.

The Second Foundational Review was conducted during the first half of 2020. The Review, which was initially focused on sustainability, was refocused as a result of the need to redirect Program and risk resources to managing the Group's response to the Covid-19 Pandemic (**Pandemic**).

The Second Foundational Review brought about two main changes to the Program:

- First, in view of the need to divert resources to meeting customer needs in a time of crisis, the decision was taken to use the RAP to roll out key policies, standards and procedures, such as Obligations Management and the Control Assessment Program (**CAP**), while moving the remaining Group-wide minimum standards from the RAP to business-as-usual (**BAU**) mechanisms.
- Second, the decision was taken to accelerate the timetable for delivery of many Milestones and Recommendations. While somewhat counterintuitive on the surface, the acceleration was motivated by the perceived need to bed down as much of the Program as possible before the second round of demands that would inevitably follow in the aftermath of the Pandemic. A number of these accelerated timelines were subsequently found to be too challenging and were changed back to their original schedules.

The changes made to the RAP as a result of the Second Foundational Review were aimed at focusing the Group's attention on 'what mattered most', while ensuring that the Program continued to address both the spirit and substance of the Inquiry Recommendations.

The impact of the Second Foundational Review was extensive, with consequent changes across much of the RAP. In addition to changes to the Closure Dates for many Milestones, there were also changes to some Milestone Descriptions and Closure Criteria. The Review also saw the creation of two new Milestones, the removal of one Milestone and the consolidation of the delivery date for Embed Milestones and Recommendation Closures.

### Communications

Consistent with guidance from the *Inquiry Report*, communications played a pivotal role in delivering the RAP. During the Program, CBA used a variety of communication techniques to effectively disseminate RAP-related messages throughout the organisation.

The communications team worked closely with the Central RAP Team to refine and target messages in relation to:

- Executive Leader support for achieving the intended outcomes of the RAP;
- launching RAP-related initiatives;
- maintaining momentum to ensure that the outcomes of the RAP were fully embedded and sustained; and
- showcasing NFR outcomes within the organisation.

Executive Leaders continued throughout the Program to directly communicate with staff regarding the importance of the Program. The tone from the top reinforced not only the objectives of the Program but also particular aspects, such as the embedment of the 'should we' question in CBA's decision-making processes. These messages, in turn, were linked to Group strategy themes such as 'simpler, better foundations'.

RAP-related communications were delivered at a high level of quality throughout the Program. Importantly, the communication approach adapted continuously to meet the needs of the Program. For example:

- In the latter part of the Program, the communications approach pivoted to better emphasise the 'tone from the middle' in an effort to engage with all layers of the organisation. As part of this pivot CBA introduced CommBank Live, a fortnightly video series hosted by the Chief Executive Officer (**CEO**), as a new communications method. CommBank Live was designed for CBA leaders to set the tone from the top and win the 'hearts and minds' of staff. The CommBank Live webcasts focused on CBA's customers, strategy and culture.
- The 'Risk Cuppa' video series was introduced during the Program in an effort to strengthen the tone from the middle, given that, for an organisation the size of CBA, many staff members are influenced at least as much by messaging from their immediate supervisors as they are by messaging from the Board and ELT. The 'Risk Cuppa' video series featured stories from staff at all levels within the Group in relation to various NFR-related topics, such as the importance of cross-team collaboration and communication in improving NFR outcomes.
- In the final stages of the Program CBA launched the 'remember when' campaign, which highlighted the changes made as a result of the Program and the ways in which these changes have improved the management of non-financial risks. The campaign invited staff to reflect on the Prudential Inquiry and their impression of the progress that has been made since then. Topics covered included the 'should we' question, the voice of risk, culture and accountability.

### Delivery via Drops

A key process in delivering the Program was the Drop Process.

The Drop Process was introduced at the beginning of the Program to coordinate the way in which certain components of the RAP were executed in the BU/SUs. The idea of the Drops was to combine Program components into manageable packages for execution by the BU/SUs. Since Drops were scheduled to occur on a quarterly basis, each Drop package needed to be capable of being executed by BU/SUs within a set timeframe.

The Drop Process afforded BU/SUs the opportunity to understand upcoming RAP-related changes and to assess their capacity to absorb those changes. Importantly, each BU/SU was given the opportunity to approve the decision to proceed with the each Drop before it was implemented.

Not only did the Drops ensure that changes were rolled out across the BU/SUs at a manageable rate, they ensured that the BU/SUs remained in lock-step for each stage of change.

The Drop Process evolved considerably over the course of the Program. Continuous improvements to the Drop Process included:

- introducing information sessions to engage with BU/SUs on Drop content ahead of the decision to proceed;
- refining the documentation and guidance provided to BU/SUs describing Drop requirements;
- standardising the approach to resource forecasting across BU/SUs; and
- developing a forward view of the full scope of most NFR changes within CBA.



The Drop Process enabled BU/SUs to engage early with upcoming RAP requirements. Drops provided detailed information on activities to be implemented in the BU/SUs, which helped BU/SUs manage the allocation of resources to those activities and assisted them with implementation. Drops also collected evidence in relation to the completion of RAP-related activities.

Of particular note, and consistent with guidance from the *Inquiry Report*, the Drop Process allowed the BU/SUs to have input into and ownership over RAP-related changes, particularly through the decision to proceed, or not proceed, with the proposed scope of each Drop.

## 5. Promontory's Role as Independent Reviewer

As noted in Chapter 1, Promontory was appointed as the Independent Reviewer to monitor CBA's execution of the RAP and to assess the effectiveness of the actions it took to address the Inquiry Recommendations as required under the EU. Our role as Independent Reviewer required us to monitor CBA's progress in completing the RAP and to report on a quarterly basis on the status of CBA's compliance with the terms of the EU and the Milestones in the RAP that CBA considered were nearing completion. These monitoring and reporting obligations guided our activities.

### 5.1. Regular Monitoring Activities

Promontory's regular monitoring activities, which were aimed at assessing the progress and status of the Program, included:

- Receiving weekly verbal updates from the Central RAP Team on the status of the Program and reviewing Program status reports to understand project delivery risks and issues.
- Attending briefing presentations hosted by the Central RAP Team, intended to summarise the approach to and progress on the responses to certain Recommendations and other aspects of the Program.
- Regular meetings with CBA's Group Audit and Assurance (**GA&A**) function, Communications Team, Drops Team and the Group CCO.
- Attending, as observers, a wide range of CBA's regular governance and operational meetings, including:
  - the monthly RAP Governance Forum;
  - the monthly BU/SU Delivery Governance Forum;
  - the monthly Planning and Dependencies Management Forum;
  - the weekly RAP Cross-Stream Scrum;
  - certain meetings of the Board, ELT and ELT Non-Financial Risk Committee (**NFRC**);
  - the Emerging Risk Forum;
  - the Complaints Governance Forum;
  - the Compliance and Operational Risk General Manager Insights Forums;
  - certain Product Governance Forums;
  - certain BU/SUs NFRC meetings; and
  - special meetings and activities such as the RAP Forward-Look session, and the Better Bank Leadership Offsites.

- Attending occasional meetings with the CEO and the Chairman to discuss the progress of certain aspects of the Program.
- Attending occasional interviews with the GE and senior staff of each of the BU/SUs to gain insights into the management of non-financial risks in each of the BU/SUs.
- Attending interviews with a wide range of CBA executives and staff to discuss and gain better understanding of key aspects of the Program.

In parallel with these meetings and discussions, Promontory's review activities focused on the assessment of Milestone and Recommendation Closure Packs.

## **5.2. Assessing the Effectiveness of Completed Milestones**

Promontory assessed the effectiveness of each Milestone completed by CBA under the RAP, to determine whether the Milestone:

- satisfied the relevant Closure Criteria in the RAP; and
- provided, or was likely to provide, a sound basis for achieving the Target State of the relevant Recommendation.

To ensure consistency across our assessments we developed a structured process for conducting our assessments with respect to each type of Milestone.

### **5.2.1. Assessing Design Milestones**

In the case of Design Milestones, our assessment process involved:

- Reviewing the documents and artefacts provided by CBA to evidence their compliance with the Closure Criteria for the Milestone.
- Assessing whether those documents and artefacts evidenced the effectiveness of the work completed under the Milestone.
- Conducting interviews with relevant CBA personnel to clarify our understanding of the documents and artefacts, or processes involved.
- Conducting walk-throughs or receiving demonstrations of relevant processes or systems that had been designed or enhanced as part of the Milestone.
- Documenting our draft findings on the completeness and effectiveness of the Milestone.

While CBA's Closure Criteria for Design Milestones were typically process oriented (such as whether or not a particular training program had been designed, or a position paper approved by the ELT or Board), our assessments of effectiveness focused more on the quality of such processes and the likelihood of their leading to outcomes consistent with the Target State for the relevant Recommendation.

Thus, our assessments considered the evidence supporting Milestone closure in the context of the findings of the *Inquiry Report*, other guidance provided by APRA, guidance from international bodies and organisations

(e.g., the Basel Committee on Banking Supervision and Financial Stability Board or as developed by supervisors in other jurisdictions), and Promontory's observations regarding better practice. In assessing effectiveness, we looked for evidence that both the letter and spirit of the Milestone and related Recommendation had been addressed.

After reviewing materials in the Closure Pack for a Design Milestone and conducting any required walk-throughs or interviews we formed an Initial Assessment of the Milestone's effectiveness. The Initial Assessment set out a summary of the evidence provided and our assessment of that material.

In some cases, the Design Milestone was able to be closed as complete and effective at that point.

In most cases, we actively challenged whether the actions described in the Closure Pack provided a sound basis for achieving the Target State. In those cases we identified further information or actions required before we could consider the Design Milestone to be effective. In these cases our Initial Assessment included a list of questions for CBA and a request for further documents and/or interviews. In most cases the additional information requested identified potential gaps in coverage, and our questions sought further details about certain aspects of the actions taken to address the Milestone.

Where additional information or clarification was sought, Promontory subsequently issued a Revised Assessment, summarising the additional material provided and the extent to which Promontory's questions had been answered. Promontory then either closed the Design Milestone as complete and effective or issued a further request for documents or interviews.

In a number of cases, the Design Milestone was closed as complete and effective, but with a note in the Final Assessment that Promontory would, as part of its assessment of the subsequent related Implement or Embed Milestones, consider particular commitments CBA had made during the assessment process. These notes were provided to record where CBA had committed to completing further work in relation to a Recommendation and as a reminder for us to look for certain outcomes in the later stages of the assessment process to validate the effectiveness of the design.

### **5.2.2. Assessing Implement Milestones**

Our approach to assessing Implement Milestones followed a broadly similar process to that outlined above for Design Milestones.

Where an Implement Milestone consisted of simply implementing the approach designed in the related Design Milestone, our assessment considered whether the actions taken satisfied the relevant Closure Criteria. Where the Implement Milestone required actions, the design of which had not been assessed as part of a related Design Milestone, we followed a process similar to the one followed for assessing Design Milestone effectiveness.

In both cases, we also assessed whether the actions taken provided a sound basis for meeting the Recommendation Target State.

Where our closure of a related Design Milestone had noted commitments that we would consider in the Implement Phase, these were also assessed as part of the Implement Milestone.

As with Design Milestones, some Implement Milestones were closed as complete and effective, but with a note in the Final Assessment that Promontory would, as part of its assessment of the subsequent related Embed Milestones, consider particular commitments.

### 5.2.3. Assessing Embed Milestones

While our approach to assessing Embed Milestones retained much of the process employed to assess Design and Implement Milestones, the Embed Phase introduced a number of new considerations. Most critically, the Embed Phase of the Program required clarity about what was meant by the term 'Embed' and how it could be evidenced. It also required clarity about what was meant by 'sustainability' and how it could be evidenced. From the point at which Embed Milestones began to come into focus we engaged with CBA to address these issues.

CBA's approach to addressing these issues was through the introduction of Sustainability Plans. These were designed with a view to ensuring that the Target State of any particular Recommendation, once achieved, would be maintained on an ongoing basis. The Plans included a description of frameworks and processes to ensure the Target State would continue, and accountability, governance and reporting arrangements in relation to these frameworks and processes. The Sustainability Plans provided a solid link between the Embed Milestones and relevant Recommendations.

It was agreed that Closure Packs for Embed Milestones would need to provide evidence that:

- The Closure Criteria had been met, as was the case with both Design and Implement Milestones.
- Any commitments noted in our closure of a related Design or Implement Milestone had been addressed.
- The Target State for the Milestone had been achieved.
- A Sustainability Plan had been developed and practical and reasonable sustainability mechanisms were in place to support maintenance of the Target State on an ongoing basis where possible.

In a number of cases Promontory undertook sample testing and detailed walkthroughs of BU/SU processes as part of the assessment of Embed Milestones. Testing was mostly focused on the operation of systems and data. This testing enabled Promontory to gain a deeper understanding of the effectiveness, consistency and sustainability of uplifts implemented under the Program. For example, it was through Embed testing that Promontory became aware of the data quality weaknesses in RiskInSite (**RiS**) that were called out in our Ninth Report.

In addition to assessing the evidence that the Closure Criteria for an Embed Milestone had been met, and that the Target State had been achieved, as part of the closure of the Milestone, Promontory assessed the effectiveness of the associated Sustainability Plan. In assessing the effectiveness of Sustainability Plans Promontory looked at the following aspects of the Plan:

- Frameworks and processes to maintain the Target State.
- Accountabilities for those frameworks and processes.
- Reporting and governance associated with those frameworks and processes.

The initial Sustainability Plans submitted to Promontory reflected emerging thinking on aspects of Plan design. In particular, there was generally too much focus on process and too little on outcomes. However, the Plans matured quickly as CBA refined its thinking about embedment and sustainability.

### **5.3. Assessing the Effectiveness of Completed Recommendations**

During the course of the Program CBA finalised its approach to Recommendation Closure. CBA's approach required a Closure Pack to be delivered for each Recommendation that provided:

- Evidence that the Recommendation's Target State had continued to be maintained since closure of Embed Milestones for that Recommendation.
- Any commitments from the Final Assessment of the prior Embed Milestone had been adequately addressed.
- Evidence of the operation and effectiveness of the Sustainability Plan in maintaining the Target State.

The critical distinction between an Embed Milestone and its related Recommendation was that, whereas closure of an Embed Milestone required evidence that the Target State for the Milestone had been achieved, closure of a Recommendation required evidence that the Target State had been sustained since closure of the Embed Milestone.

Meeting this higher evidentiary level was complicated by the timing of certain parts of the Program. In some cases, key evidence of the maintenance of the Target State was linked to a regular review cycle (such as an Audit cycle or an annual remuneration cycle) that had not yet occurred at the time the Recommendation closure was being considered. In other cases, the closure of the Embed Milestone was too close in time for any reasonable evidence of Target State maintenance to be available for consideration in the Recommendation closure. These latter cases were especially relevant in some of the more complex Recommendations (such as those relating to 3LoA and Line 2 assurance), where CBA's approach to resolving the challenges continued to evolve throughout the life of the Program.

These timing challenges were compounded by the impact of the Pandemic and the need to divert resources to meeting customer needs and to revise the timetable for some deliverables.

Promontory's approach to assessing Recommendation Closure was therefore to consider whether, at the time of the assessment:

- Any commitments from the Final Assessment of the prior Embed Milestone had been adequately addressed.
- The Target State had been achieved.
- The Sustainability Plan had been operationalised (including the completion of any walkthrough of process, controls and corrective actions by CBA for Promontory) and was operating effectively to support the maintenance of the Target State; and either:
  - there was evidence that processes and controls for sustainability were embedded in CBA's existing frameworks; or

- specific evidence that could help validate that a Target State had been sustained was scheduled to be available within a reasonable period of time; or
- a full cycle of the Sustainability Plan would be required to provide evidence that the Target State could be maintained on an ongoing basis.

Recommendations closed under the last option for the Sustainability Plan implicitly acknowledged that there was more work to be done before CBA could feel fully confident that the Target State was being sustained. These Recommendations were integral to CBA's thinking about the need for a Transition Period after the RAP and will be picked up on during the Transition Period (see Chapter 9 for further information).

## **5.4. Delivery of Assessments**

Over the course of the Program, across Design, Implement and Embed Milestones, we took an average of around 14 weeks to assess a Milestone as complete and effective after a Closure Pack had been delivered. The quickest assessments took just over one week (for Milestones 14.2 and 35.1a<sup>9</sup>). The longest assessment (which was delayed due to the need to consider evidence that only became available around the time that the final Embed Milestone for that Recommendation was delivered) took just under 54 weeks (for Milestone 12a.6).

Over the course of the Program we took an average of around 20 weeks to assess a Recommendation as closed after a Closure Pack had been delivered. The quickest assessments took around 7 weeks (for Recommendation 4). The longest assessment took 41 weeks (for Recommendation 21).

## **5.5. Promontory's Reports**

Our quarterly Reports summarised and provided our views on the status of compliance with the EU based on our monitoring of CBA's progress and the results of our assessments of completed Milestones and Recommendations. Each Report, prior to the current Report, limited its reporting to the preceding Reporting Period. Thus, our assessments of Milestones and Recommendations in each Report have referred to those Milestones and Recommendations completed as at the last day of the month before the due date for the relevant Report.

Each Report provided updates on:

- Program developments during the Reporting Period, including the number of Closure Packs received and the number of Milestones and Recommendations assessed as complete and effective during the Reporting Period.
- RAP-related activities completed by CBA during the Reporting Period, such as communications and assurance activities by Line 2 and Line 3.
- Governance activities during the Reporting Period by the Board, ELT and Program forums.
- Program delivery activities such as Drops and the implementation of measures to ensure the quality, consistency and sustainability of RAP outcomes.

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<sup>9</sup> Further details on the nature of these and other Milestones can be found in Appendix B.

In addition to reporting on the progress of the Program, our Reports called out any emerging or ongoing challenges that we considered relevant to CBA's ability to complete the Program on schedule. Challenges identified at different times included:

- the impact of change fatigue;
- resourcing challenges;
- data quality concerns;
- the need to simplify policies and processes to support their sustainability;
- ensuring the tone from middle aligned with the tone from the top;
- concerns about the voice of compliance;
- the tension between quality and timeliness of deliverables;
- the need to ensure consistency in the way Milestones were implemented in different BU/SUs; and
- the need to ensure the sustainability of Program outcomes.

Each Report reflected on CBA's responses to the challenges raised in prior Reports.

Following each Report, Promontory held a reflections session with members of the Central RAP Team, BU/SU CCOs and CROs, Execution Leads and Executive General Managers (**EGMs**) from across the Group, to reflect on the content of the Report. Reflections sessions were also held from time to time with the ELT and Board.

Following each Report, Promontory also participated in a tripartite meeting with CBA and APRA representatives, followed by a bilateral meeting with APRA. Promontory also met periodically with APRA outside these Report debriefs.

Over the course of the Program CBA made each of our Reports available to the public.



## 6. Program Outcomes by Theme

The *Inquiry Report* provided a road-map for CBA's journey to better meet both the standards expected of it as a systemically important bank and the needs of the broader community.

At the commencement of the Program CBA devoted considerable effort to establishing and refining a Target State for each Recommendation in the RAP. These are set out in the tables in Appendix B. While, in the first instance, the Target States were based on the Inquiry Recommendations, they were also contextualised by the Panel's comments about specific weaknesses in CBA's culture and approach to NFR management. CBA paid particular attention to the six tell-tale markers identified by the Inquiry. Thus, while some Target States simply added details to the Inquiry Recommendations, against which to benchmark CBA's progress, many went beyond the requirements set by the Inquiry, reflecting CBA's intent to capture both the letter and the intent of the Inquiry Recommendations.

As noted in Chapter 3, CBA grouped the Recommendations, and therefore the Target States, into Themes.

In this Chapter we summarise the findings of the Inquiry in relation to each Theme and the recommendations made to address those findings – the Inquiry's road-map. We then discuss what CBA did under the Program to address those recommendations and the outcomes it has achieved on its journey towards the Recommendation Target States.

### 6.1. Board Governance Theme

#### 6.1.1. Board Governance Theme Findings and Recommendations

The *Inquiry Report* made a series of findings in relation to the operation of CBA's Board, the level of engagement between Board committees and with issues requiring Board attention, and reporting to the Board.

In relation to the operation of the Board, the Inquiry found that the Board and its Committees had not demonstrated sufficient rigour or urgency in holding management to account.

In relation to Board engagement, the Inquiry observed gaps in communication between Committees and with issue owners.

In relation to Board reporting, the Inquiry noted that the information on non-financial risks reaching the Board was not yet satisfactory.

The Panel made several recommendations to address these findings:

- On the operation of the Board, the Panel recommended that Board practices and processes be aligned with global better practice, and that the Board promote a clear tone at the top (Recommendations 1 and 2).
- On Board engagement, the Panel recommended that CBA make improvements to the way Board Committees co-ordinate with each other and the BU/SU owners of material issues (Recommendations 3 and 4).

- On Board reporting, the Panel recommended enough NFR information to support constructive debate and challenge be provided to the Board and its Committees (Recommendation 5).

### **6.1.2. Board Governance Theme Actions and Outcomes**

CBA addressed each of the Board Governance Theme Recommendations through the work it completed under the Program. The fact that the Board Governance Theme was the first to be closed reflected the commitment that the Board put into achieving the Target States for this Theme.

In response to the *Inquiry Report's* findings and recommendations CBA:

- commissioned an independent study to report on global better practice in Board processes, practices and NFR reporting, and to assess the effectiveness of changes it had implemented on co-ordination between the Board Risk and Compliance Committee (**BRCC**), Board Audit Committee (**BAC**), and People and Remuneration Committee (**PRC**);
- amended the Group Risk Appetite Statement (**RAS**) to set out key Group reporting requirements in relation to non-financial risks and developed revised NFR reporting to the Board, including early indicators of emerging risks, complaints analysis, controls gaps and incidents, and granular risk appetite metrics;
- amended the Board and Committee Charters to:
  - provide clear BEAR accountability for the performance of their respective Committees with the Chairs of the Board, BRCC, and BAC;
  - provide for the referral of matters between Committees;
  - include a triennial external review of performance;
- strengthened coordination arrangements between Board Committees by:
  - establishing a concurrent meeting of the BRCC, BAC and PRC to meet twice per year to consider NFR-related matters relevant to executive performance and remuneration processes;
  - establishing joint meetings of the Board Committees to consider risk, financial and reputation-related matters relevant to executive performance and remuneration;
  - establishing a single committee secretary across all Board Committees to support timely information flows between Committees;
- implemented improvement opportunities, such as inclusion of 'tone from the top' messaging in the Bank's Annual Reports, and a 'Review of Meeting' at the conclusion of each Board and Committee meeting, as a standing agenda item;
- amended the end-to-end internal audit process to include the requirement for BU/SU owners of material issues (those with Red Rated or Highly Significant audit reports) to appear before the BAC;
- communicated the BAC's expectations through training sessions that reinforced accountability for the resolution and effective closure of issues; and

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- increased the quality and frequency of reporting to the Board and its Committees on topics such as issues and complaints;
- facilitated interactions between the Board and management with a register of actual and planned Chairman and Board engagement with senior management through talent events, education sessions, attendance at staff forums and key business meetings.

Promontory's assessment is that, by the end of the Program, CBA had addressed the issues raised by the Inquiry with respect to Board Governance, had achieved the Target States for this Theme, and had established mechanisms to help sustain those Target States:

- With respect to the operation of the Board, CBA identified and implemented changes to raise its operations to global better practice and amended its Board and Committee Charters to reflect that practice. Those changes included strengthening the tone from the top and broadening the channels through which that tone is delivered.
- With respect to Board engagement, CBA implemented wide-ranging reforms to its accountability and coordination arrangements. In terms of outcomes:
  - There is now much greater clarity about the roles and accountabilities of the Board's Committees and much improved coordination, communication and information flows between them.
  - NFR issues are given prominence at the meetings of these Committees and there is robust challenge and debate at meetings about NFR issues.
  - Importantly, engagement between Board Committees and with staff throughout the organisation is now taking place in a more structured manner.
- With respect to Board reporting, the standard throughout CBA has improved materially during the Program. The quality of reporting on NFR matters is fundamental to making good decisions about risk. As noted by the *Inquiry Report*, quality reporting was not one of CBA's historical strengths. Reporting on NFR matters to the Board improved materially over the course of the Program, particularly over the last two years of the Program. Papers received by the Board and its Committees now provide improved insight and inform robust discussions. These papers are, in general, shorter and more insightful than in the past. There has also been a shift of emphasis from collating data, to interpreting and using data to better understand and manage risks.

The work done under the Board Governance Theme should improve the ability for the Board to fully apprise itself of all relevant NFR information when making the annual Risk Management Declaration required by Prudential Standard CPS 220 – Risk Management (**CPS 220**).

The Panel noted that the new tone to be set by the day-to-day actions of the refreshed Board would help to address many of the governance issues raised by the Inquiry. It is our assessment that the CBA Board met the expectations of the Panel in terms of improving Board governance and that this, in turn, laid the foundation for completing the Program on schedule and to a high quality.

While sustaining the achievements of the Board will likely come under pressure from time to time, especially as the Board composition changes, the sustainability mechanisms developed as part of CBA's response to Recommendations 1 and 2, in particular the requirement to hold regular internal and external reviews of the

performance of the Board and its Committees, should help to maintain the Target States of the Recommendations in the Board Governance Theme.

## **6.2. Management Governance Theme**

### **6.2.1. Management Governance Theme Findings and Recommendations**

The *Inquiry Report* made a series of findings in relation to senior leadership oversight, the stature of the compliance function and regulatory engagement.

In relation to senior leadership oversight, the Inquiry found that the Executive Committee had not been an effective vehicle for addressing Group-wide risks and issues. In particular, the Committee did not have a mandate to oversee the risk profile of the Group, and its dynamics did not encourage a sense of collective accountability.

In relation to the stature of the compliance function, the Inquiry observed that the compliance function had not been given sufficient recognition, stature or authority.

In relation to dealing with regulators, the Inquiry noted that CBA was seen to be defensive, reactive, perfunctory and slow to respond.

The Panel made several recommendations to address these findings:

- On senior leadership oversight, the Panel recommended that an Executive-level Committee to oversee non-financial risks be established, that the Executive Committee's behaviours and interactions improve, and that the Committee embed collective accountability for the management of the Group (Recommendations 6, 7 and 8).
- On the stature of the compliance function, the Panel recommended that the stature of the compliance function be elevated by making the Head of Compliance a member of the ELT or the ELT NFRC, and ensuring that they have direct access to the Board (Recommendation 14).
- On regulatory engagement, the Panel recommended that CBA strengthen its dialogue and engage constructively with regulators (Recommendation 19).

### **6.2.2. Management Governance Theme Actions and Outcomes**

CBA addressed each of the Management Governance Theme Recommendations through the work it completed under the Program.

In response to the *Inquiry Report's* findings and recommendations CBA:

- established the ELT NFRC, which is an Executive-level committee focused on NFR-related matters, and refined the ELT NFRC Charter to reduce overlap with the accountabilities of the ELT;
- commissioned both external and internal performance reviews of the ELT NFRC and acted on the findings of the reviews in relation to areas for improvement;
- held ELT meetings, including relevant pre-work, focused on team effectiveness and behaviour;

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- scheduled ongoing training and development activities focussed on ELT team effectiveness;
- uplifted the operation of the ELT with respect to behaviours and interactions, and responded to findings of an external review;
- enhanced the Key Performance Indicators (**KPI**) structure for GEs and the CEO to incorporate shared priorities, with a Strategic Execution KPI included in the GE/CEO Scorecards;
- developed a Group Strategy Scorecard, along with measures to assess progress against the delivery of shared priorities;
- assessed GE/CEO performance against the delivery of shared priorities, with discussion at the Board and PRC;
- elevated the focus on compliance in the ELT NFRC and Board Charters, including through adding the Chief Compliance Officer as a member of the ELT NFRC;
- presented updates on regulatory and compliance matters to the Board, BRC and ELT NFRC;
- elevated the position of the EGM Compliance (now referred to as the Chief Compliance Officer) and provided the person holding this position with unfettered access to the Board; and
- developed and implemented a regulatory engagement operating model and sought feedback on the model from regulators;

Promontory's assessment is that, by the end of the Program, CBA had addressed the issues raised by the Inquiry with respect to Management Governance, had achieved the Target States for this Theme, and had established mechanisms to help sustain those Target States:

- With respect to senior leadership oversight, CBA established the ELT NFRC and embedded accountability for management of non-financial risks within the Committee. CBA also commissioned an independent review of the ELT's behaviour, which concluded that the ELT members were demonstrating targeted behaviours, although a 'continuous improvement approach' was needed to ensure ongoing uplift of several of the behaviours. Performance reviews for GEs and the CEO, which included consideration of the shared strategic priorities, are now being presented to concurrent meetings of Board Committees. These changes provide a clearer mandate for NFR responsibilities, raise the visibility and stature of non-financial risks across the Group and should improve the Group's NFR decision making.
- With respect to the stature of the compliance function, CBA elevated the focus on compliance in both the ELT NFRC and Board Charter and ensured that compliance matters receive an increased level of consideration at these committees. It is our observation that, notwithstanding the elevation of the status of compliance and the positive steps to strengthen the function, additional work may be required to further mature the compliance function at the BU/SU level so that it has equal weight and voice with operational risk.
- With respect to regulatory engagement, CBA has now established Group Regulatory Engagement Principles that are consistent with the need to be responsive and proactive with regulators. Engagement with regulators is now monitored through reporting dashboards.

As a result of the actions and outcomes under the Program there has been a significant uplift in CBA's approach to management governance of non-financial risk. While continuous improvement opportunities remain, particularly in relation to further highlighting compliance issues in NFR forums and ensuring that ELT members continue to demonstrate targeted behaviours, the findings of the Inquiry have been addressed. As was the case with the Board Governance Theme it is our assessment that the gains in management governance, and the commitment and support from management, helped lay the foundations for completing the Program on schedule and to a high quality.

The sustainability mechanisms developed as part of CBA's response to Recommendations 8 and 14, in particular the regular review of ELT NFRC performance and the regular compliance reporting to the Board, BAC and ELT NFRC, should help to maintain the Target States of the Recommendations in the Management Governance Theme.

## **6.3. Operating Model (3LoA) Theme**

### **6.3.1. Operating Model (3LoA) Theme Findings and Recommendations**

The *Inquiry Report* made a series of findings in relation to aspects of the operating model for managing non-financial risks, in particular with respect to the three lines of defence model, referred to by CBA as 3LoA, and CRO independence.

In relation to 3LoA, the Inquiry found that CBA had not implemented the model effectively, despite numerous attempts.

In relation to CRO independence, the Inquiry noted that BU/SU CROs retained reporting lines to relevant GEs, which could impede Line 2 staff from providing impartial advice and challenge to the business.

The Panel made several recommendations to address these findings:

- On 3LoA, the Panel recommended that CBA ensure its 3LoA Principles are effectively embedded and subject to strict governance principles, with Line 1 taking primary ownership of risk management (Recommendation 9).
- On CRO independence, the Panel recommended that BU/SU CROs have the necessary independence to provide effective challenge to the business (Recommendation 10).

### **6.3.2. Operating Model (3LoA) Theme Actions and Outcomes**

CBA addressed each of the Operating Model (3LoA) Theme Recommendations through the work it completed under the Program. The work done to achieve Target State for Recommendation 9 was some of the most difficult under the RAP. In part this was due to its complexity and in part it was due to the fact that the model continued to evolve throughout most of the Program. CBA will need to complete further work on this Theme during the Transition Period.

In response to the *Inquiry Report's* findings and recommendations CBA:

- developed the 3LoA Principles, which establish clear requirements for the roles of each line of defence, and transitioned those Line 1 activities previously performed by Line 2 to Line 1 providing evidenced that 'Line 1 owns and manages its risk' and that Line 2 is responsible for 'approve and accept';
- established the role of Risk Steward for certain non-financial risk types, whose responsibilities include:
  - providing a view on the aggregate residual risk in relation to that risk type across the Group;
  - ensuring consistency and rigour in policies and control requirements;
  - providing independent opinion on the integrity and effectiveness of the risk framework and the control environment for the risk type across the Group;
- established the role of CCO in each BU/SU, as discussed in section 4.2;
- conducted an audit of 3LoA across the Group to determine whether Line 1 and Line 2 were operating in accordance with the 3LoA Principles and whether the intent of the CCO and Risk Steward roles were being met;
- conducted a Line 2 review of the effectiveness of the Risk Steward roles;
- clarified that the CROs report to the risk function;
- changed CRO KPIs and Role Profiles to explicitly require independence; and
- developed CRO Engagement Protocols that set out measures to reinforce CRO independence.

Promontory's assessment is that, by the end of the Program, CBA had addressed the issues raised by the Inquiry with respect to Operating Model (3LoA), had achieved the Target States for this Theme, and had established mechanisms to help sustain those Target States:

- With respect to 3LoA, CBA made significant progress in embedding these foundational aspects of an effective 3LoA model and, by the end of the Program, had largely transitioned the Line 1 activities that had been performed by Line 2, into Line 1. While the ownership of risk by Line 1 appears to be largely complete, this transition was finalised in the later stages of the Program. As such, further work may be needed to ensure that Line 1 ownership of risk is sustained.
- With respect to the independence of BU CROs, the Program introduced a number of initiatives to ensure the independence of the CROs and to strengthen their roles within the BU/SUs. It is our view that the changes materially strengthened the ability of Line 2 to provide independent 'approve and accept' and that, by the end of the Program, BU CROs exhibited the necessary independence from their BUs.

Other components of the 3LoA model were less well developed at the close of the Theme. In closing Recommendation 9, Promontory noted that, to further mature CBA's 3LoA model, it will be necessary for CBA to continue to clarify the distribution of responsibilities within Line 1. In particular, we expect the Transition Period will continue to cascade 3LoA roles, responsibilities and accountabilities to respective Lines of Business EGMs, embedded Line 1 Risk teams and BU/SU CCOs that report to each GE. Another area that was still evolving late in the Program was the implementation of the Risk Steward model. This is an important component of the 3LoA model that will need to be monitored and tested during the Transition Period.

As 3LoA has been an area that has been under constant evolution, both before and during the Program, it is important that CBA has robust sustainability mechanisms in place to ensure that it consolidates the progress made as part of the Program. The sustainability mechanisms developed as part of CBA's response to Recommendation 9, in particular the frameworks and process that support the 3LoA Principles and the annual 3LoA attestation, should help to maintain the Target States of the Recommendations in the Operating Model (3LoA) Theme.

## **6.4. Risk Appetite, Taxonomy and Standards Theme**

### **6.4.1. Risk Appetite, Taxonomy and Standards Theme Findings and Recommendations**

The *Inquiry Report* made a series of findings in relation to RAS limits, operational and compliance risk management policies, emerging risks and Line 2 assurance.

In relation to RAS limits, the Inquiry found that Operational Risk and Compliance (**OR&C**) risk metrics in the Group RAS were under-represented relative to metrics for financial risks.

In relation to operational and compliance risk management policies, the Inquiry observed that policies and frameworks for managing OR&C were overly complex and had been inconsistently implemented.

In relation to emerging risks, the Inquiry found that CBA's ability to identify and analyse emerging risks was limited.

In relation to Line 2 assurance, the Inquiry noted that the quality of Line 2 assurance had been variable across BU/SUs.

The Panel made several recommendations to address these findings:

- On RAS limits, the Panel recommended that CBA include limits and triggers for more granular OR&C risk metrics in the Group RAS (Recommendation 12a).
- On operational and compliance risk management policies, the Panel recommended that CBA articulate minimum standards for OR&C policies across the Group (Recommendation 12b).
- On emerging risks, the Panel recommended that focus on the 'big picture' and identification of emerging OR&C risks be heightened (Recommendation 12c).
- On Line 2 assurance, the Panel recommended that Line 2 effectively fulfil its assurance responsibilities (Recommendation 12d).

### **6.4.2. Risk Appetite, Taxonomy and Standards Theme Actions and Outcomes**

CBA addressed each of the Risk Appetite, Taxonomy and Standards Theme Recommendations through the work it completed under the Program. As was the case with the Operating Model (3LoA) Theme, the Risk Appetite, Taxonomy and Standards Theme included some of the most difficult Recommendations in the RAP. In completing work on the Recommendations under this Theme CBA encountered a number of challenges that absorbed significant time and resources.



In response to the *Inquiry Report's* findings and recommendations CBA:

- modified the Group RAS to include granular metrics for certain OR&C risk types and completed RAS Metric Rationale Templates;
- established Early Warning Triggers and Appetite Limits for indicators in relations to certain OR&C risk types;
- developed the Data Analysis Risk Tools dashboard, which makes it easier to visualise and interpret the data, and commenced reporting to the Board and ELT NFRC on the Group RAS OR&C metrics;
- cascaded the Group RAS indicators and incorporated them into all BU/SUs RASs in addition to locally relevant metrics;
- developed the Group Policy Framework (**GPF**) that guides the uplift process for Policies, Procedures and Standards across the policy lifecycle, including templates with which policy documents must conform;
- uplifted the in-scope, prioritised policy suites, including in relation to Conflicts Management, Compliance Incidents, Data Management, Privacy and Financial Crimes Compliance (**FCC**);
- rolled out training and guidance to support Line 1 in implementing the prioritised policy suites, including Group Mandatory Learning modules which were supported by face-to-face and BU/SU-specific training programs;
- reviewed the implementation of some policy suites through Post-Implementation Reviews and Initial Implementation Assessments (**IAs**), with plans to address identified implementation gaps;
- reviewed the consistency of implementation of some policy suites through Change Impact Assessments;
- developed emerging risk templates used by BU/SUs to proactively identify emerging risks for discussion;
- established the Emerging Risks Forum to assess emerging risks identified by the completed BU/SU emerging risk templates and to prioritise these for escalation to the ELT NFRC;
- developed reporting on emerging risks for discussion at the ELT NFRC that provided details on emerging risks, including those identified by the Emerging Risks Forum, and actions taken to address those risks;
- escalated material surfacing regulatory risks discussed at the Global Regulatory and Central Regulatory Forums to ELT NFRC via the Regulatory and Breach Report;
- updated the Line 2 Assurance Standard and Procedure to reflect design changes;
- uplifted the capability of Line 2 to perform Line 2 assurance through training and quality governance mechanisms;
- designed and rolled out the FY21 Line 2 Assurance Plan;

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- reported the findings of FY21 Line 2 Assurance Plan to BU/SU NFRCs and the ELT NFRC as required; and
- audited the Line 2 Assurance Program and developed management actions as agreed to address gaps or issues identified by Line 3.

Promontory's assessment is that, by the end of the Program, CBA had addressed the issues raised by the Inquiry with respect to Risk Appetite, Taxonomy and Standards, had achieved the Target States for this Theme, and had established mechanisms to help sustain those Target States:

- With respect to RAS limits, the actions taken by CBA improved the balance of OR&C relative to financial risk metrics in the Group RAS. Granular indicators and triggers for OR&C risk types are now regularly reviewed at the Board and Executive-level of the organisation. BU/SU NFR indicators are also now regularly reported and discussed at the BU/SU-level. Articulating and maintaining a clear appetite for OR&C risk types, effectively monitoring performance against risk appetite and leveraging the RAS to make pre-emptive risk decisions is a continuous endeavour that will continue to evolve in accordance with CBA's risk and control environment.
- With respect to operational and compliance risk management policies, there is now greater simplicity and consistency in OR&C policies across the Group. The GPF provides a standardised approach to the policy lifecycle and the in-scope Policies, Procedures and Standards now meet minimum standards. Implementation of the uplifted Policies, Procedures and Standards has also been enhanced through improved guidance and training. While CBA has made good progress on the in-scope Policies, Procedures and Standards, a number of Policy Suites that were originally part of the RAP were descoped during the Second Foundational Review. Further work on these will be needed during the Transition Period in order for CBA to realise improvement across the full range of operational and compliance risk management policies.
- With respect to emerging risks, the level of attention paid to, and the quality of, emerging risk analysis at CBA have increased materially. There is now more methodical consideration of emerging risks in the various parts of the organisation. Where emerging risks of concern are identified, mechanisms have been introduced to escalate these up through the organisation. As a result, more focused and timely discussions of emerging risks are occurring at senior levels of the organisation.
- With respect to Line 2 assurance, CBA has developed its Line 2 assurance activities to be consistent with the Group's realigned 3LoA Principles and has uplifted the capability of Line 2 Assurance staff. The effectiveness of these uplifts was supported by the observations made in the most recent audit of Line 2 assurance, which noted that Line 2 is providing targeted and effective independent assurance and that a substantial uplift in the capability of Line 2 assurance staff had occurred from the previous Line 2 assurance audit (in April 2020). As with the 3LoA model, some material changes to Line 2 assurance occurred towards the end of the Program and there is further work to do to ensure these changes are sustained.

While the Target State for each Recommendation was achieved, work on some of the Recommendations will continue during the Transition Period. For example, while significant progress was made on operational and compliance risk management policies and Line 2 assurance, both of these areas are the focus of further work during the Transition Period.

Sustaining the progress made in relation to OR&C policies and Line 2 assurance will be critical. The sustainability mechanisms developed as part of CBA's response to Recommendations 12b and 12d, in particular periodic internal and external reviews, should help to maintain the Target States of the Recommendations in the Risk Appetite, Taxonomy and Standards Theme.

## **6.5. Accountability and Controls Delivery Theme**

### **6.5.1. Accountability and Controls Delivery Theme Findings and Recommendations**

The *Inquiry Report* made a series of findings in relation to the Group's control environment, and the management of significant and outstanding issues.

In relation to CBA's risk and control environment, the Inquiry noted that serious gaps in CBA's controls environment for nonfinancial risks were overlooked and there was significant scope for improvement in its effectiveness. The Inquiry also noted that a high percentage of key controls for inherently 'Very High' or 'High' risks were rated as Marginal or Unsatisfactory, and that controls were not viewed as a priority in CBA.

In relation to issue management, the Inquiry found weaknesses in how issues were identified and escalated through the institution and a lack of urgency in their subsequent management and resolution. The Inquiry also observed instances where CBA had failed to effectively address the root causes of identified issues.

The Panel made several recommendations to address these findings:

- On CBA's risk and control environment, the Panel recommended that CBA ensure its control environment is robust by improving the effectiveness of control design and testing (Recommendation 12e).
- On issue management, the Panel recommended that CBA improve its processes for monitoring issues and ensuring that the root causes of issues are addressed (Recommendations 12f and 16).

### **6.5.2. Accountability and Controls Delivery Theme Actions and Outcomes**

CBA addressed each of the Accountability and Controls Delivery Theme Recommendations through the work it completed under the Program. That the Accountability and Controls Delivery Theme was functionally the last to be closed reflects the significant challenges CBA faced in this Theme, partly due to the sheer volume of work required to meet the Inquiry Recommendations, but also because of the necessity of remediating data quality within RiS.

In response to the *Inquiry Report's* findings and recommendations CBA:

- established BAU governance for BU/SU risk profiles with regular reporting on control assessments, issues and incidents raised, action plans to close issues, and progress against RAS indicators to BU/SU NFRCs and the ELT NFRC;

- developed Risk Steward Guides, which provide a consistent methodology for completing Improving Risk and Controls Self-Assessment (**iRCSA**) activities<sup>10</sup>, and completed iRCSA activities for FCC and Privacy risk types;
- developed Risk Management Action Plans (**RMAPs**) to record and monitor key actions to bring risk in line with risk appetite;
- developed CAP, Risk and Controls Self-Assessment (**RCSA**) and Obligations Management Standards which were then operationalised by BU/SUs including through the provision of training and the discussion of responsibilities and accountabilities at the BU/SU NFRCs;
- created a plan to address the iRCSAs for the remaining non-prioritised non-financial risk types;
- undertook work to improve the quality of data in RiS;
- revised the Issue Management Standard and applied it consistently to the back book of High and Medium-rated issues and all new issues;
- applied root cause analysis to issues and developed plans to address a review of consistency that found that:
  - uncertainty over what 'good looks like' resulted in lower quality issue and action descriptions;
  - the consistency of reporting and escalation of exceptions to governance forums needed improvement;
  - the impact of issues on other components such as risks, controls and obligations were not being appropriately considered;
- reported issues through BU/SU and ELT NFRCs, and the BRCC and/or BAC as relevant; and
- demonstrated consequences for poor issues management through performance management processes, as appropriate.

Promontory's assessment is that, by the end of the Program, CBA had addressed the issues raised by the Inquiry with respect to Accountability and Controls Delivery, had achieved the Target States for this Theme, and had established mechanisms to help sustain those Target States:

- With respect to CBA's risk and control environment, iRCSA activities have been completed for the prioritised risk types, and processes for consistently reviewing and assessing CBA's risk and control environment have been established. These changes have led to a material uplift in the risk and control environments of those prioritised risk types.
- With respect to issue management, as a result of the changes made by CBA issues are now managed in a consistent and timely manner, the roles of Line 2 and Line 3 with respect to issues are articulated in the Issues Management Standard, and the Board and ELT have timely and effective oversight of issues.

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<sup>10</sup> iRCSA is the process by which BU/SU review and improve their risk and control environment for a particular non-financial risk type.

While CBA has made good progress on uplifting the risk and control environment, further work is needed to complete the uplift of the non-prioritised risk types. In closing Recommendation 12e Promontory noted that, when completing iRCSAs for the non-prioritised risk types, CBA will need to demonstrate further embeddedness of the three Standards developed within Recommendation 12e and continue with the remediation of RiS data quality. We expect this will be a key focus of work during the Transition Period.

The sustainability mechanisms developed as part of CBA's response to Recommendations 12e, 12f and 16, in particular the tabling of various dashboards at governance forums and the frameworks and processes for issues management, should help to maintain the Target States of the Recommendations in the Accountability and Controls Delivery Theme.

## **6.6. Customer Outcomes Theme**

### **6.6.1. Customer Outcomes Theme Findings and Recommendations**

The *Inquiry Report* made a series of findings in relation to conduct and customer complaints.

In relation to conduct, the Inquiry found that CBA had applied a narrow definition of Conduct Risk that focused primarily on risk arising through the design and distribution of CBA's products. The Inquiry also found that there were examples of decisions being made in which financial objectives were implicitly prioritised over customer outcomes.

In relation to customer complaints, the Inquiry observed that there was little reporting on customer complaints to the Board and Executive Committee. The *Inquiry Report* also found that CBA had difficulty identifying broad, systemic issues from customer complaints.

The Panel made several recommendations to address these findings:

- On conduct, the Panel recommended that CBA review its Conduct Risk profile and ensure that Conduct Risk is considered in decision-making processes, and that senior leaders champion the 'should we' question in interactions with customers (Recommendations 15 and 21).
- On customer complaints, the Panel recommended that CBA report on customer complaints to senior leaders and prioritise investment in the identification of systemic issues from customer complaints (Recommendations 17 and 18).

### **6.6.2. Customer Outcomes Theme Actions and Outcomes**

CBA addressed each of the Customer Outcomes Theme Recommendations through the work it completed under the Program. A significant amount of work was put into developing new reporting, systems and processes in relation to this Theme, resulting in some of the more impressive advancements made through the Program.

In response to the *Inquiry Report's* findings and recommendations CBA:

- developed a refreshed Code of Conduct that requires staff to consider the 'should we' question, and rolled it out via Group mandatory learning;
- communicated the importance of the 'should we' question to all staff as part of tone from top;

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- incorporated the 'should we' question into key frameworks and practices, such as the employee lifecycle, including in relation to recruitment, onboarding, performance management and recognition programs;
- updated BU/SU risk profiles via iRCSAs for the prioritised Conduct risk types and developed a plan to complete iRCSAs for the non-prioritised Conduct risk types;
- designed new complaints reporting, based on better practice, that included metrics on the number of complaints received, resolution timeframes, escalation within and outside CBA, outcomes, and complaints data quality;
- developed analytical models to identify systemic issues from customer complaints data, including:
  - a text analysis model that automatically scores the likelihood that a certain complaint involves a potentially systemic issue;
  - a time series model that highlights statistically significant increases in the number of complaints related to certain themes;
  - a thematic search model that allows the user to search for all complaints related to a particular theme;
- took measures to improve the quality of data in its complaints management system, FirstPoint, including by training staff and through system upgrades;
- increased the use of alternative data sources to identify systemic issues including social media, and other external sources;
- increased resourcing dedicated to identifying and investigating systemic issues and enhanced FirstPoint's case management functionality for potential systemic issue investigations; and
- regularly presented reporting on complaint trends and systemic issues that included both a dashboard of metrics and relevant commentary to the ELT NFRC and the Board.

Promontory's assessment is that, by the end of the Program, CBA had addressed the issues raised by the Inquiry with respect to Customer Outcomes, had achieved the Target States for this Theme, and had established mechanisms to help sustain those Target States:

- With respect to conduct, as we highlighted in Previous Reports the 'should we' question is now well embedded in the CBA lexicon. Employees are also exposed to the Code of Conduct, which emphasises the importance of both the 'should we' question and CBA's Values, on a recurring basis throughout their employment. As a result, we observed many instances not only of the 'should we' question being asked, both explicitly and implicitly, but also of it having a tangible impact on the Bank's conduct.
- With respect to customer complaints, the changes made by CBA have materially improved the quality of analysis and frequency of complaints reporting. Senior leaders now regularly receive detailed information on trends in customer complaints. Models are now in place that allow CBA to identify systemic issues, discuss them at the highest levels and take actions to remedy the root cause.

One of the primary criticisms levelled in the *Inquiry Report* was that CBA's financial success had dulled its senses. By virtue of the work completed under this Theme, CBA has successfully addressed a major driver of that finding and significantly improved the way it balances financial outcomes with customer outcomes.

## **6.7. Culture, Capability and Consequences Theme**

### **6.7.1. Culture, Capability and Consequences Theme Findings and Recommendations**

The *Inquiry Report* made a series of findings in relation to culture, capability, and consequence management.

In relation to culture, the *Inquiry Report* identified a set of cultural themes that had inhibited sound risk management at CBA, including reactivity rather than pre-emption regarding risk and not fully 'walking the talk' when it came to risk management.

In relation to capability, the *Inquiry Report* found that there was inadequate resourcing and a lack of capability in CBA's OR&C management function.

In relation to consequence management, the *Inquiry Report* observed weaknesses in adjusting remuneration as a result of poor risk outcomes. Further, the *Report* noted that a lack of accountability was a common theme underlying several of the issues observed by the Inquiry.

The Panel made several recommendations to address these findings.

- On culture, the Panel recommended that CBA undertake a series of cultural changes to build a robust and healthy risk culture, and that senior leaders take responsibility for driving that cultural change (Recommendations 27 to 30).
- On capability, the Panel recommended that CBA build up capabilities and subject matter expertise of OR&C risk staff through training and continued recruitment (Recommendation 13).
- On consequence management, the Panel recommended that CBA update its remuneration framework to penalise poor risk outcomes and reward sound risk management, and strengthen governance over the application of that framework. It also recommended that CBA adopt a set of Accountability Principles, which were set out in the *Inquiry Report*, to improve the individual and collective accountability of senior leaders (Recommendations 22 to 26).

### **6.7.2. Culture, Capability and Consequences Theme Actions and Outcomes**

CBA addressed each of the Culture, Capability and Consequences Theme Recommendations through the work it completed under the Program.

In response to the *Inquiry Report's* findings and recommendations CBA:

- conducted annual risk culture assessments in line with the methodology it had developed, based on a wide range of data inputs and observations from the Board, ELT, Line 2 and Line 3;
- evaluated and tracked progress against the risk culture baseline, and reported its progress to the ELT and Board;

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- as part of the Cultural Change road-map, implemented interventions to shift the dial on risk culture, including in relation to senior leader mindsets and behaviours, cascading tone from the top, embedding values across the employee lifecycle and improving the relationship between Line 1 and Line 2;
- developed and embedded the 5 Skills<sup>11</sup> framework in relation to mindsets and behaviours;
- established an OR&C and CCO Forum to increase communication between Line 1 and Line 2 in relation to OR&C;
- conducted performance assessments for all employees, including assessments of Values Expectations and Risk Assessments;
- developed a 'Build Buy Retain' strategy to ensure OR&C staff develop the rights skills and expertise;
- developed an OR&C Capability Framework, performed annual Capability Assessments, monitored progress, and reported the results of these activities to the ELT, NFR Training Council and key Line1 and 2 stakeholders;
- implemented strategies to uplift capability, including through training, recruitment and retention and developed individual plans and BU/SU Capability Action Plans to address identified gaps and weaknesses;
- required the Group CRO to provide a formal documented risk assessment of the risk behaviours and outcomes of the GEs and the CEO;
- established concurrent meetings of Board Committees, which met twice per year, to consider performance, risk assessment and remuneration outcomes of the CEO and GEs, with input from the BRCC and BAC;
- improved reporting to the Board on Group-wide risk and remuneration outcomes, including improvements to data and systems to support deeper analysis of remuneration outcomes and policy effectiveness;
- added an 'Exceptionally Managed' risk assessment rating to reflect positive risk outcomes, with the introduction of a Recognition Award program to reward exemplary risk behaviours;
- commissioned external research in relation to best practice in introducing a clawback mechanism and revised the Group Remuneration Policy to reflect the application of malus and clawback
- introduced new processes, such as the BU/SU CRO challenges of risk outcomes and the Risk Accountability and Remuneration Review process;
- issued Board Guidance, endorsed by the PRC, setting out expectations of and criteria for how remuneration should be adjusted for positive or poor risk outcomes and behaviours, including mandated minimum remuneration adjustments for Partially Met or Not Met risk ratings;

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<sup>11</sup> The 5 Skills are self-reflection, giving and receiving feedback, giving and receiving constructive challenge, trust, and the 'should we' question.



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- communicated the remuneration impact of positive and poor risk outcomes internally and directly from managers, and improved external transparency and communication of risk and remuneration impacts;
- incorporated the Accountability Principles (as refreshed) into Accountability Statements and Statements of Responsibility;
- established a BEAR Supervisory Office and developed and refined a BEAR Policy and Procedure to require regular review and attestation of key artefacts;
- identified, and later refined, the seven frameworks supporting accountability, which were the Group Frameworks for Job Architecture, BEAR, Delegations, Policy, Risk Management Approach, Performance and Remuneration, and Misconduct Consequence Management;
- developed guidance material and an 'Accountability Hub' for the Group to define and clarify the application of accountability, both individual and collective accountability;
- clarified the mechanism to apply remuneration adjustments to reflect collective accountability, to the Short-Term Variable Remuneration Pool, at the GE/CEO level and to senior leaders; and
- incorporated the Accountability Principles and obligations into individual performance assessments.

Promontory's assessment is that, by the end of the Program, CBA had addressed the issues raised by the Inquiry with respect to Culture, Capability and Consequences, had achieved the Target States for this Theme, and had established mechanisms to help sustain those Target States:

- With respect to culture, as a result of the cultural interventions under the Program, senior leaders now 'walk the talk' on risk behaviours and actions and are personally responsible for cascading tone from the top, and the divide has been bridged between Line 1 and Line 2. CBA articulates positive behaviours that actively reinforce its values through its recruiting, training and performance assessment. Over the course of the RAP, the 5 Skills have remained live and unchanged and are now anchored in the approach to effective risk management. They are embedded in the Risk Management Approach document and Executive Risk Scorecards for senior leaders. The 5 Skills, together with CBA's Values, allow CBA to deliver improved risk and customer outcomes.
- With respect to capability, the skills and expertise of OR&C staff across Line 1 and Line 2 have been uplifted. Resourcing has also been enhanced, with recruitment continuing to build out the 3LoA operating model. CBA regularly assesses OR&C capacity and capabilities and implements strategies to address any shortfalls. We note that ensuring adequate OR&C capacity and capability is a continuous process that will evolve in accordance with the needs of CBA's risk and control environment. CCOs now have the right tools to make the adjustments that will be needed from time to time.
- With respect to consequences, over the course of the Program there have been a number of significant changes to the performance, risk assessment and remuneration frameworks to ensure appropriate risk adjustments are made in response to positive and poor risk outcomes and behaviours. There is now stronger Board governance to ensure the effective application of the remuneration framework. CBA has made significant progress in the quality and useability of the reporting provided to the PRC and the PRC's approach to remuneration is effectively supported through coordination and support from the BAC and BRCC. Expectations and criteria for remuneration adjustments are now much clearer and there is more robust application of the remuneration framework, with challenge from the risk function and greater transparency in remuneration outcomes.

Overall, CBA achieved a great deal through its work in addressing the wide-ranging Recommendations associated with this Theme. While some Culture, Capability and Consequences Theme Recommendations will be the subject of further work during the Transition Period, a significant shift in culture, capability and consequences has already been achieved by CBA through the Program. Areas that may need further work include the maturity of the approach to collective accountability, the pervasiveness of constructive challenge, and the differentiation of remuneration outcomes to ensure the right risk and compliance behaviours are effectively incentivised.

## **6.8. Program Execution Theme**

### **6.8.1. Program Execution Theme Findings and Recommendations**

The *Inquiry Report* made a series of findings in relation to RiC processes, the prioritisation of investment in risk and regulatory projects, and the execution of remediation initiatives.

In relation to RiC, the Inquiry found that inadequate measures had been in place to ensure sufficient Line 2 oversight of RiC assessments.

In relation to investment prioritisation, the Inquiry noted that CBA had generally invested in risk and compliance projects on a reactive basis, only after they had become 'high-rated' issues.

In relation to remediation initiatives, the Inquiry observed that CBA's track record in delivering major risk initiatives had been a chequered one.

The Panel made several recommendations to address these findings:

- On RiC, the Panel recommended that CBA strengthen the RiC process to ensure effective oversight from Line 2 (Recommendation 11).
- On investment prioritisation, the Panel recommended that CBA take a more pre-emptive approach to investments in risk management, compliance, and resilience areas (Recommendation 20).
- On remediation initiatives, the Panel recommended that CBA's senior leadership be involved and held accountable for program outcomes. It also recommended that organisational capacity be created to deliver the Program, and that rigorous project disciplines for delivering initiatives be developed (Recommendations 31 to 35).

### **6.8.2. Program Execution Theme Actions and Outcomes**

CBA addressed each of the Program Execution Theme Recommendations through the work it completed under the Program. CBA's response to the Inquiry's findings on Program Execution involved a significant amount of complex work and included a number of areas in which significant improvements were evident.

In response to the *Inquiry Report's* findings and recommendations CBA:

- developed the RiC Standard and RiC Procedure that govern the RiC process and codify Line 2's 'approve or accept' role, and rolled these out in alignment with the Group Delivery Framework (**GDF**);

- conducted testing of Line 1's compliance with the RiC Framework, which found that changes to the RiC Standard were being applied, although full assurance could not be completed in many cases as the changes had not yet been applied through a full delivery cycle;
- developed a RiC Application to support the RiC process by providing a single platform for conducting the RiC process and an automated dashboard that provides summary statistics of RiC cases by BU/SU, lifecycle stage and GDF category;
- developed a new Change Investment Process (**CIP**), with Guiding Principles for making investment prioritisation decisions that support a pre-emptive investment approach for risk and regulatory projects;
- made investment prioritisation decisions, in line with the Guiding Principles, in the following key areas:
  - BU/SU preparation of project portfolio for submission, including a portfolio of resilience projects in ES;
  - presentation and discussion of the CIP portfolio to the ELT in the context of the Guiding Principles, funding priorities and the Pandemic;
  - final funding allocation to the Group portfolio and review of all projects in the backlog to determine risk acceptance requirements;
- began providing a Risk and Regulatory Dashboard to the ELT NFRC that included details on the funding status of risk and regulatory projects and the details of emerging risks, resilience issues, and High-rated issues being prioritised for funding;
- uplifted the GDF that sets out the required project disciplines for delivering initiatives, including:
  - establishing different pathways to accommodate the different types of change initiatives delivered across the Group;
  - defining minimum standards for each pathway applying to the following key areas: key roles, delivery governance, mandatory activities and artefacts, tooling and data quality, and learning and accreditation;
  - requiring Key Roles to have KPI measures that comply with the GDF minimum standards and carry consequences, in terms of remuneration impacts, in the event of poor performance;
- developed the Delivery Health and Assurance Framework and Process documents that set out the principles for undertaking assurance over the status of initiatives, including scheduled reviews, and the roles of Line 2 and Line 3;
- developed a suite of portfolio performance dashboards to enable monitoring, including of adherence to GDF minimum standards and automated status reporting; and
- deferred a number of investment projects, in line with the CIP and the Guiding Principle of '*ensure we deliver on commitments we have made to our regulators (including the Remedial Action Plan)*', in order to create capacity to support the delivery of the Program.

Promontory's assessment is that, by the end of the Program, CBA had addressed the issues raised by the Inquiry with respect to Program Execution, had achieved the Target States for this Theme, and had established mechanisms to help sustain those Target States:

- With respect to RiC, the changes made by CBA have strengthened Line 2 involvement in RiC activities. Nonetheless, CBA's approach to assessing RiC continues to evolve as can be seen in the ongoing delivery of the RiC Improvement road-map, which aims to improve the efficiency and effectiveness of the RiC process through upgrades to the RiC Application, clearer integration with the GDF and the development of a 'risk driven mechanism' to define the scope of changes subject to the RiC process. This focus on efficiency and effectiveness will be key to ensuring the RiC process remains sustainable into the future, particularly in light of the resourcing challenges that manifested upon initial rollout.
- With respect to investment prioritisation, improved processes for considering risk outcomes in investment prioritisation decisions have resulted in improved prioritisation of risk and regulatory program investments. In particular, the Risk and Regulatory Projects Dashboard, which includes details on emerging risks, resilience issues, and High-rated issues being prioritised for funding, and the requirement for CCO and CRO signoff on initiative proposals has allowed CBA to better target its investment. As a result, the CIP for FY21 allocated 64 per cent of funding to risk and regulatory projects.
- With respect to remediation initiatives, CBA made significant progress on improving its poor track record in delivering major risk initiatives. A rigorous project management framework is now in place, that should hold leaders to account for poor outcomes. Enhanced reporting on the status of initiatives is being generated, making it easier to identify and address risks and issues. As a result of these changes CBA has realised improved project management disciplines, which were evidenced, in part, by the successful delivery of the Program itself.

CBA introduced material upgrades to its program execution infrastructure through the Program. These stood the Bank in good stead in delivering the Program and will stand it in good stead in its execution of future remediation programs. As many of the processes established under this Theme are candidates for simplification through continuous improvement, sustainability is of particular importance in ensuring that future changes made in relation to this Theme do not undermine the improvements that have been made through the Program. The sustainability mechanisms developed as part of CBA's response to Recommendations 11, 20 and 34, in particular the requirement to complete the RiC process in the ORMF, key activities set out in the CIP Standard Operating Procedure and the annual GDF effectiveness review, should help to maintain the Target States of the Recommendations.

## 7. Overall Program Outcomes

In our Eighth Report we observed that, in many respects, CBA was almost unrecognisable as the institution described in the *Inquiry Report*. In particular, at the time of our Eighth Report, there was clear and committed leadership in managing non-financial risks. Accountabilities had been sharpened. The 'voices' of risk and compliance had been elevated and were being heard. There had been considerable improvement in the ownership and understanding of non-financial risks by BU/SUs. There was a much clearer and stronger focus on ensuring good customer outcomes and the 'should we' question had become an integral part of the Group's everyday conversations. Challenge was not only a consistent feature of meetings and forums, it was welcomed.

Our comments were offered at the time to acknowledge how far CBA had come since the Inquiry. At the same time, they were made in full recognition that CBA still had a distance to go before it could hope to attain the goals set by the *Inquiry Report*, and even further before the gains from the Program could be viewed as sustainable.

While recognising what had been achieved at the time of our Eighth Report, we also noted that the greatest hurdles still lay ahead. Some of the Milestones remaining at that time were among the most difficult to close. Broad challenges, such as consistency, data quality, and sustainability faced CBA in the closing stages of the Program.

A little over twelve months after that interim assessment all of the Milestones and Recommendations have been closed. In and of itself that is a major achievement, and one of which CBA can be justifiably proud. Without detracting from the achievement of closing the Program, it would have been clear from Chapter 6 that not all Target States attained the same level of excellence. In academic terms, some Target States were achieved with distinction, while others just passed. This should not be surprising given the wide range of challenges and complexities involved.

But there is an even more fundamental point. While closing all Milestones and Recommendations is necessary for CBA to consider its overall goal achieved, it is not by itself sufficient. As noted in the *Inquiry Report*, the incidents that led to the Inquiry arose from CBA's collective weaknesses across multiple areas. It was the collective weaknesses and the lack of obvious pillars of strength that created an operating environment in which the incidents could occur. The ultimate benchmark for CBA is whether it has adequately addressed the concerns raised in the *Report*. Achieving the overall goal set by the *Report* requires that CBA has closed all Milestones and Recommendations in ways that have changed its operating environment and culture permanently.

Guided by the *Inquiry Report*, we suggested in Chapter 2 that the overall success of the Program could be judged by the extent to which, by the end of the Program:

- the six tell-tale markers were no longer evident in CBA;
- CBA had eliminated the four debilitating pre-Inquiry cultural traits that lay at the root of CBA's failings and incorporated mechanisms to safeguard against their re-emergence; and
- CBA had exercised the five key levers to effect lasting change.

In this Chapter we assess the Program's success against these benchmarks. Since the first three tell-tale markers (governance, accountability and incentives, and CBA's approach to non-financial risks) align with the first three key levers, we comment on each of those key levers and tell-tale markers together. We then comment of the remaining three tell-tale markers and two key levers separately. The cultural traits identified as root causes

by the *Inquiry Report* are integrated into our reflections on the final key lever, which focuses on the need for cultural change.

## **7.1. Oversight and Challenge by the Board**

In the regulatory world, one of the leading indicators of likely incidents and potential failure is the absence of strong leadership and tone from a financial institution's Board. Not surprisingly, the Inquiry focused closely on the role of CBA's Board. The *Inquiry Report* described the CBA Board as exhibiting complacency with respect to risk management and adopting a 'light hand on the tiller'. It followed logically that the first key lever suggested by the *Report* was for the CBA Board to apply greater rigor to its governance of non-financial risks.

Since the Inquiry, the CBA Board has undergone major rejuvenation, with five of its 11 members appointed after publication of the *Inquiry Report*. The rejuvenated Board has materially upgraded its approach to oversight and challenge of non-financial risks. In the process, it has applied much greater rigor to its governance of non-financial risks.

The outcomes of the Board Governance Theme activities, summarised in Chapter 6, point to a CBA Board in 2021 that is neither complacent nor light-handed in its oversight of non-financial risks. In particular:

- Over the course of the program, the tone from the top has been exemplary. Messaging from the Board about identifying and managing non-financial risk has been both consistent and persistent.
- As a result of actions taken under the Program, the Board's Committees are now better coordinated and focused on non-financial risks.
- Efforts to improve the quality of NFR reporting to the Board have resulted in material improvements, including early indicators of emerging non-financial risks. Improvements in the quality of underlying NFR data and of NFR reporting have allowed the Board and its Committees to better hold management to account.
- The quality of discussion about non-financial risks at Board Committee meetings improved greatly over the course of the Program, as did the level of challenge at those meetings.
- Matters that have been closed by management but have not, in the Board's opinion, been sufficiently addressed are now being re-opened.
- There is much stronger Board oversight and challenge of remuneration through concurrent meetings of Board Committees.

## **7.2. Unclear Accountabilities and the Lack of Ownership of Risks**

Banks are in the business of risk. A bank that fails to establish clear ownership and accountabilities for risks severely handicaps its ability to recognise and manage those risks. The *Inquiry Report* described CBA as an organisation in which Executive Leaders were generally not held accountable for risk and compliance failures.

As detailed in Chapter 6, ownership, accountability and consequences for risk were the focus of a number of Milestones and Recommendations in the Program:

- The starting point was improving clarity of accountabilities between the Board and senior management. This was addressed through material revision of committee charters across the Bank. There is now much greater clarity about the roles and accountabilities of the Board's Committees and management committees at both the ELT and BU/SU levels.
- A key component of the Program was the migration of risk ownership from Line 2 to Line 1. As noted in Chapter 6, this proved to be one of the more difficult components of the RAP, but also one of the most critical. Compared with three years ago, there is now a much greater clarity within CBA about risk ownership.
- The introduction of Risk Stewards established, for the first time in CBA, end-to-end oversight of risks that cut across multiple BU/SUs. While the effectiveness of the Risk Steward model is yet to be fully tested, the model reflects an important change in the way CBA approaches risk management.
- Along with responsibility for risk there is a need to ensure that those who are responsible are also accountable. Actions taken under the RAP resulted in an enhanced sense of accountability. Leaders are now accountable for better risk and customer outcomes.
- Accountability Principles have been integrated into BEAR Accountability Statements and there are clearer links from accountability to consequences.
- A new sense of collective accountability is also being reinforced through the performance management framework, with GEs held accountable and assessed against a set of shared priorities.

### **7.3. Weaknesses in the Management of Issues, Incidents and Risks**

Given that banks are in the business of risk, it is critical that they are able to identify emerging risks early and address them in a timely manner. Whether risks are identified through strategic analysis or through incidents that expose vulnerabilities within the bank's systems, once identified, they need to be escalated, assessed and addressed.

CBA had frameworks for issue identification, escalation and resolution. Those frameworks focused on issues originated by staff, whistleblowers, customers and regulators. However, the *Inquiry Report* observed weaknesses in the way those frameworks were implemented. In particular, the *Report* identified a lack of confidence by staff in protections offered by its whistleblower program, a failure of information about customer complaints reaching the Board level, and an overly legalistic and defensive approach to dealing with regulators.

The *Inquiry Report* concluded that CBA had weaknesses in the way in which issues, incidents and risks were identified and escalated through the institution and showed a lack of urgency in their subsequent management and resolution.

While these weaknesses were the focus of remediation activities under the Accountability and Controls Delivery Theme (in particular, under Recommendation 16), the scope of the remediation extended across other Themes

as well. Through the course of the Program, CBA implemented the following reforms to its framework for managing issues, incidents and risks:

- A revised Issue Management Standard ensures that:
  - root cause analysis of symptoms is conducted where appropriate;
  - appropriate actions are developed and taken in a timely manner;
  - adequate measures are taken by Line 1 to ensure that actions are effective at the time of closure and to monitor the risk of recurrence; and
  - Line 2 and Line 3 roles are specified.
- Under upgraded Board reporting, the CBA Board now receives insights across all categories of non-financial risk, including new and emerging risks, complaints analysis, controls gaps and weaknesses, incidents, and granular risk appetite metrics. These issues are articulated upwards through BU/SU and ELT NFRCs to the BRCC.
- The revised Code of Conduct encourages staff to raise issues where they occur and provides the number for a confidential hotline that can be used to raise issues where staff may have concerns about retaliation.
- An emphasis on providing constructive challenge and self-reflection on the 5 Skills has resulted in leaders being more open about potential problems.

Our testing of issues management and reporting indicated operating effectiveness of changes and uplifts and consistency of application at the Group, BU/SU and Line of Business level, as well as effective oversight by the ELT and the Board.

## **7.4. Overly Complex, Bureaucratic and Collaborative Decision Making**

The complex, bureaucratic and collaborative decision making identified by the *Inquiry Report* was a natural consequence of the absence of clear ownership and accountability for risk. In a collaborative model, if everyone is responsible for risk, then no-one is responsible. If decision-making processes are complex and bureaucratic, it is easy to defer difficult decisions. Clear responsibilities and accountabilities are the antithesis of the operating model that was employed by CBA at the time of the *Report*.

Section 7.2 outlined the actions taken by CBA to address the weaknesses in responsibilities and accountabilities. In the organisation that has emerged from the Program, ownership of risk decisions resides clearly with Line 1. While Line 2 risk resources and risk committees provide challenge over Line 1 decision-making processes, the decision ultimately rests with an accountable individual.

Complexity is another area where CBA has made progress. Throughout the Program CBA attempted to interweave simplicity into its response to the Panel's findings. CBA's reliance on BAU mechanisms in the Sustainability Plans is a good example of where simplicity is being emphasised.

While progress has been made, this tell-tale marker remains an area for improvement that CBA is addressing through its ongoing simplification efforts. As discussed in Chapter 6, several areas exist where there are opportunities for further simplification, including in relation to RiC and the CIP.



## 7.5. Ineffective, Immature and Under-Resourced Operational Risk and Compliance

The *Inquiry Report* found CBA to have ineffective, immature and under-resourced OR&C functions. While the *Report* identified weaknesses in CBA's broader risk management framework, particularly in its implementation of the 3LoA model, it was especially critical of the NFR components of the framework. The *Report* noted inadequacies in both capacity and capability.

In particular, the *Report* singled out the compliance function as lacking sufficient recognition, stature and authority.

In response, as noted in Chapter 6, CBA developed a Capability Framework and performed Capability Assessments. It increased the resourcing levels of the OR&C functions, and it upgraded the reporting lines for the Compliance function throughout the Bank. It upgraded not only the status of compliance but also the quality of compliance expertise.

CBA implemented initiatives to ensure OR&C staff across Line 1 and Line 2 developed the right skills and expertise through a combination of training, recruitment and retention strategies, with capability assessments performed to measure capability uplift over time. The results of these assessments suggests that CBA's OR&C functions are on a positive trajectory.

Notwithstanding these positive initiatives, maturity is a spectrum, and rebuilding fully from the low level at the time of the *Inquiry Report* will take further effort.

## 7.6. Poorly Designed and Ineffective Remuneration and Incentive Framework

It is a basic characteristic of human nature that people respond to incentives. It is a mistake to think of incentives as purely monetary in form. Non-monetary incentives such as acceptance by peers and promotion within an organisation are also critically important in driving behaviour.

When incentives in an organisation, both monetary and non-monetary, conspire to inhibit good decision making, the institution's culture is likely to be poor, if not toxic.

The *Inquiry Report* described CBA as a bank in which limited consequences were applied by the remuneration framework to Executive Leaders for risk and compliance failures.

As noted above, the actions taken under the RAP have resulted in an enhanced sense of accountability. Leaders are now accountable for better risk and customer outcomes and are clearer about the risks they own. A critical component of that accountability framework is accepting the consequences of poor risk decisions and behaviours. Under the revised remuneration framework, consequences are applied when leaders fail, and there is increased 'sting' in the remuneration framework when poor risk or customer outcomes materialise. These include the application of malus and clawbacks to better link remuneration to outcomes that may evolve over time. Importantly, positive risk decisions and behaviours also have consequences, in this case positive remuneration consequences.

While the new remuneration framework is consistent with better practice, use of the full range of remuneration tools has been introduced progressively in CBA, in part reflecting the difficult operating environment caused by

the Pandemic. Thus, the effectiveness of the new framework in generating better risk outcomes may take a while before it is fully tested.

## **7.7. Prioritisation of Customers' Interests**

In many ways the *Inquiry Report* marked a watershed in thinking about the role and responsibilities of banks in the community. Prior to the publication of the *Report* there was a widely held belief that banks were accountable to their shareholders, almost to the exclusion of all other stakeholders. The *Report* established powerfully the notion that banks hold a privileged position in the community and therefore have a broader responsibility to the community in return for that privilege. This view was extended to other financial institutions by the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry that followed soon after the publication of the *Report*.

The *Inquiry Report* observed that banking at its most basic level is predicated on community trust and the fastest way for banks to erode such trust is to fail to 'do the right thing' by their customers. The Panel noted examples of trade-off decisions being made within CBA in which financial objectives were implicitly prioritised over the 'customer voice'. The 'can we' question won out over the 'should we' question.

In operationalising CBA's responsibility to the community, the *Inquiry Report* talked of CBA's need to prioritise the interests of its customers and to inject into CBA's DNA the 'should we' question in relation to all dealings with and decisions about customers. The 'should we' phrase has become a catch cry within CBA, and is also becoming a cultural aspiration in other financial firms.

The Target State for Recommendation 21 includes the notion that better customer outcomes are achieved through championing the 'should we' question in decision-making and elevating the 'voice of the customer'. This Target State was operationalised through a number of channels including:

- incorporating references to the Code of Conduct and the 'should we' question into CBA's frameworks;
- integrating the Code of Conduct and 'should we' question into CBA's organisational culture, including through the CIP, and risk culture assessment;
- incorporating application of the 'should we' question into the 5 Skills that were developed to improve senior leader mindsets and behaviours (CBA's Leaders are assessed against the 5 Skills as part of the performance management framework);
- establishing and uplifting governance forums to focus on customer outcomes, including the ELT, ELT NFRC, BU/SU LTs and NFRCs, and Product Governance Forums, with Charters amended to include the 'should we' question, and controls to monitor forum effectiveness;
- upgraded reporting to the Board and governance forums in relation to customer outcomes, complaints, risk culture and conduct risk indicators; and
- building testing of the 'should we' question into the Sustainability Plan for this Recommendation.

Our observation, across many meetings, forums and written documents is that the shift in CBA's thinking on customer priority has been little short of transformative. The ultimate test, however, of whether CBA has fully embraced the *Inquiry Report's* guidance on prioritising the interests of its customers and injecting the 'should we' question into its DNA is whether this new mindset is sustained over time.

## 7.8. Cultural Change

In many ways, cultural change was the overarching goal set by the *Inquiry Report*.

The *Inquiry Report* described CBA's culture in multiple ways, none of which was complimentary. Each of the tell-tale markers and key levers spoke to cultural failings. The root causes of CBA's weaknesses pointed to a culture in which there was: a widespread sense of complacency; a reactive stance in dealing with risks; insularity and a failure to learn from experiences and mistakes; and an overly collegial and collaborative working environment which lessened the opportunity for constructive criticism, timely decision-making and a focus on outcomes. Almost every weakness identified by the *Report* can be regarded as a reflection of the culture that CBA had developed over a period of decades.

Turning that culture around in the three years of the Program was always going to be CBA's biggest challenge. In assessing CBA's progress through the Program we have organised our comments around the four cultural traits that lay at the heart of CBA's shortcomings.

### Complacency

The *Inquiry Report* observed that a widespread sense of complacency had run through CBA, from the top down. There was a collective belief within the institution that CBA was well run and inherently conservative on risk. Shaking that complacency was no simple task. Within CBA there were some who recognised the weaknesses quickly. Others took longer to move past the initial stage of denial.

The *Inquiry Report* was itself an important lever for shaking CBA's complacency, in that it tore down the thin veil of complacency by exposing weakness after weakness. But, while the Board and Executive Leadership Team appeared to hear the messages in the *Report* clearly and early, bringing the entire Bank with them was more challenging.

Cultural change has to start from the top and, in that respect, the CBA Board, with substantial new membership, provided strong leadership. As noted in section 7.1 above, the outcomes of the Board Governance Theme activities point to a CBA Board in 2021 that is neither complacent nor light-handed in its oversight of non-financial risks. Importantly, the Board's initiatives to address its weaknesses and to provide a clear tone from the top started early and persisted throughout the RAP.

This tone was picked up and transmitted strongly by senior management. The strength of the conviction of senior management to the need for cultural change was demonstrated at the Better Bank Leadership Offsites, at which members of the ELT spoke of their personal journeys in acknowledging and understanding the weaknesses contained in the *Inquiry Report* and in building the lessons into their daily behaviours. There was no sense of complacency in those presentations.

In place of complacency, which the *Inquiry Report* described as a sense of 'chronic ease', CBA sought to establish a sense of 'chronic unease' throughout the Bank. The success of this initiative can be judged by the extent to which chronic unease has become a part of the every-day vocabulary of many CBA staff and a term that is heard frequently in CBA meetings. Importantly, it is used with conviction, not simply because it is thought to be appropriate.

In the same way, the 'should we' question has become a part of the every-day CBA vocabulary. As noted in section 7.7 above, the shift in CBA's thinking about customer priority has been little short of transformative. That shift would not have been possible without first dismantling the cultural complacency that characterised CBA prior to the Inquiry.

Notwithstanding these positive achievements, cascading cultural messages from senior leaders throughout the Bank is still a work in progress. Staff surveys focused on culture during the term of the RAP were generally positive, but indicated that cultural change was less widespread at the middle and lower levels than at the more senior levels.

The need to strengthen the tone from the middle was called out in our Ninth Report. CBA implemented a number of initiatives in response, but the full impact of these may not be evident for some time yet. If nothing else, these observations highlight the magnitude of the task in an organisation the size of CBA to rebuild a culture that has eroded over a long period of time. It also points to the challenges of maintaining cultural reforms going forward. We will say more about this in Chapter 9.

### Reactive culture

The *Inquiry Report* described CBA's culture as reactive. Rather than pre-empting risks and addressing them proactively, CBA tended to focus on them only after they had emerged clearly or when reputational consequences began to appear.

CBA's response to being more pro-active in identifying emerging non-financial risks was covered in section 7.1 under oversight and challenge by the Board. As noted in that section, reporting to the Board was upgraded to include early indicators of emerging non-financial risks. For that reporting to be effective, CBA cascaded the new reporting framework to the ELT and BU/SUs.

Part of CBA's reactive culture was attributed to a slow, legalistic, at times dismissive, approach to many of CBA's dealings with regulators. During the Program CBA sought to strengthen its dialogue and engagement with regulators by taking a series of action to address the *Inquiry Report's* themes of engagement, responsiveness, communication and a proactive stance. While these actions were a constructive response to the issues raised by the *Report*, their effectiveness was difficult to assess and may only become evident over the longer term.

### Insularity

The *Inquiry Report* described CBA as insular. It described CBA as an organisation that did not reflect on or learn from experiences and mistakes (its own and others'), including at Board and senior leadership levels. Lessons from previous incidents were not readily captured or shared across CBA. Within CBA there was a lack of intellectual curiosity and critical thinking about the 'bigger picture' and the full depth of risk issues that limited CBA's ability to learn, anticipate and adapt. CBA was not receptive to growing community concerns about unfair treatment.

Insularity comes from a lack of humility. As noted by the CEO in one forum, reading the *Report* gave him an acute sense of humiliation. Humiliation and shame were common themes in the interviews of staff during the 'remember when' campaign. Perhaps the first step on the road to redemption is finding humility. With a sense of humility CBA set out to learn from its mistakes and to learn from others. At various stages in the Program, advice was sought from others who had been through similar processes in other parts of the world. CBA sought to learn from both good and bad experiences.

The extent to which the Program evolved both in its structure and delivery model was a reflection of the organisation's willingness to learn. Inevitably, some lessons, such as the need to simplify NFR frameworks, were more difficult to absorb than others. Simplification is a lesson that may need to be learned a few times more. On the other side of the ledger, the willingness of CBA leaders to listen and respond to the messages from our Reports was refreshing.

CBA's willingness to learn through introspection was reflected in the emphasis placed on self-reflection on the 5 Skills. CBA also worked hard to extract lessons learned from its first attempt at instituting new processes, frameworks and approaches. Importantly, it implemented strong mechanisms to incorporate those lessons into subsequent attempts.

Perhaps the best example of CBA's willingness to learn from its mistakes was the depth, commitment and sincerity of its response to the Prudential Inquiry.

### Collegiality

In many ways, the Inquiry's comments about CBA's collegiate approach sum up much of the cultural weakness evident in CBA prior to the RAP. The *Inquiry Report* described CBA's working environment as collegial and collaborative. The *Report* did not dismiss these characteristics as necessarily corrosive, but noted that, to be effective, such an environment places a high value on the 'good intent' of staff. In CBA's case, pursuit of consensus had lessened constructive criticism and slowed decision-making; it had resulted in lengthier and more complex processes, and a slippage of focus from outcomes to processes. Good intent had been too readily used to excuse poor risk outcomes.

In our view, the Panel might even have been overly generous in its assessment of CBA's collegiality. In the pre-RAP CBA, collegiality reflected, as much as anything, the lack of clear ownership of risk, unclear accountabilities and the absence of an effective consequence management framework. Collegiality filled the void created by the absence of these critical elements.

Addressing various aspects of this void accounted for over a third of the *Inquiry Report* Recommendations and a large part of the activities of the Program.

As a result of the Program, CBA's operating environment is very different to that described by the *Inquiry Report*. In its new operating environment:

- There is much greater clarity about risk ownership.
- While still evolving in some respects, there is much greater clarity about the roles of Line 1, Line 2 and Line 3 in identifying and managing risk.
- Executives understand their individual accountabilities and are held to account for poor risk outcomes.
- While still evolving, there is a collective accountability overlay that, at least at the senior level, encourages shared ownership of Group-wide risks, without impairing the clarity of the individual accountability model.
- Leaders are expected to exhibit the 5 skills and are assessed against them.
- While still evolving, the consequences of both good and poor risk outcomes are reflected in performance metrics and remuneration.
- Constructive challenge is a consistent and powerful component of discussions about non-financial risk at senior-level committee meetings throughout the Bank.
- There is now a much clearer focus on outcomes, rather than processes.

Notwithstanding these improvements in the operating environment, there is still further work to do to address certain areas of cultural weakness, including in relation to the maturity of CBA's approach to collective accountability and the pervasiveness of constructive challenge as we have noted above.

## **7.9. Overall Assessment**

As observed in our Eighth Report, CBA was almost unrecognisable as the institution described in the *Inquiry Report*. Nothing we have observed since the Eighth Report has led us to modify that opinion. CBA has changed as an institution. The weaknesses called out by the *Report* have been addressed by the Program and, in all cases, material improvements have been made.

There is no question about CBA reaching perfection. Perfection would not have been a realistic goal. Perfection would not even have been a meaningful goal, since it would imply that nothing further would ever be required, and in a world that is constantly evolving there will always be a need for adaptation and improvement. Building a strong culture that values all stakeholders, including customers and recognises the privileged position that a bank such as CBA holds in the community, is the best that could have been aspired to in a period as short as the three or so years of the Program. Considering where CBA started from, its journey has been immense. And that is something to celebrate.

But the reality is that, notwithstanding the many changes that have been implemented over the course of the Program, there is still much to be done if the hard work of the past three years is to result in lasting change. In addition to unfinished business in some areas, there is a need for continuous improvement if certain processes and activities are to be simplified and strengthened to ensure their sustainability. These challenges are picked up in Chapter 9.

## 8. Lessons from the Program

The Program implemented by CBA over the past three years in response to the weaknesses identified in the *Inquiry Report* is one of the most comprehensive, if not the most comprehensive, reforms of corporate culture in recent Australian memory. It was confronting, demanding on staff and resources, and carried out against the backdrop of a Pandemic that disrupted both the industry and the country. Despite these challenges, CBA completed the Program and achieved outcomes about which many readers of the *Report* would have been deeply sceptical.

CBA's experiences over the past three years are relevant, not only to CBA, but also to the industry more generally – some members of which are going through similar programs of cultural rebuilding, others of which may face these challenges in coming years.

In this Chapter we discuss some of the key lessons that we believe can be taken from CBA's Program. Our top five key lessons, which include areas in which CBA excelled, as well as areas in which there was room for improvement, are:

1. Unity of purpose.
2. Effective program delivery disciplines.
3. The importance of communications.
4. Starting early on the more challenging elements.
5. Understanding the cultural 'long game'.

### 8.1. Unity of Purpose

One of the most difficult tasks of any major reform program is ensuring that everyone understands from the outset what needs to be done and accepts that it needs to be done. Inevitably, when the criticism is intense, as it was in the *Inquiry Report*, there will be some members of the team who feel aggrieved, who stay in denial, and who believe the need for change is overstated and/or unfair. Whether or not the organisation is able to move quickly from denial to accepting the need for change often determines the success or failure of the remediation effort.

As noted in Chapter 7, in CBA's case, the very fact that there was an Inquiry helped accelerate the transition from denial to acceptance. Public humiliation has a way of galvanising action that is not always as easily motivated by an internal review with no public exposure of weaknesses.

But, also as noted in Chapter 7, bringing a common unity of purpose with respect to cultural change requires strong leadership. Without strong leadership from the Board and Executive Leadership Team there would have been a material risk that those who were not committed to the Program could have undermined it. Unified leadership from the Board and Executive Leadership Team was thus the critical foundation on which the Program was built.

As is often necessary for major change, this unity of purpose was achieved in part by conversion of existing members of CBA's leadership and in part by changes in the composition of the leadership.

## 8.2. Effective Program Delivery Disciplines

If leadership from the Board and Executive Leadership Team laid the foundation for a successful Program at CBA, the effectiveness of Program delivery was the mortar that held the structure of the Program together and ensured that it delivered the required outcomes.

The *Inquiry Report* identified that remediation programs that fail, typically do so not for want of design but for want of execution. It is therefore more than a touch ironic that program management was ultimately one of the greatest strengths of the Program, given that CBA had a poor history of project management and delivering remediation. As highlighted in the *Report*, CBA's track record in delivering major risk initiatives was not impressive. In particular, the *Report* identified the need for CBA to avoid the following in executing the Program:

- unclear accountabilities and porous deadlines;
- the tendency to layer on bureaucracy and theoretical frameworks; and
- poor execution that results in the recurrence of issues.

These considerations and the Target States for Recommendations in the Program Execution Theme guided CBA in establishing effective Program delivery disciplines.

Given its unimpressive history on program delivery, CBA recognised the need to 'break the mould' in creating a new approach for delivering the Remedial Action Plan. The disciplines that characterised its new approach included clear accountabilities for delivery, a strong governance structure, an effective central team, strong cooperation between the central team and the Business Units and Support Units in coordinating implementation and embedment of changes, and a structured approach to designing and executing initiatives across the Group.

All RAP Recommendations were assigned a BEAR Accountable Executive with each Executive held accountable for delivery of the relevant outcomes. Importantly, annual performance assessments were introduced for BEAR Accountable Executives and Key Role Holders, with remuneration outcomes linked to assessment of performance against delivery governance KPIs. This ensured both clarity of accountabilities and 'skin in the game' for senior executives.

At the core of the Program's rigorous project disciplines, as described in more detail in Chapter 4, was the Central RAP Team. In large part, the success of the Program was driven by the work of this team, who provided oversight, planning, coordination and quality control over deliverables.

The Central RAP Team used the governance and operational forums detailed in Chapter 4 to monitor the progress of the Program, to coordinate across BU/SUs and manage interdependencies with other remediation programs within the Bank. These forums also enabled sharing of better practices between BU/SUs.

The forums were used to risk rate the various components of the Program, to monitor progress against established quality standards and timetables, and to identify the early emergence of risks to quality and timeliness. The Central RAP Team established processes for making changes to the content and/or timing of deliverables. Where these arose, they were required to be approved by the relevant BEAR Accountable Executives before becoming effective.

It is hard to overstate the importance of the governance and operational forums in imposing discipline on the Program. They were adapted over the course of the Program to enable them to highlight problem areas and



focus on emerging issues. The level of constructive challenge in these forums over the course of the Program was a good indicator of CBA's growing cultural maturity.

A particularly innovative element of CBA's approach to Program delivery was the Drop Process. This mechanism is detailed further in Chapter 4 and was highlighted on several occasions in our Previous Reports. The Drop Process was critical in supporting Program delivery discipline to the extent that it:

- helped BU/SUs to assess their capacity to absorb RAP-related changes;
- helped foster consistency in the way BU/SUs implemented RAP-related changes; and
- encouraged Line 1 ownership of the changes.

Program delivery discipline was also supported by senior leadership oversight. Frequent reviews of Program progress by senior leaders identified issues and, where necessary, prompted corrective action. This helped elevate the status of the Program and allow challenges to be escalated quickly when they arose.

### **8.3. The Importance of Communications**

Communications are an integral part of cultural reform. Even the best tone from the top will be ineffective unless it is cascaded throughout the organisation in ways that reinforce the messages and in ways that staff identify with. External communications reinforcing the Bank's commitment to change are equally important.

Throughout the Program we were impressed by the high quality of Program-related communications. Aspects of the communication approach were highlighted in a number of our Reports. Importantly, a clear commitment to the Program was evident in communications at all times.

As detailed in Chapter 4, the Communications Team worked closely with the Central RAP Team throughout the Program to refine and target messages in relation to all aspects of the Program, from RAP-related initiatives to highlighting connections between the Program and Group strategy themes.

Importantly, the Communications Team used different techniques and styles to reinforce the messages in creative and interesting ways. We were particularly impressed by the way the communications approach adapted to help address challenges called out in our Reports. The introduction of Commbank Live and Risk Cuppa, for example, were responses to the need to strengthen the tone from the middle. Similarly, the 'remember when' campaign was targeted at reinforcing the need to focus on sustainability.

### **8.4. Prioritising the More Complex Elements**

As observed in Chapter 7, not all Target States were closed to the same level of excellence. While some of the variations in closure quality can be attributed to the inherent complexity of some Recommendations, there were some cases in which closure qualities were also affected by timing and prioritisation.

When attacking a list of tasks, it is normal to start with those that are easiest. This approach offers early 'wins' and a sense of progress that can be helpful in countering change fatigue. The risk is that the more difficult decisions may be delayed to the point where the schedule to completion can be compromised.

Two particular Recommendations that were called out in our Reports as falling into the category of difficult and lagging were those relating to the 3LoA model and strengthening operational risk and compliance policies. As

mentioned in Chapter 6, while the relevant Recommendations were closed, there were aspects that Promontory identified as requiring further work and monitoring during the Transition Period. In both cases, the design of certain components of CBA's solutions were still evolving quite late in the Program. In both cases, failure to make earlier progress put considerable pressure on decision-making to finalise the solutions and left insufficient time to provide evidence of sustainability.

With the benefit of hindsight, it would have been helpful for CBA to have prioritised finalising the design, implementation and embedment of these more challenging Recommendations over other, more straightforward Recommendations.

## **8.5. Understanding the Cultural 'Long Game'**

To some, a reform program that runs over three years must seem like an eternity. The reality is that true cultural change takes at least double that to bed down, while sustaining the change requires an ongoing commitment. Recognising that attaining the Target States set by the Program are simply the start, or 'short game' of cultural reform, not the 'long game', is fundamental to understanding what is needed to sustain long-term change.

In the terms used by the Inquiry, understanding the long game of cultural change requires that the sense of chronic unease introduced through the Program must not end with the Program, but should be carried over as a permanent part of CBA's new culture as it looks to the future.

In CBA's case, its cultural future consists of at least the following three components: unfinished business, continuous improvement and monitoring for sustainability. These are every bit as important as the Program itself.

### Unfinished business

As noted a number of times already, our Reports identified areas where there is more to be done. In some cases, new systems or approaches were embedded late in the Program, with insufficient time for evidence to be provided that the Target States were being sustained. In other cases, components of the RAP, as originally designed, were shifted to BAU processes in the post-RAP period in response to the impact of the Pandemic.

These aspects of the Program, which may be viewed as 'unfinished business', have been identified and form the core of the Transition Period Plan that is discussed in the next Chapter.

### Continuous improvement

A repeated theme across a number of our Reports was our observation that some of the policies and processes established to deliver the outcomes of the Program were over-engineered. Our concern was that complexity is antithetical to sustainability. Processes that are overly complex and demanding on staff time are likely, over time, to be discarded or reduced to an exercise in form rather than substance, thereby eroding the effectiveness of the changes implemented through the Program.

The motivation underlying the excessive complexity in the design of the Program was understandable. It lay in the need to establish in detail what was expected of those who would be engaged with the policies and processes. It was also helpful in ensuring consistency across BU/SUs in the way they applied the processes. Both motivations are sound, but must be balanced against the cost that complexity can impose on sustainability.

We recognise several challenges with simplification. It is an art, rather than a science. Oversimplification risks losing the intent of the original processes and opens up the risk of inconsistency. Possibly the greatest risk is

that changes to policies and processes, made over time in the name of simplification or upgrading, inadvertently undermine the objectives of the Program. Simplification must be more than just removing parts of an existing policy or process.

We believe strongly in the need for continuous improvement. The very concept of continuous improvement recognises that the Target States associated with the culture to which CBA aspires are highly likely to evolve over time, as international experience and best practice evolve, and as new risks emerge. To make the mistake of thinking that the Target States established three years ago and the frameworks implemented to achieve them are immutable, would be tantamount to failing the Inquiry's first cultural test of avoiding complacency.

The challenge for CBA, and others attempting to sustain cultural change, is to embrace continuous improvement, but to do so with appropriate checks and balances to test and monitor the improvements to ensure they do not undermine the very foundations of the new culture.

Importantly, unlike the unfinished business, which must be addressed within a reasonable but finite time period, continuous improvement requires a permanent commitment by the Bank.

### Monitoring Sustainability

Sustainability monitoring is the cornerstone of the long game of sustaining cultural change. Conceptually it is quite straightforward – establish a monitoring program, with appropriate governance and accountabilities, that is designed to gather evidence that the Target States of the Program are sustained over time. Since the risk of slippage is ever present, the sustainability monitoring program, like continuous improvement, requires a permanent commitment by the Bank.

The challenge in establishing a sustainability monitoring program is identifying exactly what evidence to monitor. At the highest level, such a program should seek to establish and collect objective evidence linked to the six tell-tale markers and the four root cause cultural traits. At a more granular level, the program should seek to establish and collect objective evidence linked to the Target States of each of the Program Recommendations.

The main guidepost for gathering evidence of sustainability is that it must focus on outcomes rather than processes. It is of little value to sustain a particular process over time unless it helps maintain the Target State as an outcome.

While much of this thinking is integrated into the Sustainability Plans under the Program, there are many areas where objective evidence is difficult to construct. In some cases, even where it is able to be constructed, the evidence is not suitable for comparisons over time.

These challenges are likely to persist, but must be overcome if meaningful evidence of sustainability is to be produced and monitored over time.

It is important in monitoring sustainability that there is not an unrealistic expectation that there will be no breaches of internal processes, regulatory requirements or even laws. In an organisation of around fifty thousand employees, some breaches are not just likely, they are certain. The ultimate measure of the effectiveness of CBA's new culture will be whether:

- the number and severity of such breaches decreases over time (evidence that CBA's controls have become more effective);
- the breaches are detected and escalated earlier, and that actions to rectify the breaches are implemented earlier (evidence that CBA's process have become more effective);

- the individuals and teams responsible for the breaches are held accountable and penalised appropriately (evidence that CBA's accountability mechanisms have become more effective); and
- where customer detriment is involved, CBA has accepted responsibility, moved more quickly to address that detriment and to implement actions to prevent further detriment occurring, than in the pre-Inquiry period (evidence that CBA's customer focus has strengthened).

Observation on CBA's approach

The way in which CBA has designed its Transition Period Plan and the accompanying sustainability and continuous improvement programs are *prima facie* evidence that it understands the cultural change long game. Further reflections on these programs are provided in the next Chapter.

## 9. The Road Ahead

The Panel noted that regaining community trust will require time, hard work and an undistracted risk and customer focus and that, in the end, it will be results, rather than the changes, that count. As noted in Chapter 8, the Program was the 'short game' on this journey to regaining community trust, while the 'long game' is still to come.

The next stage in that long game is the Transition Period.

In this Chapter we summarise CBA's rationale for establishing the Transition Period, and its approach to the work to be conducted under the Transition Period Plan and the Group CCO monitoring program. We then identify some challenges that CBA may face during the period ahead.

### 9.1. Rationale for a Transition Period

The idea of a Transition Period started to take shape within CBA soon after the Second Foundational Review. The initial objective of the Second Foundational Review was to reflect on Program learnings and make adjustments to the RAP as the Program moved into the embed phase and from there to BAU processes. By the time the Review commenced, it had become apparent that the Pandemic would have a very significant impact on the Australian economy, with significant consequences for the Group, its customers and stakeholders. Importantly, the need to free up capacity to manage the Group's response to the Pandemic had to be balanced against the need to maintain the momentum of the Program.

In light of those pressures, an approach was developed that took as given that the spirit and substance of the *Inquiry Report* Recommendations would still need to be achieved and the outcomes of the RAP delivered on schedule. However, in the interests of focusing the RAP on what 'mattered most', the decision was taken to roll out prioritised policies, standards and procedures, such as Obligations Management and the CAP, while the remaining non-prioritised components would be delivered at an appropriate time through BAU mechanisms.

The Transition Period was developed, partly as a response to the need for further work on areas that were addressed by the RAP, or that reinforce the outcomes of the RAP, and partly in response to the broader recognition that too sharp a break between the RAP and BAU could risk losing some of the gains achieved under the Program. It was widely agreed that retaining the governance and program delivery disciplines from the RAP over the migration to BAU mechanisms, would provide a stronger foundation for sustaining those gains.

The idea of the Transition Period as a segue to BAU was discussed with APRA and the details developed and refined over the remaining period of the Program. APRA and Promontory were both supportive of the changes proposed under the Second Foundational review and the idea of a Transition Period.

Importantly, the work to be conducted during the Transition Period will include a monitoring program over the sustainability and continuous improvement of RAP outcomes that will be conducted by the Group CCO. While this program will be part of the activities to be conducted during Transition Period and was an integral part of CBA's thinking about the concept of transition, the mandate for monitoring sustainability and continuous improvement will not end with the Transition Period. It is expected to be a permanent feature of CBA's ongoing approach to sustaining and improving the outcomes of the past three years.

## 9.2. The Transition Period Plan

The scope and approach to the work to be done during the Transition Period was developed into the Transition Period Plan, which was endorsed by the ELT and Board in May and June 2021, respectively.

The Transition Period Plan contains six 'Focus Areas' that were previously in scope of the RAP or reinforce the outcomes of the RAP. Each of the six Focus Areas contains a number of Milestones, with September 2022 currently being targeting for delivery of the final Milestone.

The six Focus Areas of the Transition Period Plan are:

- Minimum Standards, which involves uplifting prioritised Policy Suites;
- Control Environment and iRCSA, which involves delivering Risk Steward Guides and iRCSAs for the remaining non-financial risk types;
- Data Quality, which involves delivering RiS data improvements;
- 3LoA Operating Model, which involves continuing to strengthen the 3LoA model;
- Risk Culture, which involves continuing to improve, and promote consistency in, organisational culture; and
- Remuneration, which involves the continued evolution of the remuneration framework.

It is important to note that the scope of the Transition Period Plan extends beyond the scope of the RAP. In addition to addressing the non-prioritised components of CBA's OR&C framework, the Transition Period Plan addresses issues identified by APRA for attention in the period ahead and certain commitments raised in some of our Recommendation closures (such as those noted in Chapter 6 with respect to Recommendations 9 and 12e). It will also seek to provide evidence of sustainability for those Recommendations where evidentiary cycles were still incomplete<sup>12</sup>.

In addition to setting a broader scope than for the RAP, the Transition Period Plan has been designed to further improve Program outcomes by reconsidering the Target States established for the RAP and ensuring that they are not only maintained, but also strengthened, where appropriate, to capture evolution in CBA's understanding of non-financial risk.

A feature of the Transition Period Plan is that BU/SUs will take on greater responsibility for determining the timing of certain elements of the Transition Period Plan. This shift reflects the intent to transition responsibility for changes related to the Program away from centralised mechanisms to BAU mechanisms.

## 9.3. Continuous Improvement and Sustainability Monitoring

In parallel with the Transition Period Plan work, the Group CCO will monitor the sustainability of RAP outcomes to confirm that Recommendation Target States continue to be met and identify opportunities for continuous improvement. While the Group CCO's initial program of monitoring will be undertaken during the Transition

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<sup>12</sup> In 20 of the 45 final Recommendation closure assessments Promontory noted that a full cycle demonstrating the effectiveness of the sustainability practices would not be available for some time.

Period, the mandate for monitoring sustainability and continuous improvement will continue beyond the Transition Period.

As noted in our Eleventh and Twelfth Reports, in monitoring sustainability, the Group CCO will adopt a risk-based approach, with a higher level of monitoring applying to more complex Recommendations that affect multiple BU/SUs. A lower level of monitoring will apply to less complex Recommendations, where existing BAU review mechanisms are well established to support RAP outcomes being sustained.

The Group CCO's sustainability monitoring is scheduled to be completed by June 2022, and will be supplemented by Line 2 and Line 3 activities.

To date the Group CCO has provided monitoring outcomes for the following RAP Recommendations:

- Board Governance (Recommendations 1 to 3);
- Emerging Risks (Recommendation 12c);
- Stature of Compliance (Recommendation 14);
- Regulatory Engagement (Recommendation 19); and
- Change Investment Process (Recommendation 20).

As part of the Group CCO's monitoring approach, greater emphasis will be placed on ensuring that the outcomes of the Target State, rather than its process, are being achieved.

In monitoring continuous improvements to Program initiatives, the Group CCO will maintain an action register of continuous improvement opportunities.

## **9.4. Governance and Delivery Arrangements**

If CBA is to meet the challenges of the Transition Period it is critical that the two key drivers that supported the RAP are carried forward into the Transition Period. Strong leadership, from the Board and Executive Leadership Team down, will be fundamental to maintaining momentum as the Bank transitions to BAU. Maintaining the rigorous program delivery disciplines developed for the RAP will be just as critical during the Transition Period. A strong commitment to continuing these disciplines will be critical to delivering the targeted outcomes for the Transition Period Plan and the longer-term continuous improvement and sustainability monitoring program.

As noted in our Twelfth Report, the following four key governance and operational forums will be involved in delivering the outcomes of the Transition Period:

- The Prudential Inquiry Governance Forum, which will provide governance over the delivery of the Transition Period Plan outcomes. In addition to its role in governing the Transition Period Plan, the Prudential Inquiry Governance Forum will provide governance over the Group CCO's monitoring of sustainability practices and, in that role, it will receive the results of Group CCO monitoring activities and a forward view of sustainability monitoring.
- The Prudential Inquiry Cross-Stream Scrum, which will facilitate timely discussion and escalation of progress, risks and issues in delivering the outcomes that are being targeted during the Transition Period.

- The CCO Leadership Team, which will enable BU/SU CCOs to discuss implementation strategies and BU/SU insights.
- The CRO Forum, which will enable BU/SU CROs to share learnings and better practice.

Many of these forums will leverage practices established during the Program, including in relation to status Reporting and a focus on emerging challenges.

As was the case during the Program, CBA will continue to retain a central Program Delivery Team for delivery of the outcomes of the Transition Period. This team will be responsible for coordinating work on the Focus Areas, running the Prudential Inquiry Governance Forum and Cross-Stream Scrum, monitoring BU/SU progress, and reporting on status to the ELT and Board. Notwithstanding the shift of certain responsibilities to BAU mechanisms, the Program Delivery Team will continue to play a key role in managing program delivery and discipline.

Work during the Transition Period will also be supported by the Interdependencies Management and NFR Change Forum. This forum monitors the status of key interdependencies between NFR changes across the organisation and reviews the sequencing of those initiatives. The forum is attended by staff from Program Delivery, the Group CCO, certain NFR Risk Stewards and initiative leads, and a BU/SU CCO representative.

Following its successful role during the Program, the Drop Process will continue during the Transition Period, and likely beyond for other change programs. In particular, it will support the delivery of outcomes under the Minimum Standards, Control Environment and iRCSA, and Risk Culture Focus Areas in the BU/SUs.

To manage NFR change more broadly across the organisation a forward view of NFR changes within CBA has been developed. This will be updated on a quarterly basis as an input into the Drop Process.

Promontory will also continue its role as Independent Reviewer during the Transition Period, albeit in a slightly modified form. During the Transition Period we will, as Independent Reviewer, engage in 'continuous review', rather than focusing on receiving Closure Packs and assessing artefacts. In this modified role we will be better positioned to dig deeper into the changes being implemented and to review materials as they are developed. This will enable us to raise issues earlier, with the aim of ensuring that changes can be made to processes, where needed, on a more timely basis.

We will continue to produce quarterly reports for APRA on CBA's progress during the Transition Period. These quarterly reports will set out any areas for improvement we identify, as well as our assessment of embeddedness, consistency and sustainability of the Transition Period Plan activities.

### 9.5. Potential Challenges

CBA is likely to face some challenges in sustaining Program outcomes and delivering improved NFR outcomes during the Transition Period.

While some of these challenges are not new and were faced during the course of the Program, such as competing priorities, interdependencies and resourcing constraints, CBA will face other challenges for the first time.

Perhaps the greatest challenge in the period ahead will be countering the tendency to relax. The closure of the Program was a massive achievement by CBA. It is natural after such an achievement to spend a period basking in the glow of what has been done.



While some celebration is entirely reasonable, it is critical that CBA does not allow this to derail the longer-term objective of sustaining what has been achieved.

CBA must work to avoid the false perception that closure of the Program implies that 'the job is done'. The Focus Areas of the Transition Period Plan represent changes every bit as complex and difficult as their counterparts in the Program. Any relaxation of intensity or program delivery discipline could quickly erode the quality or timelines for delivering the Transition Period outcomes.

The communications program will have a crucial role in ensuring that the key messages from the Program are sustained and reinforced in the period ahead, along with the message that there is still more to be done.

The following sub-sections address the challenges that we believe CBA will need to contend with during the Transition Period.

### Refining the details, objectives and expectations of the Transition Period Plan

While a significant amount of planning was carried out by CBA over the past nine months in preparation for the Transition Period, it is inevitable that further refinements will be needed. In particular, CBA should continue to consider what outcomes it expects to realise from the work conducted during the Transition Period, especially in relation to those aspects of the Transition Period Plan, such as data quality, that were not explicitly part of the RAP.

The Transition Period work is also likely to be challenged from time to time by a loss of priority within CBA. During the Program the RAP received an elevated level of attention across the organisation, with senior leaders highlighting its completion as a top priority for the Bank. As CBA moves into the Transition Period, and Program outcomes are transitioned to BAU, it is likely that work under the Transition Period Plan will have to compete more intensely with other priorities for attention.

CBA has recognised this reality and, in response, has sought to be more flexible in how BU/SUs achieve certain elements of the Transition Period, most notably in the approach to iRCSAs. This flexibility will allow BU/SUs to work around other NFR changes, while still delivering the intended outcomes of the Transition Period Plan.

The development of a forward view of NFR changes, which is updated quarterly and discussed at Transition Period governance forums, will also enable BU/SUs to consider the upcoming pipeline of work and seek early engagement with the central team where a significant amount of scheduled work is concentrated in a short period of time.

A loss of priority could also translate into resourcing challenges. Although the scope of the Transition Period Plan is considerably smaller than that of the RAP, it still contains an ambitious volume of work. In certain Focus Areas, such as controls and iRCSAs, the amount of work and the timeframe for its delivery are significantly more challenging than what was delivered under the RAP.

CBA will need to demonstrate an ongoing commitment to ensuring adequate OR&C capacity and capability as responsibility for sustaining Program outcomes transitions to BAU.

### Managing interdependencies

A strength of the Program was the way in which it identified and managed interdependencies with other remediation and change programs within the Bank. It will be just as critical for CBA to manage complex interdependencies, both between Focus Areas and with the other NFR changes, during the Transition Period.

If CBA fails to manage interdependencies well within the Transition Period this could affect work being conducted under other ongoing remediation programs, new remediation programs that may arise during the Transition Period, and its CPS 220 Risk Management Declaration. Similarly, work related to other areas or CPS 220 has the potential to affect the work being done under the Transition Period Plan. Where possible, CBA should strive to manage these interdependencies with simplicity by grouping and completing similar pieces of work together.

An important tool in managing interdependencies will be the forward view of NFR changes. This forward view will not only allow BU/SUs to smooth their workflow, as discussed above, but will also allow CBA to sequence work appropriately to ensure that the inputs into related pieces of work are completed as and when they are needed.

### Consistency of implementation

In our Previous Reports, particularly our Eighth and Ninth Reports, we observed that a key challenge faced by the Program was inconsistent implementation of processes and frameworks across BU/SUs.

Inconsistent implementation during the Transition Period could result in divergent practices between BU/SUs, which could threaten the cohesive risk, control and obligations environment CBA established through the Program.

As noted above, it is envisaged that BU/SUs will take on greater responsibility for determining the timing of certain elements of the Transition Period Plan. While this shift reflects the entirely reasonable objective of transitioning responsibility for certain changes related to the Program away from centralised mechanisms to BAU mechanisms, it raises the potential for a loss of consistency in the way BU/SUs implement the changes.

It is imperative that CBA closely monitors and manages any inconsistencies that emerge between BU/SUs in delivering the intended Transition Period outcomes. As established during the Program, this will require CBA to identify those areas of the Transition Period Plan in which consistency through standardisation is critical, such as controls testing, and those areas where flexibility may produce better outcomes, such as the 3LoA model.

CBA is aware of the risks to consistency. As noted in our Eleventh and Twelfth Reports, the governance and operational forums associated with the Transition Period will provide a mechanism for sharing better practice and driving consistency. The CCO Leadership Team and CRO Forum, in particular, will play an increasingly significant role as staff from outside the Central RAP Team take on responsibility for sustaining Program outcomes.

The Drop Process will also be important in supporting consistency, by providing early and frequent engagement with BU/SUs and facilitating information sharing among BU/SUs.

In the end, it is consistency of outcomes, not consistency of processes, that CBA must strive to achieve. Over time, as responsibility for Program outcomes transitions to BAU, it is likely that a greater level of reliance will be placed on judgement rather than process. While this is an appropriate part of the maturation process, it is important that judgements are constrained at least partly by the need to ensure consistent outcomes.

### Expectations from sustainability monitoring

CBA should continue to reflect on what it expects to gain from sustainability monitoring, and whether its approach is achieving these objectives. It is our view that the sustainability monitoring work should consider whether:

- the processes captured in each of the Sustainability Plans continue to be followed;
- the desired Target State outcomes continue to be achieved; and
- changes, where made, reflect a maturation of CBA's approach.

Where changes to existing processes are made, careful consideration should be given to ensuring that the root causes that led to the Prudential Inquiry are not reintroduced.

### Continuous improvement

The need for continuous improvement was spelled out in Chapter 8. It is important to recognise that continuous improvement is more than simply tinkering with existing policies and processes.

'Tinkering' for the sake of 'tinkering', as noted in our Ninth Report, can actually impede sustainability. This can happen where the tinkering leads to constant changes that interfere with bedding down the reforms. In some cases it is better to work with policies and processes that are imperfect, but capture the essence of what is intended by the reforms. After the changes have been in place for a period, aspects that require fine tuning can be implemented as a set, rather than as a sequence of potentially disruptive increments.

Nuance will therefore be required when considering continuous improvements. Over time it is likely that the type of continuous improvement that will add the most value is simplification. As noted in Chapter 8, and as CBA adopted during the Program, proposed simplifications will need to be assessed by whether they augment or detract from CBA's ability to address the criticism set out in the *Inquiry Report*.

Put differently, continuous improvements must be selected on the basis of the outcomes they are likely to produce. Ultimately, as highlighted by the Panel, CBA will be judged not by the completion of Milestones under the Program or the Transition Period, but by the extent to which it realises improved risk and customer outcomes.

While a lot has been achieved in this regard, there is still a lot left to do. Key to this further work is ensuring that the changes made by the Program continue to be sustained and improved, and that Program outcomes stand the test of time.

## Appendix A – Assessment Outcomes Since the Twelfth Report

The following sections summarise the outcomes of the Milestone and Recommendation assessments we completed since the last Reporting Period.

### A.1. Operating Model (3LoA) Theme Milestone Assessment Outcomes

Since the last Reporting Period Promontory assessed two Operating Model (3LoA) Theme Milestones (Milestones 9.5 and 9.5a) as complete and effective.

#### A.1.1 Assessment of Recommendation 9 Milestones

The Target State for Recommendation 9 is to have consistent adherence to the 3LoA Principles across all BU/SUs, and for any deviations to be approved only in exceptional circumstances. Adhering to the 3LoA Principles should reinforce that Line 1 owns and manages its risks and Line 2 is responsible for providing independent review and challenge.

##### a) Milestone 9.5

Milestone 9.5 (an Embed Milestone) requires an assessment by Line 3 to determine whether:

- Line 1 and Line 2 are operating in accordance with the 3LoA Principles;
- the BU/SU realignment plans are complete; and
- Line 1 OR&C activities are well understood, embedded in processes and consistently applied.

CBA confirmed and provided evidence that:

- GA&A had conducted an audit of 3LoA across the Group to determine whether Lines 1 and 2 were operating in accordance with the 3LoA Principles and whether BU/SU realignment plans were complete;
- the audit considered whether all OR&C activities had been appropriately transitioned from Line 2 to Line 1 in accordance with the 3LoA Principles and found that approximately 95 per cent of activities had been transitioned;
- where BU/SUs had self-assessed that there was not 'high confidence' in the activity being performed effectively, GA&A assessed the actions and timelines for completion of the relevant BU/SU realignment plans; and
- three audit issues were identified with management actions developed, and owners and due dates defined for each.

CBA also provided evidence of having addressed the actions and issues highlighted in our assessment of Milestones 9.2 and 9.4 in relation to:

- addressing the challenges identified as part of the 3LoA Health Checks;

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- clarifying the delineation of responsibilities between the Line 1 Risk and CCO teams within BU/SUs through the 'Hub and Spoke' model; and
- ensuring consistency in OR&C activities across BU/SUs in accordance with the 3LoA Principles.

CBA provided a Sustainability Plan for this Milestone designed to ensure the Target State continues on an ongoing basis. The Sustainability Plan has a number of elements including frameworks and processes, accountabilities, governance and reporting.

After reviewing the Closure Pack for this Milestone, Promontory requested and received further information and interviewed relevant stakeholders on matters including:

- the nature and form of testing conducted by GA&A as part of the audit with respect to the Milestone Description. In particular, how the audit considered all aspects of the Milestone Description;
- the sampling strategy employed by GA&A as part of the audit, with regard to GA&A's assessment of consistency across BU/SUs;
- the assessment criteria applied in the audit in determining the adequacy of BU/SU action plans to complete the 3LoA realignment activities;
- the future use of key artefacts developed as part of Recommendation 9, including the 3LoA Principles, OR&C activities, and Organisational Guardrails documents, that guided the implementation and embedment of 3LoA; and
- the delineation of responsibilities and accountabilities for the OR&C activities across the front line, Line 1 risk and CCO roles.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that Line 3 had conducted an assessment to determine whether Line 1 and Line 2 were operating in accordance with the 3LoA Principles, BU/SU realignment plans were complete, and OR&C activities were well understood, embedded in processes and consistently applied.

As such, we consider that:

- the Milestone's Closure Criteria have been met;
- CBA has adequately addressed matters raised in our assessment of prior Milestones for this Recommendation;
- the Target State has been achieved; and
- the design of the Sustainability Plan is sufficient to support the maintenance of the Target State on an ongoing basis.

The Milestone is, therefore, complete and effective.

## **b) Milestone 9.5a**

Milestone 9.5a (an Embed Milestone) requires an assessment by Line 3 to confirm that the intent of the CCO and Risk Steward roles are being achieved and to determine whether the roles, and related mandates, should be adjusted to increase effectiveness.

CBA confirmed and provided evidence that:

- GA&A had conducted an audit to confirm whether the intent of the CCO and Risk Steward roles were being achieved.;
- the audit made one finding in relation to the operating model of Risk Stewards and the processes in place to meet their responsibilities; and
- Line 2 had conducted a review of the effectiveness of the Risk Steward roles, with outcomes and recommendations tabled at the ELT.

CBA also provided evidence of having addressed the actions and issues highlighted in our assessment of Milestones 9.1b and 9.4b in relation to:

- the delineation of roles and responsibilities between Risk Stewards, other Line 2 roles, and Line 1 roles; and
- the selection criteria to be used in the appointment of Risk Stewards.

CBA provided a Sustainability Plan for this Milestone designed to ensure the Target State continues on an ongoing basis. The Sustainability Plan has a number of elements including frameworks and processes, accountabilities, governance and reporting.

After reviewing the Closure Pack for this Milestone, Promontory requested and received further information on matters including:

- the scope and form of the review conducted by Line 2 on the effectiveness of the Risk Steward roles;
- the actioning of recommendations raised as part of the Line 2 review of the Risk Steward roles;
- the appointment of Risk Stewards for the remaining non-financial risk types;
- the form and content of training provided to incoming Risk Stewards to support them in effectively carrying out their role; and
- how elements of CBA's risk management framework, including policies, procedures and delegated authorities, would be updated to reflect the role of the Risk Stewards.

Based on our assessment of the Milestone Closure Pack and the additional information we received we concluded that an audit had been conducted by Line 3 to confirm that the intent of the CCO and Risk Steward roles were being achieved, a review had been conducted by Line 2 to assess the effectiveness of the Risk Steward roles, and that findings arising from these assessments were appropriately reported to management and actioned.

As such, we consider that:

- the Milestone's Closure Criteria have been met;
- CBA has adequately addressed matters raised in our assessment of prior Milestones for this Recommendation;
- the Target State has been achieved; and
- the design of the Sustainability Plan is sufficient to support the maintenance of the Target State on an ongoing basis.

The Milestone is, therefore, complete and effective.

## **A.2. Operating Model (3LoA) Theme Recommendation Assessment Outcomes**

Since the last Reporting Period Promontory assessed one Operating Model (3LoA) Theme Recommendation (Recommendation 9) as closed.

### **A.2.1 Assessment of Recommendation 9**

The Target State for Recommendation 9 is to have consistent adherence to the 3LoA Principles across all BU/SUs, and for any deviations to be approved only in exceptional circumstances. Adhering to the 3LoA Principles should reinforce that Line 1 owns and manages its risks and Line 2 is responsible for providing independent review and challenge.

CBA is meeting the Target State through:

- developing the 3LoA Principles, which establish clear requirements for each line of defence;
- transitioning those Line 1 activities previously performed by Line 2 to Line 1;
- establishing the role of the Risk Steward for certain risk types and the role of the CCO in each BU/SU; and
- conducting an audit of 3LoA across the Group.

The Sustainability Plan for this Recommendation provides a sound basis for supporting the maintenance of the Target State. In particular, the Plan:

- provides frameworks and processes to promote and sustain adherence to the 3LoA Principles and requirements of the 3LoA model;
- assigns clear accountabilities to BEAR Accountable Executives for risk management in accordance with the 3LoA Principles;
- defines governance and review requirements, including in relation to the annual 3LoA attestation and the annual review of the role and mandate of the Risk Stewards; and
- defines the cadence, content and form of key reporting on the effectiveness of the 3LoA model.

Promontory therefore considers that:

- all commitments from the final assessment of the prior Milestones have been adequately addressed;
- the Target State has been achieved;
- the Sustainability Plan has been operationalised;
- the Sustainability Plan is operating effectively to support the maintenance of the Target State; and



- a full cycle of the Sustainability Plan can be expected to provide evidence that the Target State can be maintained on an ongoing basis.

Promontory considers the Recommendation to be closed.

## A.3. Risk Appetite, Taxonomy and Standards Theme Milestone Assessment Outcomes

Since the last Reporting Period Promontory assessed two Risk Appetite, Taxonomy and Standards Theme Milestones (Milestones 12b.3b and 12d.3) as complete and effective.

### A.3.1 Assessment of Recommendation 12b Milestone

The Target State for Recommendation 12b is that clear, simple and enforceable OR&C minimum standards help uplift NFR management across the Group. The standards are defined in accordance with the standardised OR&C risk types and are embedded and continually refreshed through existing policy governance processes.

#### a) Milestone 12b.3b

Milestone 12b.3b (an Embed Milestone) requires CBA to embed minimum standards in the policies for the Wave Two risk types, and roll out associated guidance and training materials. This Milestone also requires adherence to minimum standards to be included in ongoing Line 2 Assurance Program activity.

CBA confirmed and provided evidence that:

- the policies covered under the Wave Two risk types were delivered via the Drop Process;
- Group Mandatory Learning in relation to the Wave Two Policies was rolled out; and
- Post-Implementation Reviews, or equivalent, had been, or will be, conducted.

CBA also provided evidence of having addressed the actions and issues highlighted in our assessment of Milestone 12b.3a in relation to:

- the implementation of a control to ensure IIA occur within the required timeframes; and
- BU/SU progress in adopting the Data Management Policy Suite.

CBA provided a Sustainability Plan for this Milestone designed to ensure the Target State continues on an ongoing basis. The Sustainability Plan has a number of elements including frameworks and processes, accountabilities, governance and reporting.

After reviewing the Closure Pack for this Milestone, Promontory requested and received further information and interviewed relevant stakeholders on matters including:

- training in relation to the Wave Two Policies;
- plans to address the gaps identified as part of the implementation reviews that were conducted; and
- meeting the Target State on an ongoing basis.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that minimum standards have been embedded in the Wave Two Policies, training has been provided and BU/SU CROs have attested to the adoption of the Wave Two Policies.

As such, we consider that:

- the Milestone's Closure Criteria have been met;
- CBA has adequately addressed matters raised in our assessment of prior Milestones for this Recommendation;
- the Target State has been achieved; and
- the design of the Sustainability Plan is sufficient to support the maintenance of the Target State on an ongoing basis.

The Milestone is, therefore, complete and effective.

### **A.3.2 Assessment of Recommendation 12d Milestone**

The Target State for Recommendation 12d is the deployment of a Line 2 Assurance Program, consistent with the realignment of risk management activities to the Group 3LoA Principles, provides effective independent assurance over BU/SU risk profiles, risk appetite, the Risk Management Approach, and the Operational Risk Management Framework and Compliance Management Framework.

#### **a) Milestone 12d.3**

Milestone 12d.3 (an Embed Milestone) requires that:

- the FY21 Line 2 Assurance Program is in operation with assurance activity performed according to agreed and governed priority reviews;
- outcomes of year-to-date FY21 Line 2 assurance activity are reported to BU/SU NFRCs and the ELT NFRC; and
- Line 3's assessment of Line 2 assurance is reported as 'Green' or 'Amber', with appropriate management actions agreed to address any gaps or issues identified across the Group.

CBA confirmed and provided evidence that:

- progress on the FY21 Line 2 Assurance Plan had been made;
- findings from Line 2's assurance activities were reported to BU/SU NFRCs and the ELT NFRC as required by the Line 2 Assurance Standard;
- Line 3's assessment of the Line 2 assurance function resulted in an overall rating of 'Amber', with management actions articulated in response to the audit issues log; and
- progress on the four issues identified in Line 3's assessment had been made.

CBA also provided evidence of having addressed the actions and issues highlighted in our assessment of Milestones 12d.2, 12d.2b and 12d.2c in relation to:

- the content and timing of training provided to Line 2 staff on how to execute Framework Maturity Assessments;
- progress in embedding the updated Line 2 Assurance Standard and Procedure;
- a consistent approach to relying on Line 1 testing; and
- updates to the Line 2 Assurance Standard and Procedure following the implementation of the CAP Standard and Procedure.

CBA provided a Sustainability Plan for this Milestone designed to ensure the Target State continues on an ongoing basis. The Sustainability Plan has a number of elements including frameworks and processes, accountabilities, governance and reporting.

Based on our assessment of the Milestone Closure Pack we concluded Line 2 had reported its progress on the FY21 Line 2 Assurance Plan to BU/SU NFRCs and the ELT NFRC, and that appropriate management actions had been taken to address the issues identified in Line 3's assessment of Line 2's assurance activity.

As such, we consider that:

- the Milestone's Closure Criteria have been met;
- CBA has adequately addressed matters raised in our assessment of prior Milestones for this Recommendation;
- the Target State has been achieved; and
- the design of the Sustainability Plan is sufficient to support the maintenance of the Target State on an ongoing basis.

The Milestone is, therefore, complete and effective.

## **A.4. Risk Appetite, Taxonomy and Standards Theme Recommendation Assessment Outcomes**

Since the last Reporting Period Promontory assessed two Risk Appetite, Taxonomy and Standards Theme Recommendations (Recommendations 12b and 12d) as closed.

### **A.4.1 Assessment of Recommendation 12b**

The Target State for Recommendation 12b is that clear, simple and enforceable OR&C minimum standards help uplift NFR management across the Group. The standards are defined in accordance with the standardised OR&C risk types and are embedded and continually refreshed through existing policy governance processes.

CBA is meeting the Target State through:

- developing and incorporating minimum standards into prioritised policy suites;
- rolling out training and guidance to support Line 1 in implementing prioritised policy suites; and
- reviewing the implementation of prioritised policy suites

The Sustainability Plan for this Recommendation provides a sound basis for supporting the maintenance of the Target State. In particular, the Plan:

- requires Policy, Procedure and Standards uplifts to be completed in line with the requirements set out in the GPF Framework;
- requires the GPF team to report to the ELT NFR Policy Sub-Committee on GPF metrics (including review dates and IIAs); and
- details accountability for these processes.

Promontory therefore considers that:

- all commitments from the final assessment of the prior Milestones have been adequately addressed;
- the Target State has been achieved;
- the Sustainability Plan has been operationalised;
- the Sustainability Plan is operating effectively to support the maintenance of the Target State; and
- a full cycle of the Sustainability Plan can be expected to provide evidence that the Target State can be maintained on an ongoing basis.

Promontory considers the Recommendation to be closed.

### **A.4.2 Assessment of Recommendation 12d**

The Target State for Recommendation 12d is the deployment of a Line 2 Assurance Program, consistent with the realignment of risk management activities to the Group 3LoA Principles, that provides effective independent

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assurance over BU/SU risk profiles, risk appetite, the Risk Management Approach, and the Operational Risk Management Framework and Compliance Management Framework.

CBA is meeting the Target State through the Line 2 Assurance Standard and Procedure, which sets out the processes for developing the annual Line 2 Assurance Group Plan and performing assurance activities, as well as the required reporting to governance forums. Line 2's OR&C capability has also been uplifted, supported by capability uplift plans, specific Line 2 assurance training, and the simplification of the Line 2 Assurance Standard and Procedure.

The Sustainability Plan for this Recommendation provides a sound basis for supporting the maintenance of the Target State. In particular, the Plan:

- requires an annual review of the Line 2 Assurance Standard by the EGM Group Operational Risk and Chief Compliance Officer;
- requires an annual review of the Group Line 2 Assurance Plan by the EGM Group Operational Risk and Chief Compliance Officer;
- details accountability for these processes; and
- requires reporting to the BRCC, ELT NFRC and BU/SU NFRCs on the Line 2 Assurance Plan.

Promontory therefore considers that:

- all commitments from the final assessment of the prior Milestones have been adequately addressed;
- the Target State has been achieved;
- the Sustainability Plan has been operationalised;
- the Sustainability Plan is operating effectively to support the maintenance of the Target State; and
- a full cycle of the Sustainability Plan can be expected to provide evidence that the Target State can be maintained on an ongoing basis.

Promontory considers the Recommendation to be closed.

## A.5. Accountability and Controls Delivery Theme Milestone Assessment Outcomes

Since the last Reporting Period Promontory assessed one Accountability and Controls Delivery Theme Milestone (Milestone 12e.4b) as complete and effective.

### A.5.1 Assessment of Recommendation 12e Milestone

The Target State for Recommendation 12e is that:

- the end-to-end risk and control environment is consistently reviewed and assessed in detail, and challenged by Line 2;
- gaps in the operating and control environment are captured as issues and addressed to maintain risks in line with risk appetite; and
- iRCSA, together with OR&C Frameworks, enhanced RASs and policies, including minimum standards, will provide a detailed and effective assessment of the risk, obligations and control environment and help to identify emerging gaps and drive proactive investment to maintain the risk profile in line with appetite.

#### a) Milestone 12e.4b

Milestone 12e.4b (an Embed Milestone) requires that:

- BAU governance for BU/SU Risk Profiles is in place with outcomes reported to BU/SU NFRCs and the ELT NFRC;
- the risk, obligations and control environment for FCC and Privacy risk has improved;
- RMAPs have been developed to evidence actions taken to maintain risk in line with risk appetite;
- BU/SUs have adopted the CAP and RCSA Standards;
- guidance has been provided to BU/SUs to manage improvement for non-prioritised risk types; and
- the Obligations Management Standard has been operationalised in BU/SUs.

CBA confirmed and provided evidence that:

- reporting had been provided to key governance forums addressing risks, obligations and controls for FCC and Privacy;
- updates are provided to BU/SU NFRCs and the ELT NFRC on BU/SU Business Profiles, including actions to bring risk in line with appetite;
- revised CAP testing is now in place for BU/SUs;
- the Obligations Management, CAP and RSCA Standards have been adopted; and

- there is a plan in place to address the iRCSAs for the remaining non-prioritised risk types.

CBA also provided evidence of having addressed the actions and issues highlighted in our assessments of Milestones 12e.2, 12e.3a, 12e.3b, 12e.3c and 12e.3d in relation to:

- actions taken to improve the quality and consistency of RMAPs;
- how the new user interface for RiS was communicated and delivered to BU/SUs;
- compliance reports generated from the Privacy iRCSA activity; and
- compliance reporting to the Board and ELT NFRC.

CBA provided a Sustainability Plan for this Milestone designed to ensure the Target State continues on an ongoing basis. The Sustainability Plan has a number of elements including frameworks and processes, accountabilities, governance and reporting.

After reviewing the Closure Pack for this Milestone, Promontory requested and received further information and interviewed relevant stakeholders on matters including:

- the embedment of CAP and RCSA Standards;
- whether control assessments and testing were being conducted in line with the requirements of the CAP Standard;
- compliance with the Obligations Management Standard; and
- sequencing and timing of non-prioritised iRCSA activities.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that BU/SUs had adopted the CAP and RCSA Standards, the Obligations Management Standard has been operationalised in BU/SUs, and that reporting is provided to BU/SU NFRCs and the ELT NFRC on BU/SU Business Profiles.

As such, we consider that:

- the Milestone's Closure Criteria have been met;
- CBA has adequately addressed matters raised in our assessment of prior Milestones for this Recommendation;
- the Target State has been achieved; and
- the design of the Sustainability Plan is sufficient to support the maintenance of the Target State on an ongoing basis.

The Milestone is, therefore, complete and effective.



## **A.6. Accountability and Controls Delivery Theme Recommendation Assessment Outcomes**

Since the last Reporting Period Promontory assessed one Accountability and Controls Delivery Theme Recommendation (Recommendation 12e) as closed.

### **A.6.1 Assessment of Recommendation 12e**

The Target State for Recommendation 12e is:

- the end-to-end risk and control environment is consistently reviewed and assessed in detail, and challenged by Line 2;
- gaps in the operating and control environment are captured as issues and addressed to maintain risks in line with risk appetite; and
- baselining, together with OR&C Frameworks, enhanced RASs and policies including minimum standards, will provide a detailed and effective assessment of the risk obligations and control environment and help to identify emerging gaps and drive proactive investment to maintain the risk profile in line with appetite.

CBA is meeting the Target State through the operationalisation of the CAP, RCSA and Obligations Management Standards which require consistent review and assessment of CBA's risk, obligation and control environment. These reviews are supported by challenge from Line 2 and the reporting of outputs to the ELT NFRC and BRCC.

The Sustainability Plan for this Recommendation provides a sound basis for supporting the maintenance of the Target State. In particular, the Plan:

- requires the annual reviews of the Cross-NFR Standards and Procedures, and NFR Taxonomies by the EGM Operational Risk and Chief Compliance Officer;
- details accountability for these processes; and
- requires reporting to the BU/SU NFRCs, ELT NFRC and BRCC.

Promontory therefore considers that:

- all commitments from the final assessment of the prior Milestones have been adequately addressed;
- the Target State has been achieved;
- the Sustainability Plan has been operationalised;
- the Sustainability Plan is operating effectively to support the maintenance of the Target State; and
- a full cycle of the Sustainability Plan can be expected to provide evidence that the Target State can be maintained on an ongoing basis.

Promontory considers the Recommendation to be closed.

## **A.7. Customer Outcomes Theme Recommendation Assessment**

### **Outcomes**

Since the last Reporting Period Promontory assessed one Customer Outcomes Theme Recommendation (Recommendation 15) as closed.

#### **A.7.1 Assessment of Recommendation 15**

The Target State for Recommendation 15 is that:

- the Conduct Risk Strategy is embedded across the Group, including in key decision-making processes and employee lifecycle management;
- Conduct Risk Profiles are reviewed and assessed with resulting gaps in the risk, obligations and control environment identified and managed through RMAPs;
- the Group's Risk Management Approach sets out clear principles on conduct, and is supported by a well-communicated and well-understood Code of Conduct; and
- the Group RAS provides clear metrics and qualitative statements that define CBA's appetite with respect to conduct risk.

CBA is meeting the Target State through:

- conducting iRCSA activity for each prioritised Conduct risk type;
- updating the Code of Conduct and reviewing artefacts across the employee lifecycle for alignment with the new Code; and
- updating and integrating Conduct Risk indicators in the Group RAS.

The Sustainability Plan for this Recommendation provides a sound basis for supporting the maintenance of the Target State. In particular, the Plan:

- requires Group Compliance to complete an annual review of the Code;
- requires all CBA employees to complete the Code of Conduct mandatory learning module annually and attest to their understanding of the requirements of the Code; and
- details accountability for these processes.


Promontory therefore considers that:

- all commitments from the final assessment of the prior Milestones have been adequately addressed;
- the Target State has been achieved;
- the Sustainability Plan has been operationalised;
- the Sustainability Plan is operating effectively to support the maintenance of the Target State; and

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- a full cycle of the Sustainability Plan can be expected to provide evidence that the Target State can be maintained on an ongoing basis.

Promontory considers the Recommendation to be closed.

## **A.8. Program Execution Theme Milestone Assessment Outcomes**

Since the last Reporting Period Promontory assessed two Program Execution Theme Milestones (Milestones 35.3a and 35.3b) as complete and effective.

### **A.8.1 Assessment of Recommendation 35 Milestone**

The Target State for Recommendation 35 is that in-scope businesses have aligned to RAP outcomes as designed and iterated and have effectively embedded these into the day-to-day operations of the Group through the operationalisation of Sustainability Plans.

#### **a) Milestone 35.3a**

Milestone 35.3a (an Embed Milestone) requires that all Recommendations are assessed as closed and that the Grouping Level Sustainability Plans have been updated to reflect the final versions of the Recommendation Level Sustainability Plans.

CBA confirmed and provided evidence that:

- all but a few Recommendations had been assessed as closed. These remaining Recommendations were subsequently assessed as closed; and
- Grouping Level Sustainability Plans, which aggregate Recommendations into overarching groups and reflect a holistic view of the sustainability frameworks, processes, accountabilities and governance applicable to each group, had been updated to reflect a de-duplicated view of the final versions of the Recommendation Level Plans.

A Sustainability Plan was not developed for Recommendations 35 given that this Recommendation is specific to the Program. Promontory supported this decision.

After reviewing the Closure Pack for this Milestone, Promontory requested and received further information on matters including whether activities to address gaps in the implementation of the Grouping Level Sustainability Plans had been completed.

Based on our assessment of the Milestone Closure Pack, the additional information we received and our subsequent assessment of the outstanding Recommendations as closed, we concluded that all Recommendations had been assessed as closed.

As such, we consider that:

- the Milestone's Closure Criteria have been met;
- CBA has adequately addressed matters raised in our assessment of prior Milestones for this Recommendation; and
- the Target State has been achieved.

The Milestone is, therefore, complete and effective.

## **b) Milestone 35.3b**

Milestone 35.3b (an Embed Milestone) requires that all Embed Milestones are assessed as complete and effective.

CBA confirmed and provided evidence that all but a few Embed Milestones had been assessed as complete and effective. These remaining Embed Milestones were subsequently assessed as complete and effective.

A Sustainability Plan was not developed for Recommendations 35 given that this Recommendation is specific to the Program. Promontory supported this decision.

Based on our assessment of the Milestone Closure Pack, and our subsequent assessment of the outstanding Embed Milestones as complete and effective, we concluded that all Embed Milestones had been assessed as complete and effective.

As such, we consider that:

- the Milestone's Closure Criteria have been met;
- CBA has adequately addressed matters raised in our assessment of prior Milestones for this Recommendation; and
- the Target State has been achieved.

The Milestone is, therefore, complete and effective.

## **A.9 Program Execution Theme Recommendation Assessment Outcomes**

Since the last Reporting Period Promontory assessed one Program Execution Theme Recommendation (Recommendation 35) as closed.

### **A.9.1 Assessment of Recommendation 35**

The Target State for Recommendation 35 is that in-scope businesses have aligned to RAP outcomes as designed and iterated and have effectively embedded these into the day-to-day operations of the Group through the operationalisation of Sustainability Plans.

CBA is meeting the Target State through the completion of the work associated with each of the Milestones and Recommendations under the RAP. All Milestones and Recommendations have now been assessed as closed. The Grouping Level Sustainability Plans are an aggregation of the underlying Recommendation Sustainability Plans, which were each operationalised and assessed under the relevant Recommendation.

A Sustainability Plan was not developed for Recommendations 35 given that this Recommendation is specific to the Program. Promontory supported this decision.

Promontory therefore considers that:

- all commitments from the final assessment of the prior Milestones have been adequately addressed; and
- the Target State has been achieved.

Promontory considers the Recommendation to be closed.

## Appendix B – Milestones and Recommendations

All Milestones and Recommendations that make up the RAP have now been assessed as closed. The following sections summarise those Milestones and Recommendations by Theme.

### B.1. Board Governance Theme Milestones and Recommendations

The Board Governance Theme deals with the Inquiry Recommendations on Board governance. Table B.1 summarises the Milestones and Recommendations under the Board Governance Theme.

The Board Governance Recommendations, and the key Program outcomes that have addressed them, are described in further detail in section 6.1 above.

**Table B.1: Board Governance Theme Recommendations**

#	Recommendation Description	Milestone	Milestone Description	Target State Description
1	Board visibility	1.1 Implement	Increase Board engagement with senior management	The Board continues to have a positive influence on the behaviours within the Group
		1.2 Implement	Establish Board agenda item on NFR issues and quality of information	
		1.3 Implement	Amend ELT agenda to include discussion of Board information	
		1.4 Embed	Undertake an annual review on Board and Board Committees' performance	
2	Board better practice	2.1 Design	Compare the processes and practices of the Board to global better practice	The Board and its Board Audit, and Risk and Compliance Committees are operating at a level consistent with global better practice
		2.2 Implement	Change processes and practices in line with Board approved recommendations	
		2.3 Implement	Update Board Corporate Governance Guidelines to require periodic review of practices	
		2.4 Embed	Assess whether the Board, BAC and BRCC are aligned with better practice identified in Milestone 2.1	

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#	Recommendation Description	Milestone	Milestone Description	Target State Description
3	Board co-ordination	3.1 Design	Amend the BAC Charter to provide for referral of relevant matters to the BRCC	There are clear accountabilities, and timely and effective information flows between Board Committees
		3.2 Design	Review Board Committee Charters to consider appropriate cross-referral of matters	
		3.3 Implement	Amend Board Committee agendas to include information sharing and issues referral	
		3.4 Implement	Establish Board Committee joint meeting to consider NFR matters related to executive performance and remuneration	
		3.5 Embed	Assess the effectiveness of coordination between the BRCC, PRC and BAC	
4	Audit Committee	4.1 Design	BAC to set expectations on when BU/SU must present on material issues	Owners of material issues are held accountable for the resolution and effective closure of issues within their remit
		4.2 Design	Review, update and document the end-to-end internal audit practices in relation to issue management	
		4.3 Implement	Amend internal audit process to include BU/SU issue owners appearing before BAC	
		4.4 Embed	BAC to arrange review internal audit process and whether BAC expectations on presentations by BU/SU accountable individual are being met	
5	Board information	5.1 Design	Design Board reporting in relation to non-financial risks	The Board receives granular information on the Group's position against its risk appetite, and is able to examine NFR issues
		5.2 Implement	Commence revised operational risk, compliance and regulatory risk reporting to the Board and BRCC	
		5.3 Embed	Assess whether the Board and BRCC received adequate NFR information	



## B.2. Management Governance Theme Milestones and Recommendations

The Management Governance Theme deals with the Inquiry Recommendations on senior leadership oversight, the stature of the compliance function and regulatory engagement. Table B.2 sets out the Milestones and Recommendations under the Management Governance Theme.

The Management Governance Recommendations, and the key Program outcomes that have addressed them, are described in further detail in section 6.2 above.

**Table B.2: Management Governance Theme Recommendations**

#	Recommendation Description	Milestone	Milestone Description	Target State Description
6	Collective accountability	6.1 Design	Develop Group Strategy Scorecard that reflects shared accountabilities	The ELT will be held accountable and assessed against a set of shared priorities
		6.2 Implement	Board approves changes to GE scorecards/KPIs to include shared priorities and accountability for RAP	
		6.3 Embed	Interim and annual performance assessment of GEs completed, based on revised KPI structure with Group Strategy Scorecard as key input	
7	Executive Committee	7.1 Design	Establish the ELT NFRC to consider risks that span the Group	The ELT will operate with a sense of collective accountability, exhibit constructive challenge and encourage diversity of thinking
		7.2 Design	Develop and communicate CEO expectations in relation to behaviours and interactions of the ELT	
		7.3 Implement	ELT operating according to CEO’s expectations	
		7.4 Implement	ELT NFRC meetings are operating in accordance with Charter	
		7.5 Embed	Engage external party to conduct a review of the behaviours and interactions of the ELT	
		7.6 Embed	Complete external assessment of ELT NFRC	

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#	Recommendation Description	Milestone	Milestone Description	Target State Description
8	NFRC	8.1 Design	Establish the ELT NFRC with agenda, roles and responsibilities defined	The ELT NFRC will raise the visibility and stature of non-financial risk, and provide a central view for considering NFR issues across the Group
		8.2 Implement	ELT NFRC meetings are operating in accordance with Charter	
		8.3 Embed	Complete external assessment of ELT NFRC	
14	Head of Compliance	14.1 Design	Include the EGM Compliance as a member of the ELT NFRC and include regular time for discussion of compliance matters	Compliance matters receive an increased level of consideration at the Board and ELT level
		14.2 Implement	Provide EGM Compliance with access to Board and BRCC and removal/appointment protocols	
		14.3 Implement	EGM Compliance attends ELT NFRC meetings	
		14.4 Embed	EGM Compliance attends Board and BRCC meetings as required	
19	Regulator engagement	19.1 Design	Define regulatory engagement target operating model	Adopting a revised regulatory engagement strategy will promote a stronger relationship with regulators and more proactive identification and management of regulatory issues
		19.2 Implement	Target operating model for regulatory engagement in place	
		19.3 Embed	Demonstrate uplift in regulatory engagement through key interactions	

### B.3. Operating Model (3LoA) Theme Milestones and Recommendations

The Operating Model (3LoA) Theme deals with the Inquiry Recommendations on aspects of the operating model for non-financial risks, in particular the three lines of defence model (described at CBA as 3LoA) and related issues. Table B.3 sets out the Milestones and Recommendations under the Operating Model (3LoA) Theme.

The Operating Model (3LoA) Recommendations, and the key Program outcomes that have addressed them, are described in further detail in section 6.3 above.

**Table B.3: Operating Model (3LoA) Theme Recommendations**

#	Recommendation Description	Milestone	Milestone Description	Target State Description
9	3LoA	9.1 Design	Develop approach and tools to align OR&C activities with the 3LoA Principles	There is consistent adherence to the 3LoA Principles across BU/SUs. Line 1 owns and manages risks, and Line 2 provides review and challenge
		9.1b Design	Define document and endorse roles and mandates of CCOs and Line 2 Risk Stewards	
		9.2 Design	Develop plans to align BU/SU OR&C activities with the 3LoA Principles	
		9.3 Design	Endorse plan to align with the 3LoA Principles of all risk types other than OR&C	
		9.4 Implement	Realign Lines 1 and 2 OR&C activity	
		9.4a Implement	Line 2 Risk Stewards for Prioritised Risk Types are in place	
		9.5 Embed	Complete Line 3 assessment to determine whether Line 1 and Line 2 are operating in accordance with the 3LoA Principles	
		9.5a Embed	Review to confirm whether the intent of the CCO and Line 2 Risk Steward roles are being achieved or should be adjusted	

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#	Recommendation Description	Milestone	Milestone Description	Target State Description
10	CRO independence	10.1 Design	Clarify engagement protocol between BU CROs and BUs to maintain connectivity without compromising independence	BU CROs are, and are perceived to be, independent from BUs while continuing to be well-connected to BUs
		10.2 Implement	Reinforce independence of BU CROs by amending reporting lines and KPIs	
		10.3 Embed	Complete Group CRO performance assessment of BU CROs	

## B.4. Risk Appetite, Taxonomy and Standards Theme Milestones and Recommendations

The Risk Appetite, Taxonomy and Standards Theme deals with Inquiry Recommendations on aspects of NFR management. These aspects include setting RAS limits, setting minimum standards for NFR management, assurance of BU/SU risk profiles, and identifying and managing emerging risks. Table B.4 sets out the Milestones and Recommendations under the Risk Appetite, Taxonomy and Standards Theme.

The Risk Appetite, Taxonomy and Standards Recommendations, and the key Program outcomes that have addressed them, are described in further detail in section 6.4 above.

**Table B.4: Risk Appetite, Taxonomy and Standards Theme Recommendations**

#	Recommendation Description	Milestone	Milestone Description	Target State Description
12a	RAS limits	12a.1 Design	Board to define the OR&C types that are required to have granular metrics in the Group RAS	CBA strengthen its management of OR&C and ensure that the Group RAS includes limits and triggers for more granular OR&C metrics by risk theme
		12a.2 Design	Define the high-level process, timeline and design principles for developing, cascading and monitoring Group-level granular metrics	
		12a.3 Design	Design granular metrics for inclusion in the Group RAS and cascading into the BU/SUs	
		12a.4 Implement	Update the Group RAS to incorporate granular metrics for OR&C types	
		12a.5 Implement	Cascade the Group RAS metrics, triggers and limits into BU/SU RASs	
		12a.6 Embed	Hold enhanced discussion at ELT NFRC and BRCC on risk profile versus risk appetite	
		12a.7 Embed	BU/SU RASs include metrics for locally material OR&C types	

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#	Recommendation Description	Milestone	Milestone Description	Target State Description
12b	NFR minimum standards	12b.1 Design	Define criteria for minimum standards in relation to non-financial risks	Clear, simple and enforceable OR&C minimum standards uplift NFR management and are continually refreshed
		12b.2a Implement	Define minimum standards for first wave of Prioritised Risk Types	
		12b.2b Implement	Define minimum standards for second wave of Prioritised Risk Types	
		12b.3a Embed	Embed minimum standard for first wave of Prioritised Risk Types	
		12b.3b Embed	Embed minimum standard for second wave of Prioritised Risk Types	
12c	Emerging risks	12c.1 Design	Dedicate time to consider emerging risks at the ELT NFRC	The ELT NFRC dedicate specific agenda time to understanding and addressing emerging risks resulting in more proactive identification and management of risks
		12c.2 Implement	Discuss emerging risks at ELT NFRC	
		12c.3 Embed	ELT NFRC holds discussion on emerging risks and receives reporting that is supported by discussion at BU/SU NFRCs	
12d	Line 2 assurance	12d.1 Design	Define the Line 2 Assurance/Monitoring Program for OR&C	A Line 2 Assurance Plan is deployed to provide selected, targeted and effective independent assurance over relevant ORMF/CMF and risk type policies
		12d.2 Implement	Design Line 2 assurance plans and train Line 2 staff doing assurance activity	
		12d.2b Implement	Consider and apply changes to design of Line 2 Assurance Standard, Procedure, governance and Plans	
		12d.2c Implement	Roll out finalised FY21 Line 2 Assurance Program to BU/SU Line 2	
		12d.3 Embed	FY21 Line 2 Assurance Programs are operational, Line 3 assesses the Programs and appropriate management action (as relevant) is agreed	

## B.5. Accountability and Controls Delivery Theme Milestones and Recommendations

The Accountability and Controls Delivery Theme deals with Inquiry Recommendations on the Group's control environment, the conduct of root cause analysis, and the resolution of significant and outstanding issues. Table B.5 sets out the Milestones and Recommendations under the Accountability and Controls Delivery Theme.

The Accountability and Controls Recommendations, and the key Program outcomes that have addressed them, are described in further detail in section 6.5 above.

**Table B.5: Accountability and Controls Delivery Theme Recommendations**

#	Recommendation Description	Milestone	Milestone Description	Target State Description
12e	Control environment	12e.1 Design	Develop the approach to operationalise the Group OR&C frameworks to uplift the control environment through the RMI program	The end-to-end risk, obligations and control environment is consistently reviewed and assessed with gaps captured as issues and addressed
		12e.2 Implement	Establish an initial baseline understanding of material risks and controls for each BU/SU	
		12e.3a Implement	Commence Risk Profile Consolidation and Value Chain mapping	
		12e.3b Implement	Consolidate BU/SU risk profiles, update Risk Taxonomy for all risk types and provide guidance on baselining	
		12e.3c Implement	Complete updating BU/SU risk profiles via iRCSA for Financial Crimes Compliance	
		12e.3d Implement	Complete updating BU/SU risk profiles via iRCSA for Privacy	
		12e.4b Embed	Evidence of an improvement in the assessment of Risk, obligations and Control environment for Financial Crimes Compliance and Privacy	
12f	Root causes	12f.1 Design	Define root cause analysis as part of the Issue Management Standard	A revised standard for Issue Management is consistently met by BU/SUs that ensures root cause analysis is conducted and actions taken
		12f.2 Implement	Implement root cause analysis as part of the Issue Management Standard	
		12f.3 Embed	Root cause analysis completed for all issues prescribed in the Issue Management Standard	

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#	Recommendation Description	Milestone	Milestone Description	Target State Description
16	Issue management	16.1 Design	Design the Issue Management Standard	The ELT and Board have timely and effective oversight to monitor issues raised by internal audit, regulators, employees and other sources
		16.2 Implement	Roll out updated Issue Management Standard to each BU/SU	
		16.3 Embed	BU/SUs manage all issues in line with Issue Management Standard	



## B.6. Customer Outcomes Theme Milestones and Recommendations

The Customer Outcomes Theme deals with Inquiry Recommendations on Conduct Risk, customer complaints reporting, identifying systemic issues, and championing the ‘should we’ question. Table B.6 sets out the Milestones and Recommendations under the Customer Outcomes Theme.

The Customer Outcomes Recommendations, and the key Program outcomes that have addressed them, are described in further detail in section 6.6 above.

**Table B.6: Customer Outcomes Theme Recommendations**

#	Recommendation Description	Milestone	Milestone Description	Target State Description
15	Conduct Risk Strategy	15.1 Design	Develop and CEO communicate ‘Values expectations’	The Conduct Risk Strategy, as described in the Risk Management Approach, is fully embedded across the Group, including in key decision-making processes and employee lifecycle management
		15.2a Design	Develop the Code of Conduct, and accompanying roll out plan	
		15.2b Design	Ensure the conduct components of Group Risk Management Approach and RAS support improvement in Conduct Risk management	
		15.3 Implement	Code of Conduct rolled out, including communication and training	
		15.4 Implement	Implement Conduct Risk Strategy across the Group	
		15.4a Implement	Update BU/SU risk profiles via iRCSA for Conduct first wave prioritised risk types	
		15.5 Embed	Conduct Risk Strategy embedded across the Group and Conduct Risk Baseline Guidance material provided	
17	Customer complaints	17.1 Design	Design the complaints reporting and define supporting data and system requirements	The focus on customer complaints is elevated through regular reporting to the ELT NFRC and Board
		17.2 Implement	Complaints reports tabled at ELT NFRC, BRCC and BU/SU NFRCs	
		17.3 Embed	Regular complaints reporting to applicable forums that demonstrates BU/SUs are responding to complaints in a timely manner and addressing underlying issues	

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#	Recommendation Description	Milestone	Milestone Description	Target State Description
18	Systemic issues	18.1 Design	Develop the criteria and plan to enhance systemic issues identification and reporting	Further system improvements to increase the use of data and analytics to drive insights on systemic issues are developed and implemented
		18.2 Implement	Systemic issues insights are tabled at ELT NFRC, BRCC and BU/SU NFRCs	
		18.3 Embed	Regular reporting to ELT NFRC and BRCC on systemic issues	
21	'Should we'	21.1 Design	Articulate how references to expect customer outcomes will be incorporated into key Group policies	Championing the 'should we' question drives better customer outcomes by ensuring that decision-makers actively consider customer outcomes
		21.2 Implement	Replication of Milestone 21.3	
		21.3 Embed	Application of the 'should we' question in governance forums	

## B.7. Culture, Capability and Consequences Theme Milestones and Recommendations

The Culture, Capability and Consequences Theme deals with Inquiry Recommendations on culture, the resourcing and capability of the NFR function, accountability and remuneration. Table B.7 sets out the Milestones and Recommendations under the Culture, Capability and Consequences Theme.

The Culture, Capability and Consequences Recommendations, and the key Program outcomes that have addressed them, are described in further detail in section 6.7 above.

**Table B.7: Culture, Capability and Consequences Theme Recommendations**

#	Recommendation Description	Milestone	Milestone Description	Target State Description
13	Resourcing	13.1 Design	Design the risk capability uplift plan	The Group has an adequate number of OR&C Risk Professionals, with the right skill sets to support effective NFR management
		13.1b Design	Design organisation-wide OR&C capability training plan	
		13.2 Implement	Risk capability implemented	
		13.3 Embed	Refresh of risk capability plans presented to ELT NFRC	
22	Accountability Principles	22.1 Design	Design plans to incorporate and communicate APRA's Accountability Principles into existing accountability frameworks and processes	The Accountability Principles are incorporated for GEs, tailored and cascaded across the Group, and accountability frameworks embedded
		22.2 Implement	Implement Accountability Principles via BEAR requirements, existing accountability frameworks and staff communication	
		22.3a Embed	Annual review of the application of the Accountability Principles	
		22.3b Embed	Failings of accountability consequences are reflected in key individuals' performance reviews and the remunerations and consequences outcomes for FY20	

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#	Recommendation Description	Milestone	Milestone Description	Target State Description
23	Board governance of remuneration	23.1 Design	Develop plans for enhanced Board governance and processes for remuneration	The PRC has the visibility, knowledge and expertise to challenge the Group and Executive remuneration process and its outcomes
		23.2 Implement	Implement enhanced governance processes, including increased reporting and review	
		23.3 Embed	Board PRC exercises stronger governance on CEO and GE remuneration outcomes	
24a	CRO assessment	24a.1 Design	Enhance the CRO assessment of CEO and GE risk scorecards	Formal, documented CRO risk assessment of the effectiveness of risk management within each GE's area of responsibility is provided to the PRC
		24a.2 Implement	Finalise enhanced CRO assessment of CEO and GE performance	
		24a.3 Embed	The Board uses further enhanced CRO assessment in determining appropriate CEO and GE remuneration outcomes	
24b	Analytics and reporting	24b.1 Design	Develop plan for enhanced analytics and reporting on remuneration outcomes to be provided to the PRC	The PRC receives comprehensive reporting to enable assurance and challenge of the Group's remuneration outcomes
		24b.2 Implement	Improve analytics and reporting provided to Board	
		24b.2b Embed	Evidence of outcomes and action arising from April 2020 Group Remuneration Policy effectiveness review	
		24b.3 Embed	Management provides analytics and reporting in line with Target State requirements	
24c	Board Risk Committee support	24c.1 Design	Develop co-ordinated approach for Board Committees to ensure that risk outcomes are reflected in CEO and GE remuneration	The PRC's approach to remuneration takes account of the full range of current and potential risks through coordination and support from the BAC and BRCC
		24c.2 Implement	Co-ordination between BRCC, BAC and PRC and referral of key matters to and sharing of information with PRC	
		24c.3 Embed	Annual remuneration review and allocation of Short-Term Variable Remuneration payments under the new Short-Term Variable Remuneration model	

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#	Recommendation Description	Milestone	Milestone Description	Target State Description
25a	Board guidance on risk adjustments	25a.1 Design	Strengthen guidance to management on the Board's expectations for risk adjustments to remuneration outcomes	The Board sets the tone from the top with clear expectations and comprehensive guidance and criteria on how adjustment to remuneration should be determined for positive or poor risk outcomes and behaviours
		25a.2 Implement	Incorporate strengthened Board guidance into FY19 remuneration reviews	
		25a.3 Embed	FY19 remunerations outcomes across all staff reflect Board guidance	
25b	Risk function support on risk adjustments	25b.1 Design	Design an enhanced approach for risk assessment that appropriately penalises or rewards risk and compliance outcomes	Robust application of the risk assessment process, and the risk modifier supported by challenge from the Risk function to link risk outcomes with remuneration
		25b.2 Implement	New process in place to strengthen the role of the risk function in FY19 remuneration reviews	
		25b.3 Embed	FY19 remuneration outcomes across all staff analysed and reflect robust applications of the risk modifier	
25c	Communication of outcomes	25c.1 Design	Develop a communications mechanism and strategy to communicate the impact of both good and poor risk outcomes to CBA staff	Internal and external transparency and communication of the remuneration impact of positive and poor risk outcomes reinforces the Group's culture expectations and accountabilities
		25c.2 Implement	Communicate good and poor FY18 risk outcomes with the organisation	
		25c.3 Embed	FY19 risk and remuneration outcomes exhibit appropriate aggregation and anonymisation, and communications approach revised	
26	Remuneration framework review	26.1 Implement	Implement upside remuneration facility for positive risk assessment	All key remuneration frameworks and practices are reviewed and, where appropriate, aligned with better global practice
		26.2 Design	Review the Group Remuneration Policy, informed by better global practices	
		26.3 Implement	Reflect enhancements in FY19 remuneration outcomes	
		26.4 Embed	FY20 remuneration outcomes reviewed by PRC and shown through analysis to be consistent with the fully updated remuneration frameworks and policies	

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#	Recommendation Description	Milestone	Milestone Description	Target State Description
27	Culture of self-reflection	27.1 Design	Establish baselines and develop plans to uplift risk culture mindsets and behaviours with targeted initiatives on self-reflection	Senior Leader demonstrate appreciation and capability for reflection, challenge and learning
		27.2a Implement	Implement targeted interventions on senior leader capability, leadership diagnostics and performance assessment	
		27.2b Implement	Refresh targeted interventions based on new insights	
		27.3 Embed	Embedding of target interventions and periodic monitoring of ongoing progress	
28	Personal and authentic leadership	28.1 Design	Establish baselines and develop plans to uplift risk culture mindsets and behaviours, with targeted initiatives on role-modelling by senior leaders	Senior Leader capabilities are uplifted to enable role modelling of good risk management
		28.2a Implement	Implement targeted interventions and annual re-assessment of leader-led training and senior leader communications	
		28.2b Implement	Refresh targeted interventions based on new insights	
		28.3 Embed	Cross reference Milestone 27.3	
29	BU/SU relationships	29.1 Design	Establish baselines and develop plans to uplift risk culture mindsets and behaviours, with targeted initiatives on the relationship between business and risk functions	Relationships of mutual respect and open communication, between BU/SU and risk counterparts at all levels
		29.2a Implement	Implement targeted interventions, including Lines 1 and 2 engagement forums and career pathways	
		29.2b Implement	Refresh targeted interventions based on new insights	
		29.3 Embed	Cross reference Milestone 27.3	

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#	Recommendation Description	Milestone	Milestone Description	Target State Description
30	Vision and Values	30.1 Design	Establish baselines and develop plans to uplift risk culture mindsets and behaviours, with targeted initiatives on conduct and values	The Group's refreshed values set clear expectations for the ethical behaviours and proactive action to deliver optimal outcomes
		30.2a Implement	Implement targeted interventions, including communications, recognition, values performance assessment and HR processes	
		30.2b Implement	Refresh targeted interventions based on new insights	
		30.3 Embed	Cross reference Milestone 27.3	

## B.8. Program Execution Theme Milestones and Recommendations

The Program Execution Theme deals with Inquiry Recommendations on aspects of managing the Program to deliver against the *Inquiry Report* Recommendations, strengthening the role of Line 2 in RiC processes (that is, processes to consider the risk implications of and controls required to manage impacts of material change programs), and improving prioritisation of investment in risk and regulatory projects. Table B.8 sets out the Milestones and Recommendations under the Program Execution Theme.

The Program Execution Recommendations, and the key Program outcomes that have addressed them, are described in further detail in section 6.8 above.

**Table B.8: Program Execution Theme Recommendations**

#	Recommendation Description	Milestone	Milestone Description	Target State Description
11	Risk in Change	11.1 Design	Revise RiC practices to strengthen the role of Line 2	A standard methodology for RiC is implemented across the Group, with Line 1 applying the methodology consistently, supported by ‘approve or accept’ from Line 2
		11.2 Design	Develop BU/SUs plans to implement the revised RiC methodology, and update the Line 2 assurance program	
		11.3 Implement	BU/SUs implement RiC methodology	
		11.4 Embed	BU/SUs have demonstrated effectiveness of RiC in core processes as evaluated by Line 2	
20	Investment prioritisation	20.1 Design	Revise the CIP in relation to risk and regulatory projects	The Group's CIP provides a more balanced view of risk considerations which will promote greater consideration of emerging risks, resilience issues, and risk outcomes
		20.2 Implement	Develop quarterly ELT dashboard on investment allocation	
		20.3 Embed	CIP cycle completed having incorporated new process and with new reporting on emerging risk and pre-emptive risk investment	



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#	Recommendation Description	Milestone	Milestone Description	Target State Description
31	Skin in the game	31.1 Design	Define changes to the CBA GDF to require CBA delivery leads to have appropriate skills and experience, and with KPIs/objectives tied to successful program delivery	GEs allocate Delivery Leads with the appropriate skills and experience to lead CIP endorsed Programs
		31.2 Implement	Identify programs that require senior leaders to perform a lead role and update KPIs	
		31.3 Embed	Performance Reviews of BEAR Accountable Executives, sponsors and delivery leads reflect delivery KPI allocations	
32	Consequences	32.1 Design	Define changes to the GDF in relation to remuneration outcomes reflecting delivery requirements and accountabilities	Remuneration outcomes for leaders of CIP Programs will be aligned and adequately reflect formal assessment of successful Program delivery
		32.2 Implement	Update KPIs for relevant staff to reflect delivery requirements and standards	
		32.3 Embed	Refer to Milestone 31.3	
33a	Organisation capacity	33a.1 Design	Define resourcing and technology needs to support delivery of the 35 APRA Recommendations	The Group ensures sufficient resources are made available to ensure the prioritisation of the APRA Recommendations through to successful delivery
		33a.2 Implement	BU/SU Better Risk Outcomes Program resource forecasting process defined	
		33a.3 Embed	Regularly review BU/SU resource forecasting	
33b	Organisation capacity	33b.1 Design	Design 'capacity' prioritisation processes and guidelines to assist with program decisioning	The Group ensures sufficient resources are made available to ensure the prioritisation of the APRA Recommendations through to successful delivery
		33b.2 Implement	Stop or defer existing Programs as directed by ELT and reallocate funding to delivery of Recommendations	
		33b.3 Embed	Regularly consider in line with the CIP the need to stop Programs in flight	

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#	Recommendation Description	Milestone	Milestone Description	Target State Description
34	Project disciplines and review	34.1 Design	Enhance the GDF to ensure it is fit for purpose for all Programs in the Group	Consistent application of the updated GDF with identification of non-adherence readily identifiable and appropriate consequence management applied
		34.2 Implement	Implement enhanced GDF	
		34.3 Embed	Regularly consolidate a Program status view of all CIP endorsed Programs	
35	Embedding project framework	35.1a Design	Deliver Sustainability Plan template, Recommendation Closure approach and Recommendation Groupings	In-scope businesses have aligned with RAP outcomes, as designed and iterated, and have effectively embedded these into day-to-day operations
		35.1b Design	All Design Milestones are assessed as effective	
		35.2a Implement	Develop Recommendation Grouping Sustainability Plans and define Implementation Plans	
		35.2b Implement	All Implement Milestones are assessed as complete and effective	
		35.3a Embed	All Recommendations assessed as closed	
		35.3b Embed	All Embed Milestones assessed as complete and effective	



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