



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

Progress in Addressing Prudential Inquiry Recommendations

Prepared by Promontory Australasia (Sydney) Pty Ltd, an IBM Company

Fourth Report

31 July 2019

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Promontory Australasia (Sydney), an IBM Company (**Promontory** or **we**) has been engaged as the Independent Reviewer of Commonwealth Bank of Australia's (**CBA's**) Remedial Action Plan (**RAP**) to address the Recommendations of the Australian Prudential Regulation Authority's (**APRA**) Prudential Inquiry into CBA.

In accordance with the terms of the Enforceable Undertaking (**EU**) 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 EU; and
- Items in the RAP that CBA considers are nearing completion.

This is Promontory's fourth report (**Fourth Report**) in relation to execution of the RAP. The Report provides an update on actions CBA has taken to execute the RAP in the period from 1 April 2019 to 30 June 2019. It also provides an update on CBA's program management of the RAP.

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 RAP 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.

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Definitions

3LoA	Three Lines of Accountability
APRA	Australian Prudential Regulation Authority
BAC	Board Audit Committee
BBLO	Better Bank Leadership Offsite
BDGF	BU/SU Delivery Governance Forum
BEAR	Banking Executive Accountability Regime
BRC	Board Risk Committee
BROP	Better Risk Outcomes Program
BROP CRO	The Program's Chief Risk Officer
BU	Business Unit
BU/SUs	Business Units and Support Units
CBA	Commonwealth Bank of Australia
CCO	Chief Control Officer
CEO	Chief Executive Officer
CRO	Chief Risk Officer
EGM	Executive General Manager
ELT	Executive Leadership Team
ePMO	Enterprise Project Management Office
EU	Enforceable Undertaking
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
GM	General Manager
Inquiry Report	The Prudential Inquiry into the Commonwealth Bank of Australia (CBA) Final Report
IPP	Investment Prioritisation Process
KPI	Key Performance Indicator
NFR	Non-Financial Risk

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NFRC	Non-Financial Risk Committee
OR&C	Operational Risk and Compliance
PDMF	Planning and Dependencies Management Forum
PMO	Project Management Office
Previous Reports	Promontory's previous reports dated 28 September 2018, 20 December 2018 and 30 April 2019
Program	Better Risk Outcomes Program
Promontory	Promontory Australasia (Sydney) Pty Ltd, an IBM Company
RAP	Remedial Action Plan
RAS	Risk Appetite Statement
RemCo	Board Remuneration Committee
Reporting Date	30 June 2019
Reporting Period	1 April 2019 to 30 June 2019
RMA	Risk Management Approach
Second Report	Promontory's second report dated 20 December 2018
STVR	Short-Term Variable Remuneration
SU	Support Unit
Theme	A shared theme of a series of Recommendations
Third Report	Promontory's third report dated 30 April 2019

Executive Summary

This is the fourth report (**Fourth Report** or **Report**) required of Promontory as Independent Reviewer under paragraph 13 of the Enforceable Undertaking (**EU**) given by the Commonwealth Bank of Australia (**CBA**) to the Australian Prudential Regulation Authority (**APRA**) on 30 May 2018. It follows our **Previous Reports**, dated 28 September 2018 (**First Report**), 20 December 2018 (**Second Report**) and 30 April 2019 (**Third Report**).¹

The Fourth Report sets out our observations on CBA's activities on the Remedial Action Plan (**RAP**), (as required by paragraph 12 of the EU), between 1 April 2019 to 30 June 2019 (the **Reporting Period**). The status of RAP Milestones is reported as at 30 June 2019 (the **Reporting Date**).

In the 15 months since the EU was signed, the Better Risk Outcomes Program (**BROP** or **Program**) has made solid progress in executing a necessarily ambitious RAP.

65 Milestones (out of a total of 156) have been assessed as complete and effective. Ten are the subject of assessment by Promontory. Work is underway on 43 Milestones.

The Program has matured and adapted well to changing external circumstances and the transition to implementation. Action has been taken to address the challenges and risks we have identified in our earlier Reports – maintaining momentum, effective project execution and governance disciplines, resourcing and managing competing priorities.

Despite this solid progress, the next six months are critical to the Program's success. 38 Milestones are due for delivery. 20 are Implement Milestones. 13 are Embed Milestones. The remaining five are Design Milestones. We will also be asked to close, for the first time, two Recommendations (of the 35 made in the *Prudential Inquiry into the Commonwealth Bank of Australia (CBA) Final Report* (the **Inquiry Report**)).

The challenges and risks identified in our earlier Reports will continue, with two interrelated challenges – resourcing and managing competing priorities – being particularly important.

If these two challenges are not addressed effectively in the next Reporting Period, the Program is at serious risk of not delivering Milestones either on time or to the quality we are prepared to accept.

The outcomes of, and the Executive Leadership Team (**ELT**) and Board responses to, the Foundational Review conducted during the Reporting Period will be critical to ensuring these challenges are appropriately addressed. The Review has given CBA the opportunity to reflect on how RAP initiatives should be prioritised and where and how scarce resources should be allocated in the context of not only ensuring sustainable long-term change but also addressing other regulatory challenges.

We urge the ELT and the Board, in considering their responses to the Review, to focus on ensuring the fundamental elements of an appropriate governance, culture and accountability framework receive priority and are implemented and embedded in a timely way. The Program remains a once-in-a-generation opportunity to address failings in those fundamentals which contributed to the issues identified in the *Inquiry Report*, by the Royal Commission and in subsequent regulatory action. That opportunity should not be wasted.

¹ Promontory's First and Second Reports are available [here](#) and [here](#), respectively. As of the Reporting Date, our Third Report had not yet been publicly released.

Program Progress

The Program was on-track at the Reporting Date, with all 156 Milestones either delivered to Promontory or on schedule to be delivered by the due dates set out in the RAP.²

The Program has mostly completed design activity. By the Reporting Date:

- CBA had started or completed work on 52 (of 54) Design Milestones³.
- CBA had submitted Milestone Closure Packs to Promontory evidencing completion of work on a total of 49 Design Milestones (two of which were received during the Reporting Period).
- Based on a review of Closure Packs, other documents and interviews with key stakeholders, Promontory had assessed a total of 46 Design Milestones as complete and effective (15 of which were assessed during the Reporting Period).
- We had not yet completed our assessment of 3 Design Milestones (all of which were delivered at the end of the Reporting Period).

Significant progress was made on implementation during the Reporting Period. By the Reporting Date:

- CBA had started or completed work on 52 (of 55) Implement Milestones.
- CBA had submitted Milestone Closure Packs to Promontory evidencing completion of work on a total of 25 Implement Milestones (three of which were received during the Reporting Period).
- Based on a review of Closure Packs, other documents and interviews with key stakeholders, Promontory had assessed a total of 19 Implement Milestones as complete and effective (10 of which were assessed during the Reporting Period).
- We had not completed our assessment of 6 Implement Milestones (two of which were delivered at the end of the Reporting Period).

Each of the Design and Implement Milestones assessed as complete and effective provides a sound basis for achieving the Target State for the Recommendation to which it relates. Together, these Milestones provide a sound basis for achieving the Program's overall objectives. Certain design features and approaches to implementation were, however, not fully mature at the time of assessment. We have, therefore, foreshadowed in relation to a total of 44 Milestones (19 of which were assessed as complete and effective during the Reporting Period) our intention to focus on particular design features or approaches to implementation when assessing related Implement and Embed Milestones.

² Milestones are considered to not be on-track where either the Closure Pack has not been delivered to us by the due date for that Milestone as set out in the RAP, or, in relation to Milestones where Closure Packs are not yet due for delivery, the Program at the Reporting Date has identified issues which require escalation and intervention by Management to progress back to schedule.

³ Design Milestones define a Group-wide approach to address each Recommendation. Implement Milestones generally relate to the roll-out or launch of that approach. Embed Milestones are when the operational effectiveness of the approach is demonstrated on a sustainable basis.

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The Program began turning its attention towards embedding the work done during design and implementation. By the Reporting Date:

- CBA had started or completed work on 14 (of 47) Embed Milestones.
- CBA had submitted a Milestone Closure Pack to Promontory evidencing completion of work on one Embed Milestones (which was received during the Reporting Period).
- We had not yet completed our assessment of that Embed Milestone.

Program progress by Theme is set out in Table 1.

Table 1: Milestone Progress by Theme as at the Reporting Date (by number of Milestones)

Theme	Work Not Started	Work in Progress	Closure Pack Submitted to Promontory		Milestone Assessed as Complete and Effective	Total
			Assessment Not Started	Assessment Underway		
Board Governance	4	4	1	2	9	20
Management Governance	0	6	1	0	12	19
Operating Model (3LoA)	1	3	0	1	3	8
Risk Appetite, Taxonomy and Standards	2	4	1	1	8	16
Accountability and Controls Delivery	3	3	0	1	3	10
Customer Outcomes	5	3	1	0	6	15
Culture, Capability and Consequences	12	15	1	0	15	43
Program Execution	11	5	0	0	9	25
TOTAL	38	43	5	5	65	156

CBA's commitment to addressing the Recommendations in the *Inquiry Report* in a timely and comprehensive way, through a period where implementation was further devolved to the Business Units and Support Units (BU/SUs), remained strong.

The Program continued to display many of the characteristics of a successful remediation program, as described in our Previous Reports. Board and Executive Leadership oversight remained strong, as did Line 1 Executive Sponsorship. The Program continued to benefit from the secondment of staff from Business Lines into the central BROP team and into BU/SU teams associated with the Program. Culture and bringing about cultural change continued to play a central role as the Program was rolled out. Communications that are capturing the hearts and minds of all employees about the need for change also continued to be disseminated.

Important changes to Program governance were made to ensure that governance arrangements are appropriate to the Program's needs and are not overly complex. The new governance arrangements provide a solid foundation for effective and consistent implementation of the RAP, although further refinements should be made to the operation of the BU/SU Delivery Governance Forum (BDGF).

Program design continued to adapt to the changing circumstances in which the Program finds itself. The quarterly RAP review was completed during the Reporting Period, and several changes have been proposed as a result. A review of the entities to which the Program is being applied was also undertaken during the Reporting Period. The Program began work on a series of measures to assess the successful implementation of the RAP, and work continued on the Foundational Review. We welcome the work done to date.

Delivery and management of the Program continued to adapt effectively to the decentralisation of key activities. The Drop Process emerged as the primary vehicle for delivering key aspects of the Program in a consistent and sustainable way at the BU/SU level. BU/SU Chief Control Officers (**CCOs**) and Chief Risk Officers (**CROs**) also began to take responsibility for execution of significant portions of the Program. It is imperative that CCOs and CROs remain mindful of the importance of sustainability as they discharge their responsibilities.

An empowered and effective central BROP team remains critical to ensuring that the RAP is implemented in a consistent and sustainable way across the Group. Clear, unambiguous and focused communication and instructions from the central BROP team to BU/SUs about the requirements and expectations of each Drop will support consistency of implementation. The central BROP team should also work toward ensuring that BU/SU status reporting achieves the level of consistency and rigour evident in the current reporting on Theme status.

The role of Line 2 in overseeing the Program was further clarified during the Reporting Period. Although the activities of BU/SU CROs now deliver risk oversight over large parts of the Program, the current arrangements do not provide Line 2 oversight over (i) centrally designed and implemented Milestones, or (ii) Milestones implemented by Line 2. The Program should consider how it can best gain comfort that these Milestones are executed to a high level of quality and in a sustainable way.

Risks and Challenges

Despite good progress having been made in executing the RAP, the Program continues to face significant risks and challenges in delivering effective and sustainable outcomes.

The key challenge is resourcing Program execution, while also managing the critical competing regulatory priorities CBA faces. The Foundational Review, and its outcomes, as noted above, are a timely opportunity to address these challenges.

The Program has continued to ensure the project execution and governance disciplines it has put in place remain effective in delivering timely and effective outcomes. During upcoming Reporting Periods, it must continue to focus on ensuring consistent implementation in BU/SUs through close and continuous monitoring and tracking. It must continue to emphasise simplicity and sustainability in the solutions it is developing. It must continue to ensure the Program is subject to effective Program governance and risk and assurance oversight. It must continue to ensure momentum is maintained and change fatigue addressed, through frequent and vibrant communication.

Critically, it must continue its evident commitment to ensuring past poor project management practices in risk remediation projects identified in the Prudential Inquiry Report do not re-emerge.

1. Introduction

1.1. Background

APRA announced a Prudential Inquiry into CBA on 28 August 2017 to examine whether governance, culture and accountability practices at CBA had contributed to a series of incidents that led to adverse publicity and regulatory scrutiny.

In its final report, published on 30 April 2018, the Inquiry identified a series of shortcomings and made 35 Recommendations to address those shortcomings.

In conjunction with the release of the *Inquiry Report*, APRA accepted an EU offered by CBA. The EU required CBA to develop the RAP to address the Inquiry's Recommendations.

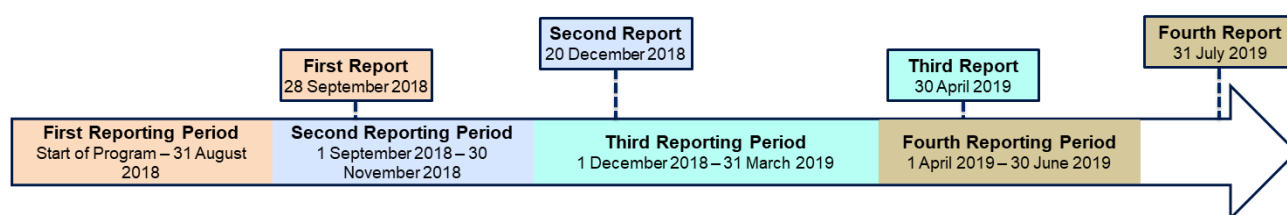
CBA engaged Promontory as the Independent Reviewer required under the EU. APRA confirmed the appointment on 29 June 2018.

As Independent Reviewer, Promontory is required to report to APRA on a quarterly basis on the status of compliance with the EU and the Milestones⁴ in the RAP that CBA considers are nearing completion. Our Reports describe these matters as at the last day of the month before the Report is due to be delivered.

This is our Fourth Report. It covers the Reporting Period (1 April 2019 to 30 June 2019). The status of Milestones and other Program developments is reported as at the Reporting Date (30 June 2019).

Our Reports and the periods they covered are set out in Figure 1.1 below.

Figure 1.1: Timeline of Report Delivery and Reporting Periods⁵



Further detail about the background to our engagement is set out in Chapter 1 of the First Report.

1.2. The Remedial Action Plan

As described in Chapter 2 of the First Report, the RAP organises the *Inquiry Report's* 35 Recommendations into the following eight themes (**Themes**):

⁴ The actions CBA intends to take to address the Inquiry's Recommendations.

⁵ The Reporting Period for the Third Report was one month longer than in other Reports. This change was made to align the Reporting Date with the end of each quarter, when a significant number of Milestones are due.

- Board Governance;
- Management Governance;
- Operating Model (3LoA);
- Risk Appetite, Taxonomy and Standards;
- Accountability and Controls Delivery;
- Customer Outcomes;
- Culture, Capability and Consequences; and
- Program Execution.

The RAP describes actions in relation to each Recommendation as either Design, Implement or Embed Milestones.

The Program is the program of work CBA has developed to deliver the RAP. It comprises nine work streams corresponding to the eight Themes noted above and an additional work stream (Enabling Systems, Data and Reporting) with responsibility for managing and overseeing technology, analytics and data support across each of the Themes⁶. The Program is managed by a central team (the central BROP team) supported by a network of Execution Leads, BU/SU CCOs and other staff across CBA.

As described in our First Report, once CBA considers it has completed a Milestone, the central BROP team delivers a Closure Pack to Promontory that includes relevant artefacts evidencing Milestone completion.

The number of Milestones due for delivery to Promontory by the Reporting Date for each future report is set out by Theme in Table 1.1 below. The Table reflects changes to the RAP, effective on 1 April 2019, made as a result of a review of the RAP conducted during the Third Reporting Period and described in our Third Report. As noted in section 2.2.3 of our Third Report, the due dates for 24 Milestones were changed.

Table 1.1: Number of Milestones Scheduled to be Delivered by Reporting Date and Theme

Reporting Date	Number of Milestones Scheduled to Be Delivered								Total
	Board Governance	Management Governance	Operating Model (3LoA)	Risk Appetite, Taxonomy & Standards	Accountability and Controls 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

⁶ No Milestones have been assigned to this work stream.

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Reporting Date	Number of Milestones Scheduled to Be 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 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	1	1	0	0	4	2	10
December 2019	4	4	1	2	3	3	7	4	28
March 2020	0	1	1	0	2	2	5	0	11
June 2020	0	0	0	2	1	1	1	1	6
September 2020	0	0	0	1	0	0	0	3	4
December 2020	3	0	1	0	0	2	4	5	15
March 2021	0	0	0	0	0	0	6	1	7
TOTAL	20	19	8	16	10	15	43	25	156

During the Reporting Period, as a result of change requests sought by the Program and endorsed by Promontory, the due date for the delivery of one Milestone (Milestone 14.4) was extended. The reasons for this are set out below in Section 2.1.

All but five Design Milestones had been delivered by the Reporting Date. Most Implement Milestones are scheduled to be delivered during 2019. Most Embed Milestones are scheduled to be delivered from the end of 2019 onwards.

Further information on the RAP and CBA's approach to executing the RAP is set out in Chapters 2 and 3 of the First Report.

1.3. Promontory's Independent Reviewer Activities

Our activities and approach during the Reporting Period continued as described in Chapter 4 of the First Report.

We continued to meet with CBA and APRA representatives on a regular basis to discuss the status of compliance with the EU, and major risks and issues we identified through our monitoring and assessment work.

We continued to monitor CBA's progress in executing the RAP by reviewing Program status reports to understand project delivery risks and issues.

We attended the following meetings:

- weekly project management meetings with representatives of the central BROP team;
- regular Program governance meetings including the BROP Governance Forum, one BU/SU BDGF and one meeting of the BROP Planning and Dependencies Management Forum (**PDMF**).
- two meetings of the ELT Non-Financial Risk Committee (**NFRC**) as observers.

We also held a third Project Implementation Review session, with members of the central BROP team, BU/SU CCOs and representatives, and some Execution Leads, to reflect on our experiences during the previous Reporting Period and identify improvements in how we engage with the Program.

We participated in the following briefings and updates (which are described in more detail in sections 2.2.3 unless otherwise indicated):

- Briefings from the leads of a number of work streams, including the Culture, Capability and Consequences and Enabling Systems, Data and Reporting work streams. These briefings were intended to assist us in understanding the processes the Program was following and to prepare us for the delivery of Closure Packs.
- A deep dive session on selected data analysis and reporting tools to be used to support implementation of aspects of the RAP.
- Briefings on the Drop Process, which is being used as the vehicle for delivering key Milestones in BU/SUs.
- Briefings on some Closure Packs to walk through and discuss the artefacts provided to us.
- Briefings on the Foundational Review.
- Monthly meetings with Group Audit and Assurance (**GA&A**), covering their observations on Program management and their forward audit plans. These briefings are discussed in more detail in section 2.2.4.

During the Reporting Period, we continued to assess whether Milestones had been completed in line with the Closure Criteria and whether activity to close each Milestone provided a sound basis for achieving the Target State for the Recommendation to which the Milestone relates.

The assessments involved reviews of the Closure Packs and additional evidence, including interviews and phone calls with staff engaged in preparing the Closure Packs.

In a number of cases, we actively challenged whether the actions described in the Closure Packs provided a sound basis for achieving the Target State.

In some cases, following the challenge, the Program made design changes. In other cases, our assessment that a Milestone was complete and effective was made on the understanding that related aspects of the assessment would be reviewed at the implementation stage associated with the Recommendation.






Across the life of the Program, Promontory has taken an average of around 11 weeks to assess a Milestone as complete and effective after a Closure Pack is delivered. The quickest assessment (which involved no request for further information from CBA) took around one week (for Milestone 14.2). The longest assessment, which took 27 weeks (for Milestone 33.1), involved extensive discussions and clarifications from CBA, revisions to the

Milestone and the creation of additional Milestones before we were comfortable assessing the Milestone as complete and effective (further details are available in section 10.2.2).

This Report sets out, by Theme, our observations and findings in relation to our monitoring and assessment activity during the Reporting Period, including the outcomes of our challenge.

We summarise the Program's progress in completing each Milestone at the Reporting Date using the Reporting Scale set out in Table 1.2.

Table 1.2: Reporting Scale

Indicator	Description of Progress
	Work to deliver Milestone has not commenced
	Work to deliver Milestone has commenced but has not yet been completed
	Work to deliver Milestone has been completed by CBA but Promontory's assessment has not yet commenced
	Promontory's assessment has commenced but has not yet been completed
	Milestone has been completed and assessed by Promontory as effective

Further information on Promontory's approach is set out in Chapter 4 of the First Report.

1.4. Report Structure

The remainder of this Report is structured as follows:

- **Chapter 2** summarises Program progress as at the Reporting Date, key developments in the Program during the Reporting Period, our observations on how the Program is being managed (both centrally and at the BU/SU level), and the areas on which the Program should focus moving forward.
- **Chapters 3 to 10** report Milestone progress for each Program Theme and describe the outcomes of the Milestone assessments we completed during the Reporting Period.

2. Program Developments

As responsibility for implementing a significant portion of the Program has been devolved to the BU/SUs, CBA's commitment to addressing the Recommendations made in the *Inquiry Report* in a sustainable and effective way has remained firm. The Program is, generally, delivering on this commitment.

Nonetheless, challenges arising out of the decentralisation of the Program continued through the Reporting Period. Although steps were being taken to address those challenges, further focused work in the central BROP team and in BU/SUs is required to ensure the Program remains on track.

This Chapter provides a high-level overview of CBA's progress in implementing the RAP.

The Chapter then comments on how the Program is being managed, specifically noting:

- Key program developments during the Reporting Period;
- Ongoing challenges and risks the Program faces; and
- Areas for Program focus.

2.1. Program Progress

The Program remains on-track for Milestones to be completed by the due dates set out in the RAP.

During the Reporting Period the Program submitted Closure Packs for six Milestones:

- The Closure Pack for one Milestone (the first Embed Milestone) was submitted in late May 2019.
- Closure Packs for five Milestones (two Design Milestone and three Implement Milestones) were submitted in late June 2019.

Closure Packs for all Milestones were submitted before the due dates set out in the RAP.

At the Reporting Date:

- The Program was working on three other Design Milestones, 27 other Implement Milestones and 13 other Embed Milestones.
- Work had yet to start on two Design Milestones, three Implement Milestones and 33 Embed Milestones.

During the Reporting Period, Promontory assessed 25 Milestones (15 Design Milestones and 10 Implement Milestones) as complete and effective. Closure Packs for these Milestones were all submitted in previous Reporting Periods.

Of the Milestones we assessed as complete and effective during the Reporting Period:

- Nine were Culture, Capability and Consequences Theme Milestones (Milestones 13.1, 23.1, 24c.1, 25a.1, 25b.1, 27.1, 28.1, 29.1 and 30.1)⁷;
- Five were Management Governance Theme Milestones (Milestones 6.2, 7.3, 7.4, 8.2 and 14.3)⁸;
- Three were Board Governance Theme Milestones (Milestones 1.3, 2.1 and 5.1)⁹;
- Three were Customer Outcomes Theme Milestones (Milestones 15.3, 17.1 and 18.1)¹⁰;
- Two were Risk Appetite, Taxonomy and Standards Theme Milestones (Milestones 12a.5 and 12d.1)¹¹;
- Two were Program Execution Theme Milestones (Milestones 32.1 and 33a.2)¹²; and
- One was an Operating Model (3LoA) Theme Milestone (Milestone 10.2)¹³.

Taking into account Milestones assessed as complete and effective in previous Reporting Periods, in total, as at the Reporting Date, 65 Milestones (46 Design Milestones and 19 Implement Milestones) had been assessed as complete and effective.

Each of the Milestones assessed as complete and effective provides, in our view, a sound basis for achieving the Target State for the *Inquiry Report* Recommendation to which it relates. Together, these Milestones will provide a sound basis for achieving the Program's overall objectives.

Certain design features and approaches to implementation were, however, not fully mature at the time of assessment. We have, therefore, foreshadowed in relation to a total of 44 Milestones (19 of which were assessed as complete and effective during the Reporting Period) our intention to focus on particular design features or approaches to implementation when assessing related Implement and Embed Milestones.

At the Reporting Date Promontory was assessing five Milestones (four Implement Milestones and one Embed Milestone) and had not yet begun assessing the five Milestones (three Design Milestones and two Implement Milestones) delivered to us on 28 June 2019.

⁷ See discussion in Section 9.2 below.

⁸ See discussion in Section 4.2 below.

⁹ See discussion in Section 3.2 below.

¹⁰ See discussion in Section 8.2 below.

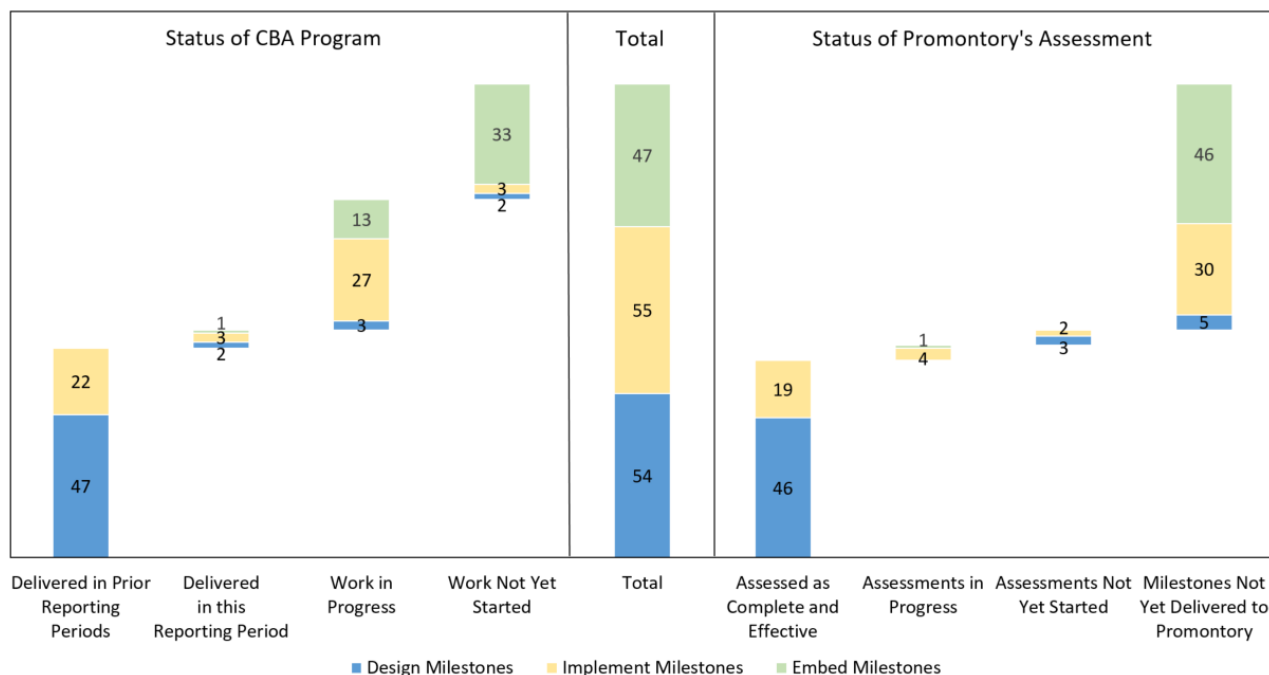
¹¹ See discussion in Section 6.2 below.

¹² See discussion in Section 10.2 below.

¹³ See discussion in Section 5.2 below.

The information above is summarised in Figure 2.1.

Figure 2.1: Milestone Status



During the Reporting Period we received four requests to change aspects of the RAP¹⁴, all of which we endorsed. The requests related to clarifying the detail of the Milestone Description, Target State and Closure Criteria¹⁵.

One request sought to alter the due date for submitting Milestone 14.4, which deals with attendance of the Head of Compliance at meetings of the Board and its Committees. The due date for this Milestone was changed from June to December 2019 to provide additional time to evidence the attendance of, and participation in these meetings by, the Head of Compliance.

2.2. Key Program Developments

During the Reporting Period, as the focus of Program activity moved to BU/SU implementation, the Program continued to display many of the characteristics of a successful remediation program described in our Previous Reports.

Board and Executive Leadership oversight remained strong, as did Line 1 Executive Sponsorship. The Program continued to benefit from the secondment of staff from Business Lines into the central BROP team and into BU and SU teams associated with the Program. Culture and bringing about cultural change continued to play a central role as the Program was rolled out. Program management and execution continued to mature.

¹⁴ RAP Change Requests are part of the formal RAP changes process set out in our First and Second Reports.

¹⁵ The four Changes Requests we received were made in relation to Milestone 14.4, 21.1, 25b.2, and Recommendation 30.

Important changes were made to Program governance. Program design continued to adapt and respond to changes in the environment in which the Program was operating. Delivery and management of the Program continued to adapt effectively to the devolution of key activities to BU/SUs. Work continued on the Foundational Review described in our Third Report.

In this section, we describe key Program developments highlighting aspects of the Program that continue to warrant attention. In doing so, we also describe how the Program has responded to the focus areas we set out in our Third Report.

2.2.1. Board and Executive Leadership Oversight

During the Reporting Period, both the Board and ELT continued to play a strong and active role in overseeing the Program. The role each took was not one of passive interest in the Program and how it is progressing. Rather, it was better described as 'leaning in', with active engagement and providing considered direction supporting the commitment articulated during earlier Reporting Periods.

The Board received a monthly update on progress of the Program during the Reporting Period. These papers also informed the Board of key matters relating to the Program, such as action being taken by the BU/SUs and Line 2, and the progress of the Foundational Review.

Several presentations were also made to the Board on Program-related topics. These included deep dives on Non-Financial Risk (**NFR**) Reporting, Enabling Systems and Data, Culture and Remuneration.

We understand the Board has actively engaged with and challenged Group Executives (**GEs**) and others attending these meetings on Program developments and progress.

We are advised that the Board will be updated on the RAP after it has been revised in light of the Foundational Review recommendations.

During the Reporting Period, the ELT also received and discussed monthly updates on Program progress. These papers provided similar information to that received by the Board on the Program.

The ELT NFRC has also engaged with the Program and has considered and challenged the Program's approach in a number of areas. Examples include the approach to Risk in Change and whether sufficient consideration has been given to interdependencies between the Program and other regulatory initiatives.

ELT member engagement with the Program, understanding of the RAP and active commitment to timely implementation has been exemplary. We observed during the ELT NFRC meetings we attended during the Reporting Period and in other forums, a strong, detailed and genuine understanding of the RAP and its key Milestones, and an active appreciation of the challenges and risks the BU/SUs faced in ensuring timely and effective implementation.

ELT members have also actively participated in the Foundational Review. A number of members participated in workshops and meetings during, and after, the Reporting Period to discuss and agree the direction the Foundational Review would take and the detail of the Foundational Review (described in more detail below in 2.2.3).

ELT engagement with the Program has also been demonstrated by the Chief Executive Officer (**CEO**) and various GEs attending Better Bank Leadership Offsites (**BBLOs**).

2.2.2. Program Governance

As foreshadowed in our Third Report, a review of the governance of the Program was undertaken during the Reporting Period, with a number of changes made to ensure governance arrangements are appropriate to the Program's needs and are not overly complex.

Key changes made during the Reporting Period were the following:

- Several forums have been consolidated:
 - The Design Council and GE Leads meeting have been merged with the CCO Forum. The frequency of meetings has increased from monthly to fortnightly. Discussion on items relating to the remaining Design Milestones will now take place at the CCO Forum.
 - The Communications and Change Working group has been consolidated with the Project Management Office (**PMO**) Forum, and is now known as the Delivery Execution Forum.
- Changes have been made to the operation of the BROP Governance Forum, including:
 - A decrease in the number of standing attendees and voting members;
 - Inclusion of the status and risk profile associated with BU/SU implementation in updates on the status and risk profile of each Theme; and
 - Time being dedicated to Theme updates on an 'as needed' basis, rather than allocating a specific amount of time to each Theme, in order to ensure a tighter focus on delivery risks and issues.

We welcome these changes.

The BROP Governance Forum and the central Program oversight it provides continued to mature through the Reporting Period. The nature and content of reporting tabled at the Forum is now consistent and standardised. There is consistency in how delivery risks appear to be understood and reported. Delivery risks continue to be monitored and acted on in a timely way. Forum meetings continue to review progress across all Themes while devoting appropriate time to key delivery risks. There is robust challenge and constructive self-reflection on how the Program is tracking and how the Forum is operating.

The BDGF, whose members include all BU/SU CCOs, also met for the first time (and then on two subsequent occasions) during the Reporting Period. The Forum is responsible for managing and monitoring BU/SU progress in implementing the activities required under the RAP. It is chaired by a member of the central BROP team. Given the decentralisation of the Program, it is imperative that this forum function effectively in order for the Program to be successful.

The BDGF has instituted regular BU/SU deep dives attended by BU/SU CROs. The deep dives have been an opportunity for BU/SUs to present on the status of implementation progress, to highlight challenges and to share with other forum members their successes and ideas. These discussions have also been an opportunity for other forum members to question and challenge their counterparts. The discussions we observed were both constructive and instructive.

The BDGF also receives reporting on implementation status by Theme and assessments of delivery risks across the BU/SU.

The Reports are intended to serve a number of purposes including:

- Providing updates on the status of BU/SU delivery of RAP activities to both the BDGF and the BU/SU NFRCS;
- Providing summary information to be fed into Major Theme Lead status reports; and
- Providing summary information to the team responsible for co-ordinating Drops.

The reports are reviewed by the BU/SU CRO. The central BROP team provides some oversight of these reports before they are circulated to the Forum.

Our early observations, at the Reporting Date, are that the governance and operation of the BDGF requires further attention before it reaches the level of maturity and effectiveness of the BROP Governance Forum.

In particular, the following require attention:

- Further work is needed to improve the consistency and rigour of status reports;
- Further work is needed to ensure the approach being taken to CRO sign off on status reports is appropriately thorough and consistent across all BU/SUs;
- The need to increase the focus of discussion in Forum meetings on measures to address high rated risks; and
- The impact of competing priorities on implementation of the RAP at the BU/SU level.

The central BROP team must play a role in ensuring these changes are made and in ensuring the Forum operates effectively. We recognise it will be challenged in doing this because, unlike the BROP Governance Forum where key members have reporting lines into the central BROP team, the members of the BDGF do not have those direct reporting lines.

We understand the BDGF will continue to be supported by the CCO Forum and the Delivery Execution Forum, which have been established to discuss how issues are being managed in BU/SUs and to address implementation problems that arise.

We understand the Program will continue to refine central governance processes by identifying and implementing improvement opportunities.

2.2.3. Program Design, Delivery and Management

During the Reporting Period, further enhancements to Program design, delivery and management were made with a view to ensuring Milestones are delivered on time and with the right outcomes.

Program Design

During the Reporting Period, the Program worked towards completing the Foundational Review and conducted the second quarterly review of the RAP.

The entities to which the Program applied were also reviewed. Mechanisms and processes to better understand dependencies between activities in the RAP, and between the RAP and other programs underway across CBA, were also further developed.

The Program also took the first steps to develop Program success measures.

Foundational Review

The Reporting Period saw significant progress in the conduct of this Review, with the Review being completed after the Reporting Date.

We understand that revisions to the RAP arising from the Review are to be presented to the Board during August 2019, with proposed changes shared with us and with APRA in late August.

This Review, instituted at the direction of the Board in March, was described in our Third Report. It has given 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'.

We supported the decision to conduct the Foundational Review. It provides the opportunity to reflect on an ambitious Program developed some 12 months ago as an urgent response to the Prudential Inquiry Review. We see it as critical to assisting the Program to address some of the ongoing and intensifying challenges it is facing in prioritising, and making resourcing decisions about, Program activities in the context of what have been assessed as Critical Risk Priorities across the Group.

In April, the ELT agreed the following as the primary areas of focus for the Review:

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

The Program then conducted an initial assessment of the impact of the Foundational Review on the RAP and developed an initial hypothesis on the extent of change at Theme level.

The Review's early thinking – endorsed by the ELT – focused on the following hypotheses:

- Refocusing the RAP, where practical, on top risks aligning to the Group's critical risk priorities;
- Improving prioritisation of Line 1 risk resources to deliver the RAP and rectify critical risk priorities;
- Reprioritising the timing of minimum standards work to the most important areas;
- Taking a more pragmatic approach to implementing risk frameworks; and
- Prioritising the hiring and development of BU/SU Line 1 control teams and Line 2 risk professionals.

In May, the Review held a kick-off meeting to discuss the hypotheses. Sessions to work through and articulate the details of the actions to be taken and presented to the ELT were also held in May.

In mid-June, 25 leaders from various parts of the organisation participated in a full-day workshop. Attendees included the CEO, several GEs, the Group CRO and various BU/SU leaders. The meeting decided on a series of actions which we were advised were considered by the ELT after the Reporting Date.

The agreed actions included the following:

- Introducing into the Three Lines of Accountability (**3LoA**) the concept of Risk Stewards tasked with group-wide responsibilities in relation to specific risk types;
- Prioritising risk profiling activities (including risk profile consolidation, introducing a value chain approach to risk profiling, prioritising key risks for baselining and developing controls libraries and control taxonomies to support risk profiling);
- Measures to support capability uplift (including creation of a training council, mapping risk training resources, clarifying training content and delivery accountabilities, and a talent review of risk and control professionals);
- Enhancements to the existing Drop Process; and
- Minimum standards to be prioritised.

Since the Reporting Date, the Program has engaged in reviewing the RAP to identify changes which need to be made to reflect the outcomes of the Review.

We are advised that significant changes are expected to the content and delivery dates for several Milestones across the Risk Appetite Taxonomy and Standards, Operating Model, Accountability and Controls Delivery, and Culture, Capability and Consequences Themes. These revisions may have a knock-on effect on dependent Milestones in other Themes. We envisage that these changes may assist in addressing a number of the resourcing and prioritisation challenges we note below.

We welcome the work done to date on the Foundational Review. We note that the foundational elements needed to support an effective risk management framework at CBA appear to have been carefully considered in the context of addressing other risk and regulatory matters (including agreed Critical Risk Priorities) and the capability of both Line 1 and Line 2 to support sustainable outcomes.

We look forward to receiving further information on the outcomes of the Foundational Review, and the impact on the RAP, in the next Reporting Period.

RAP Review

In line with its commitment to review the RAP on a quarterly basis, the Program undertook a further comprehensive review of the RAP during the Reporting Period. This review was conducted independently of the Foundational Review. We received drafts of some of the proposed changes to the RAP after the Reporting Date.

The proposed changes are grouped into the following categories:

- Minor changes to due dates;
- Changes to the description of Closure Criteria changes to promote consistency in evidentiary requirements;

- Other wording changes to improve clarity and consistency; and
- Changes to the Execution Lead for certain Milestones.

Some of the changes are being reviewed by the Board Chair. We expect to receive further information of the nature of the proposed changes during the next Reporting Period.

Program Scope

After a number of challenges from Promontory during the assessment of several Closure Packs, the central BROP team conducted a review to confirm which CBA Group entities are in Program scope. The review was completed during the Reporting Period.

The outcomes of the review were the following:

- A number of non-operational and non-controlled CBA Group entities identified by the review were identified as not in Program scope.
- Three entities that operate outside of BU/SU Lines of Business were identified as in Program scope.

The review also confirmed the Program is being rolled out to all other entities (including onshore subsidiaries and offshore branches) through BU/SU Lines of Business.

We will closely monitor the rollout of future Milestones to all in-scope entities.

Dependencies

Our earlier reports noted the importance of the Program fully understanding the dependencies between RAP Milestones and activities.

The Implementation Plan described in the Third Report is now a single source of truth on Milestone dependencies. It provides a solid foundation for the Program to understand dependencies and is being used to inform forward planning as the Program is rolled out to the BU/SUs. The central BROP team, Theme and Execution Leads now appear to have a much clearer understanding of the dependencies between Milestones. Major Theme Lead meetings, for instance, are using the Implementation Plan as a basis for discussions on dependencies.

The PDMF met three times during the Reporting Period. These meetings have proved to be a useful opportunity for the central team and Major Theme Leads (**MTLs**) to come together to understand those dependencies, and to tweak and adapt Milestone due dates.

As noted in our Third Report, the Program should continue to work toward ensuring processes relating to the use of the Implementation Plan are formally documented. The learnings from the PDMF should also be socialised more broadly across the BU/SUs, and others engaged in the Program, to ensure that Milestone dependencies, and their implications, are more widely appreciated.

Competing Priorities

Competing priorities affecting BROP delivery continued to challenge the Program during the Reporting Period.

As flagged in the Third Report, it is important that the Program works to ensure that it has an understanding of dependencies between the RAP and other programs underway across CBA so that it is able to leverage those dependencies.

To some extent, and at a high level, the Foundational Review has addressed aspects of this challenge.

We understand that at least one BU is implementing a 'prioritisation model' that records the leadership focus and resources to be allocated to each of the BU's Critical Risk priorities over the next 90 days. The GE of the BU reviews the model fortnightly with input from his extended leadership team. The BU is, therefore, able to align initiatives across the Critical Risk priorities and to drive efficiencies.

We will look for evidence that dependencies between the RAP and other Critical Risk priorities are being considered in a similar way in other BU/SUs over the coming Reporting Period.

As discussed above, further thought has been given to understanding the dependencies between the RAP and other related, high-priority regulatory initiatives across the Group as part of the Foundational Review. During the Reporting Period, linkages between the RAP and agreed Group Critical Risk Priorities continued to be mapped and monitored. This process has allowed CBA, and the Program, to start to better understand dependencies between the Program and other high-priority initiatives across the organisation and presented opportunities for fuller integration.

Program Success Measures

During the Reporting Period, the Program reflected on measures to assess the successful implementation of the RAP for use during the life of the Program, at the point the Program receives sign off and on an ongoing basis thereafter.

Measures have been developed in consultation with the Major Theme Leads. They include metrics such as the number of complaints resolved in less than 5 days, the number of Operational and Conduct Risk Management Framework Red Audits, total operational and compliance risks losses, and the Risk Culture maturity assessment. The measures draw from metrics developed under other Milestones.

We welcome this work. It parallels work we currently have underway about the evidence we will be seeking that Milestones have been effectively embedded and support the closure of Recommendations.

Further work was also undertaken during the Reporting Period on measuring the effect of the interventions being made under the Culture, Capability and Consequences Theme.

An 'ask me' panel, comprising a representative sample of staff from across the Group, was established to collect insights through externally moderated discussions on the success of certain interventions. A quarterly culture evaluation report reporting on the impact of interventions will be compiled using these insights and other data.

Program Delivery

The Reporting Period highlighted both the critical importance and increasing maturity of the Drop Process, described in our Third Report, and the role of BU/SU CCOs and CROs in supporting the effective and consistent implementation of the RAP.

Drop Process

The Drop Process, described as the RMI Drop Process in our Third Report, is now the primary vehicle for delivering key aspects of the Program at the BU/SU level in a consistent and sustainable way.

The Drop Process is being used to roll out centrally-collated directions on the actions to be undertaken by BU/SUs in relation to particular Milestones. It is also the mechanism used to gather evidence on the implementation of Milestones for inclusion in Closure Packs.

Each Drop comprises four phases conducted over a 360-day period:

- **The Drop Foundation Phase** (conducted between 180 and 90 days before the 'go live date') involves the central BROP team communicating with BU/SUs about proposed activities to be included in the Drop and seeking their input on feasibility.
- **The Pre-Drop Phase** (conducted in the 90 days before the 'go live date') involves the scope of the Drop being finalised in consultation with BU/SU CCOs, creating the technical content for the Drop and communicating in detail the activity to be completed by BU/SUs.
- **The Drop Implementation Phase** (conducted in the 90 days after the 'go live date'), which involves launching the Drop, implementing Drop activities, regular communications with BU/SUs on progress, and starting to collect evidence of implementation.
- **The Post-Drop Phase** (conducted between 90 and 180 days after the 'go live date') which involves finalising evidence collection from BU/SUs for inclusion in Closure Packs, based on guidance provided by the central BROP team.

A new Drop is rolled out to the BU/SUs every 90 days, on the 'go-live' date.

During the Reporting Period, the Program was engaged in activity associated with a number of Drops. Drop 3, which involves introducing the new issues management standard, was in the Post-Drop Phase during the Reporting Period. Drop 4, which involves introducing the new operating model for regulatory engagement, was implemented during the Reporting Period. Drop 5, which involves introducing periodic customer outcome reviews and the new Risk in Change methodology, was in the Pre-Drop Phase during the Reporting Period. Drop 6 was in the Drop Foundation Phase.

With the increased reliance placed on the Drop Process, the governance arrangements associated with the process have been refined.

The ELT now endorses Drop design, Drop implementation and the conclusion of each Drop, based on whether the implementation of the Drop is consistent with its design. The central BROP team manages, coordinates and communicates the proposed requirements to be covered under each Drop, which is circulated to CCOs, CROs, Execution Leads and the ELT for review and endorsement. A weekly 'Drop scrum' to discuss progress and issues associated with each Drop in train has also been established to support the Drop mechanism.

BU/SU implementation of the Drops is overseen by the central BROP team. The central BROP team is now tasked with escalating issues in a particular BU/SU about implementation of the Drop to the relevant GE.

During the Reporting Period, BU/SUs provided feedback on the execution of Drop 4. That feedback has been used to further refine the Drop Process. BU/SU feedback highlighted the need for more clarity on Drop requirements to be provided earlier in the process. As a result, the central BROP team has committed to

providing an outline of scope earlier in the process and to holding pre-briefing sessions to walk through Drop requirements in detail. The central BROP team will continue to adjust the Drop Process to ensure it addresses the feedback provided by participants.

The effectiveness of the Drop Process is key to successfully delivering certain Recommendations at the BU/SU level.

The quality and completeness of communications conveying Drop requirements from the central BROP team to the BU/SU CCOs and from the BU/SU CCOs to their businesses, is vital to the successful implementation of the Program at the BU/SU level.

We will, therefore, continue to closely monitor the progress of, and any issues associated with, each Drop through regular meetings with those responsible for the Drop Process.

It is likely that the Foundational Review will affect the timelines associated with certain Milestones, and will therefore affect the content of future Drops. The Program should remain cognisant of interdependencies between actions being implemented through the Drop Process as the outcomes of the Foundational Review are implemented.

The scope of the Drop Process has also been expanded, as discussed above, and it now includes some activities that enhance Operational Risk and Compliance (**OR&C**) management but are not directly associated with particular Milestones. We endorse this as it supports ensuring that implementation of the RAP is seen by BU/SUs as a part of BAU change activity.

The role of BU/SU CCOs and CROs

As Program activity has been devolved to BU/SUs, their CCOs and CROs have emerged as critical to delivering the Program successfully and on time.

During the Project Implementation Review Session on 27 June, attended by BU/SU CCOs and CROs, Major Theme Leads and others in the central BROP team, we emphasised the need for BU/SUs to fully understand Drop requirements, carefully monitor delivery risks and competing priorities, and escalate any concerns in a timely manner. We also noted the importance of ensuring BU/SUs continue to share their experiences with implementation, to foster quality and consistency. We emphasised the important role of the BU/SU CCOs and CROs in this regard.

During the Reporting Period, we observed an increasing level of maturity in the operation of BU/SU PMOs and the approach taken by BU/SU CCOs, although scope for further improvement remains (as set out below).

We expect to have significantly more interaction with BU/SUs in future Reporting Periods in order to effectively monitor progress and delivery risks.

Over the next Reporting Period we plan to meet with BU/SU CCOs regularly to discuss their progress on key Drop activities and potential delivery risks. During these meetings we also plan to discuss competing priorities that are affecting BU/SU resources, and any specific concerns with the BU/SU implementation of Milestones we have assessed and plans to address those concerns.

On a case-by-case basis, we may also request separate meetings with BU/SU CROs to discuss the review and challenge they have performed on implementation in their BU/SU. In some cases, we may also observe certain BU/SU NFRC meetings.

We plan to take a risk-based approach to selecting and prioritising the BU/SUs we meet with. Our selection will be based on the status of implementation as identified in BU/SU status reports, the key delivery risks identified by BU/SU CCOs and CROs, the BDGF and our observations from Milestone assessments.

Program Management

During the Reporting Period, the quality of Program management continued to evolve.

Delivery risk assessments were conducted at the BU/SU level. The Program also continued to recognise the important role effective communication plays in supporting the rollout of the RAP to the BU/SU.

The central BROP team paid appropriate attention to addressing resourcing risks and ensuring implementation of systems and technology changes to support the Program are on track to be met.

Closure Pack Assessment and Quality Assurance

While the Milestone closure process has generally been efficient, CBA's response to some of our Initial Assessments in earlier Reporting Periods was somewhat leisurely. During the Reporting Period we, therefore, worked toward agreeing time frames for each stage of the assessment process.

An end-to-end process to monitor the status of assessments was proposed. The process sets out clear timelines for delivery of items both before and after Closure Pack submission and in response to our questions post-submission. We expect the final details of this process to be agreed in the next Reporting Period.

The central BROP team also worked to ensure its quality assurance processes over Closure Packs were enhanced. We understand the central BROP team also provided feedback to those preparing Closure Packs to ensure the relevance, simplicity, focus and ease of navigation of the documents provided to us.

We saw improvement in the quality of Closure Packs delivered to us which could be attributed, in part, to these changes. The improvements contributed to us assessing Closure Packs more efficiently.

Delivery Risk Assessment

The rigour and consistency of delivery risk reporting by Major Theme Leads continued at a uniformly high level during the Reporting Period. The Theme implementation status reports provide a clear overview of progress and delivery risks that has been used to escalate, discuss and remediate issues in a short space of time.

In contrast, the quality of BU/SU implementation status reports and delivery risk assessment appears to be varied and relatively immature. Good progress has been made in improving the reporting of status and delivery risk assessment in some BU/SUs, while significant scope for improvement remains in the reporting on others.

Some of the issues faced in compiling these reports are reminiscent of the issues faced in early reporting by Major Theme Leads to the BROP Governance Forum. For instance, there appears to be some inconsistency between BU/SUs in their evaluation of similar delivery risks (i.e., some BU/SUs appear to be giving an overly optimistic assessment, while others are more pessimistic). There also appear to be differences in the level of rigour with which the implementation status of each BU/SU has been reviewed and challenged in and by its business.

As BU/SU implementation status reporting is a vital component in tracking BU/SU progress in executing the RAP, and in monitoring the risks and issues being faced at the BU/SU level, action to improve the consistency and rigour of BU/SU status reports is urgently required.

Communications

During the Reporting Period we received a number of updates on CBA's approach to Program-related communications.

We continue to be impressed by the thinking which has gone into, and the quality of, the communication plan and activities under the plan. There has been a willingness to think outside the box, to explore and test new and 'disruptive' forms of communication, to garner feedback and to remain vigilant to the importance of ensuring messaging is relevant, engaging and addresses the risk of 'message fatigue'.

Regular messages continue to be disseminated, in line with the communications plan.

There is regular, co-ordinated and authentic messaging from the CEO and GEs about their ongoing and strong commitment to the Program.

The tailored nature of GEs' communications on the importance of the Program to their BU/SUs has helped keep communications relating to the Program fresh and engaging. These communications have played an important role in making the Program relevant to staff on a day-to-day basis.

Communications showcasing the practical implementation and outcomes of the Program were also delivered during the Reporting Period.

The tone of all communications has generally been vibrant and engaging. Several innovations were made during the Reporting Period to change and refresh the style of communication. For instance, the Program carefully designed the format of GE communications and BBLO forum branding to convey a sense of change in approach and mindsets. The communications platform has also been leveraged to emphasise the ongoing need for risk specialists to support the Program.

We will continue to receive regular updates on the communications approach and to monitor the execution of the communications plan over the life of the Program.

The importance of this vigorous approach to communication at the implementation stage of the Program cannot be emphasised enough. During the Design Phase, the Program did not touch vast parts of the Group. Communication was therefore high level and, necessarily abstract. During the Implement and Embed phases, the Program is touching and will touch the grass roots of the organisation. The importance of ensuring communications are relevant and concrete, and capturing the hearts and minds of staff will be particularly critical.

Monitoring and Addressing Resourcing needs

Capacity and capability to implement key elements of the Program continued to pose the most significant risk to the successful implementation of the Program. This risk continued to be acknowledged in both Theme and BU/SU level status reports.

The Program actively monitored resourcing issues during the Reporting Period, including through metrics such as vacancy and hire rates.

We are advised that resourcing needs in relation to the Program have been confirmed by BU/SUs and that necessary approvals to hire staff have been given. However, the Program continues to face the significant challenge of filling those positions, evidenced in the fact the time taken to fill OR&C positions increased steadily throughout the Reporting Period.

We are encouraged by the central BROP team's recent review and strengthening of its capability mix to reflect the changing needs of the Program. Resources with deep knowledge of the Group and the RAP have been brought into the central BROP team and ensured delivery momentum has been maintained.

During the Reporting Period, Chief Controls Officers were also appointed to three SUs. A CCO induction program to be rolled out to new recruits in CCO and Line 1 Risk teams was also endorsed.

Monitoring and Addressing Systems and Technology Needs

Our previous Reports noted the importance of ensuring that systems and technology support implementing and embedding the RAP Recommendations on an ongoing and sustainable basis.

During the Reporting Period we held a number of meetings about initiatives being taken by the Enabling Systems, Data and Reporting work stream on these issues.

We participated in a walkthrough of the Data Analysis Risk Tools (**DART**), which is the system that will be used to implement the improved NFR reporting required by certain Recommendations, including Recommendations 5, 12a and 17. DART will also allow data to be accessed and reports to be compiled in a simple, consistent and sustainable way.

We also met with the GE of Enterprise Services to discuss the status of technology-related aspects of the RAP, and how these aspects will be delivered through the Enterprise Project Management Office (**ePMO**) and the Group Delivery Framework (**GDF**). The delivery of RAP-related technology is on track to meet the due dates outlined in the RAP.

During the Reporting Period, an Executive Action Team forum continued to oversee the delivery of BROP OR&C technology solutions effectively.

In the next Reporting Period, we will continue to focus on the effectiveness of the support the ePMO and the GDF are providing to the Program.

2.2.4. Risk and Assurance Oversight

The role of Line 2 in overseeing the Program was further clarified during the Reporting Period.

As noted in our Previous Reports, BU/SU CROs are now responsible for overseeing Milestone implementation in each BU/SU, while the BROP CRO is responsible for co-ordinating the scope and execution of BU/SU CROs' oversight of the Program. The BROP CRO is also responsible for overseeing the operation of the Program governance framework.

During the Reporting Period, we noted continuing maturity particularly in BROP Line 2 oversight of the Program. Challenges made in Governance meetings, in particular, were both appropriate and constructive.

We expect the BU/SU CROs engagement with the Program to mature in a similar manner in future Reporting Periods.

Their increasing role is reflected in the following observations we made during the Reporting Period:

- BU/SU CROs now review their BU/SU's delivery risk profile and how risks are being managed.

- BU/SU CROs also now review the implementation of Drop requirements. An initial review to ensure that the requirements of one Drop have been completed is conducted during the implementation of the subsequent Drop. Quality assurance over the actions taken then takes place during the implementation of later Drops.
- BU/SU CRO oversight is now supported by templates issued by the BROP CRO outlining the Milestone activities to be reviewed.
- A Line 2 BROP Working Group, where the BROP CRO and BU/SU CROs meet to discuss issues associated with the Program, has been established.

We also note that Line 2's 'review and challenge' approach has been replaced with an 'approve and accept' approach. The new approach increases the accountability of Line 2 for consistent and sustainable Program implementation. We support the initiative.

A gap in the coverage of Line 2 oversight emerged during the Reporting Period. While Line 1's implementation of most Drop requirements is the subject of BU/SU Line 2 oversight, there appears to be no Line 2 oversight of centrally designed and implemented Milestones. There also appears to be no Line 2 review of Milestones being implemented by Line 2.

For instance, Milestone 5.2, which is being implemented centrally, and Milestone 12d.2, which is being implemented by Line 2, do not appear to be the subject of Line 2 review.

We will continue to meet regularly with Line 2 to discuss their findings in relation to oversight activities, and to receive further updates on changes to the Line 2 approach.

We continued to meet regularly with GA&A during the Reporting Period to discuss their oversight of the Program. We have found these meetings a particularly useful opportunity to share insights into the Program.

GA&A made several preliminary findings around the Program's processes and controls as part of its review of the Group's OR&C Management Framework. Where issues exist, they tend to be common to multiple BU/SUs.

During the Reporting Period the GA&A audit plan for FY20 was reviewed by the Board Audit Committee (**BAC**) and finalised. GA&A will employ a risk-based approach to auditing organisational process and control changes introduced through BROP, including the implementation of the issues management standard and 3LoA.

2.3. Ongoing Challenges and the Road Ahead

In the 15 months since the EU was signed, the Program has made solid progress in executing a necessarily ambitious RAP.

65 Milestones have been assessed as complete and effective. Ten are the subject of assessment by Promontory. Work is underway on 43 Milestones. The Program has matured and adapted well to changing external circumstances and the transition to Implementation. Action has been taken to address the challenges and risks we have identified in our earlier Reports – maintaining momentum, effective project execution and governance disciplines, resourcing and managing competing priorities.

Despite the good progress, the next six months are critical to the success of the Program. 38 Milestones are due for delivery. Five are Design Milestones. 20 are Implement Milestones. 13 are Embed Milestones. We will also be asked to close, for the first time, six Recommendations.

The challenges and risks identified in our earlier Reports will continue. Two interrelated challenges – resourcing and managing competing priorities – will be particularly important.

If these two challenges are not addressed effectively in the next Reporting Period, the Program is at serious risk of not delivering Milestones either on time or to the quality we are prepared to accept.

Meeting the resourcing challenge, discussed in more detail below, will be pivotal. It has been an ongoing challenge from the start of the Program. The challenge has intensified in the context of competing priorities which have emerged over the last 12 months.

The outcomes of, and the ELT and Board responses to, the Foundational Review will be critical to ensuring these challenges are appropriately addressed. As we have noted, the Foundational Review has given CBA the opportunity to reflect on how RAP initiatives should be prioritised and where and how scarce resources should be allocated in the context of ensuring sustainable long-term change.

We urge the ELT and the Board in considering their responses to the Review to focus on ensuring the fundamental elements of an appropriate governance, culture and accountability framework receive priority and are implemented and embedded in a timely way. The Program remains a once-in-a-generation opportunity to address failings in those fundamentals which contributed to the issues identified in the *Inquiry Report*, by the Royal Commission and in subsequent regulatory action. That opportunity should not be wasted.

Within the parameters of a RAP revised to reflect the Foundational Review outcomes, the Program should also continue to ensure the project execution and governance disciplines it has put in place are effective in delivering timely and effective outcomes.

During upcoming Reporting Periods, it must continue to focus on ensuring consistent implementation in BU/SUs through close and continuous monitoring and tracking. It must continue to emphasise simplicity and sustainability in the solutions it is developing. It must continue to ensure the Program is subject to effective Program governance and risk and assurance oversight. It must continue to ensure momentum is maintained, and change fatigue addressed, through frequent and vibrant communication.

Critically, it must continue its evident commitment to ensuring past poor project management practices in risk remediation projects identified in the Prudential Inquiry Report do not re-emerge.

In this section, we set out in more detail the challenges we see the Program facing in ensuring effective execution of the RAP.

2.3.1. Managing Competing Priorities

As noted in our Third Report, an ongoing challenge for the Program is delivering the RAP in the context of the competing regulatory priorities faced by CBA. A significant number of high-priority projects with a regulatory dimension have been identified, including responding to the Final Report of the *Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry* and a number of customer remediation programs. CBA has also been responding to extensive, detailed and frequent information requests from regulators.

This challenge continued through this Reporting Period and will continue for the foreseeable future.

BU/SUs are being required on a daily basis to balance the need to implement key parts of the RAP, including the basic elements of their NFR management frameworks (including application of the 3LoA Principles,

enhanced risk assessment and issues management processes and other new standards) while resourcing and addressing programs to remediate past compliance and NFR failings.

As noted above, the Foundational Review has been an opportunity to better understand and address the challenge of competing priorities and their impact on the Program more generally.

We urge the ELT and the Board to reflect carefully on the Foundational Review recommendations and endorse changes to the RAP to ensure the fundamental elements of a culture, governance and accountability framework can be delivered within the timeframes envisaged by the RAP and the EU.

We have seen some evidence of some BU/SUs developing processes to manage competing priorities and their resource implications on an ongoing basis. These developments are to be commended.

We see scope for similar dynamic resource prioritisation measures to be rolled out across the Group with the central BROP team playing an oversight and co-ordinating role.

2.3.2. Resourcing

The resourcing challenge identified in our earlier Reports continues to pose a serious risk to successful implementation of the Program, and requires careful ongoing attention.

The Program has recognised from its early days the limited capacity and capability of resources on both Lines 1 and 2 to deliver Program outcomes.

There has been some improvement in quantifying the challenge. Further improvement is needed.

The Program also appears to have had difficulty in creatively sourcing the right skills in sufficient numbers in a tight market. In particular, despite having funding allocated for additional Line 2 resources, we understand delays have been experienced in on-boarding those resources.

This has put the delivery of key Milestones (including the development and implementation of some minimum standards) at risk.

We understand the Foundational Review will assist, in part, in addressing this issue, by identifying synergies between priority projects outside the Program and Program activities, clarifying priorities and allowing for a better informed and smoother allocation of resources across the Program.

We urge the Program to give urgent consideration to how adequate skilled resources to successfully deliver the Program can be sourced, including through measures such as intensifying efforts to identify and upskill resources from Business Lines and other parts of CBA, as identified in our Third Report.

2.3.3. Maintaining Momentum

As the Program is rolled out in the BU/SUs, the challenge of maintaining momentum has intensified.

As noted above, communication about the Program continues to be an important means of ensuring momentum is maintained. The Program has continued to put significant effort into capturing the hearts and minds of employees across the Group, and laying the foundation for new ways of thinking and doing things.

We are pleased to see that vibrant and engaging communications conveying the CEO's commitment to the Program continue to be disseminated. The tailored communications sent by GEs to their BU/SUs have also helped to build momentum for change at the BU/SU level.

The actions the Program has taken to date should continue. Board and ELT oversight and communication of their active commitment to the Program should continue.

We urge the Program to continue to invest in developing tailored, engaging and disruptive ways of communicating the importance of the changes being made, including through focusing on the positive risk and customer outcomes that have been achieved through the implementation of the Program. The need to address change fatigue should continue as a paramount consideration in designing and delivering Program related communications.

2.3.4. Effective Project Execution and Governance Disciplines

Consistent and sustainable implementation at the BU/SU level will play a critical role in ensuring the Program's long-term success. Given the federated model in place at CBA, the difficulty of implementing the Program in a consistent and sustainable way should not be under-estimated.

To date, the Program's governance and execution disciplines have continued to adapt, with some success, to supporting effective BU/SU implementation.

However, given CBA's poor track record in executing risk remediation projects, the Program must ensure it continues to apply the flexibility it has shown to date to ensure that practices of the past do not re-emerge.

An empowered and effective central BROP team remains critical to ensuring these challenges are met.

We therefore urge the Program to continue to focus, through the central BROP team, on ensuring the following aspects of effective project management are given appropriate attention.

Consistent Implementation

As noted above, ensuring consistent implementation of the RAP across the Group will be key to Program success.

Our assessments of a number of key Milestones, some of which were in train at the Reporting Date, have highlighted different levels of maturity in NFR management across the Group. This has been most evident in assessments of Milestones addressing 3LoA realignment plans and NFR profiling.

The Program has recognised these differences. They are also well understood by the Group's senior leadership.

Greater maturity appears to reflect well-established practices in businesses with fewer changes in leadership in both the business and risk functions. Businesses displaying less maturity have either experienced leadership and structural changes in the last year or have only recently established and are still staffing stand-alone NFR functions.

Mechanisms are in place to facilitate shared experience and learning between the more mature and less mature functions. The BDGF has, for instance, been an opportunity for BU/SU CCOs to formally share experiences through BU/SU deep dives.

We urge the Program to continue to ensure experiences can be shared through these forums with a view to reducing differences in implementation and reporting of progress between BU/SUs and so driving consistency.

Consistency will also be supported by clear, unambiguous and focused communication and instructions to BU/SU's about the requirements and expectations of each Drop.

Close Monitoring and Tracking

Tracking the status of the Program in an accurate and consistent way has been a challenge for the Program.

As noted above, the Program began receiving BU/SU level implementation status reports during the Reporting Period. There have been some early issues with the accuracy of some reports and the level of rigour with which implementation status has been reviewed and challenged.

A concerted effort to improve the level of consistency in BU/SU status reporting is required. The central BROP team should work toward ensuring that BU/SU status reporting achieves the level of consistency and rigour evident in the current reporting to the BROP Governance Forum on Theme status.

BU/SU CROs have an important role to play in challenging and accepting the status reports developed by the CCOs in their BU/SUs. The central BROP team should work to ensure BU/SU CROs both have and understand their accountability for the accuracy and quality of status reporting for their BU/SUs. The central BROP team should continue to look to GE support in underscoring the important role of the CROs.

The Program should also continue to reflect on how it synthesises materials and reports from across the Program (in particular BU/SU reports) to develop an overall view of Program status. To ensure a sound basis for delivering the requisite level of monitoring by the central BROP team the Program should formalise responsibility for monitoring overall status of the Program and for addressing the issues and risks that will inevitably arise.

Simplicity and Sustainability

As noted in our Third Report, over-engineered and complex processes may prevent those tasked with execution at the BU/SU level understanding the changes they will be expected to implement. Consistent implementation of the Program across the Group may be put at risk.

The Program has advised it continues to consider and to evolve its thinking about how best to ensure processes and systems it designs and implements remain simple. A key part of its approach has been to formalise 'test-and-learn' approaches to understanding the business impact of design features before designs are formally rolled out (with the risk in change and the compliance incident management processes being early examples). The introduction of standard templates for use in applying the GDF is another measure intended to assist businesses in applying changes brought about by the RAP.

We urge the Program to continue with similar initiatives.

BU/SUs should also be mindful of the importance of ensuring the sustainability of the changes they are making. Sustainability was a critical consideration in the design phase, and it is imperative that BU/SUs appreciate the need for sustainability in implementing centrally designed Milestones.

Comprehensive and accurate documentation of processes introduced by the RAP are also critical to sustainability of the Program. BU/SUs should therefore document the processes they are implementing, where

necessary, to ensure that those who will be required to apply those processes (most of whom will not have been involved in designing and developing the processes) have sufficient guidance.

As noted in our Third Report, a key element of ensuring sustainability will be ensuring that new processes and approaches are supported by appropriate systems and technology. The NFR reporting solution and the data analysis risk tools we observed during the Reporting Period are good examples of such processes. The Program should continue to work to ensure these and other solutions and tools continue to support implementation of the RAP.

We have also flagged with the Program that our assessment of Embed Milestones will include consideration of the design of measures to monitor and ensure changes brought about through the RAP are sustainable. We also plan to test the application of these measures before closing Recommendations.

Effective Program Risk and Assurance Oversight

As we have noted in Previous Reports, effective risk and assurance oversight is vital to providing comfort that the Program is delivering on its objectives in a sustainable way.

Central risk and assurance oversight has matured, particularly in the last two Reporting Periods.

As noted above, BU/SU CROs are primarily responsible for providing risk oversight of the Milestones being rolled out by Line 1 at the BU/SU level. BU/SU CROs have a significant role to play in driving sustainable implementation through the review and challenge process. It is therefore imperative that, in their oversight of BU/SU implementation, BU/SU CROs critically examine the sustainability and overall quality of Line 1 execution, and not just whether what has been done conforms to the Milestone design.

As also noted above, while the activities of BU/SU CROs deliver risk oversight over large parts of the Program, the current arrangements do not provide Line 2 oversight of (i) centrally designed and implemented Milestones, or (ii) Milestones implemented by Line 2.

Although it can be challenging to provide such oversight, this gap does have the potential to adversely affect the quality of Milestones delivered by the Program. The Program should therefore reflect on how it will gain comfort, without a Line 2 review, that centrally designed and implemented Milestones and Milestones implemented by Line 2 are being delivered to an acceptable standard and in a sustainable way.

Effective Program Governance

As discussed above, the approach to Program Governance was refined during the Reporting Period.

It is encouraging to see that several forums have been consolidated, simplifying Program governance arrangements. The revised approach to reviewing Program status, at both the Theme and BU/SU level, in certain governance fora is also a positive step.

The Program should remain vigilant in monitoring whether the revised governance approach remains effective. We expect the Program to continue to revise governance arrangements as and when necessary, in order to best support effective Program execution. This may prove necessary as devolution of Program activities into BU/SUs continues, and new forums emerge as important information sharing and decision-making vehicles.

An important component in supporting consistent implementation across the Group, is ensuring that the forums comprising the governance framework are effective in allowing those involved in execution to share experiences and develop common approaches.

The Program should also ensure it understands the impact that the reprioritisation of Milestones as a result of the Foundational Review may have on the timing of dependent Milestones. These effects should be actively monitored through the Implementation and Dependencies Forum, and any changes should be communicated to BU/SU CCOs in a timely manner to ensure that they are able to respond in a way that does not adversely affect the momentum of the Program.

2.4. Focus Areas

This section summarises the areas and actions identified in this Chapter on which CBA and the Program should focus moving forward. They are summarised in Table 2.1 below.

Table 2.1: Areas on which CBA Should Focus

Focus Area	Actions
Board and Executive Leadership Oversight and Sponsorship	<ul style="list-style-type: none"> (i) In considering their response to the Foundational Review the Board and the ELT should focus on ensuring the fundamental elements of an appropriate governance, culture and accountability framework can be delivered within the timeframes envisaged by the RAP. (ii) The level of Board and ELT oversight of, and communication of their active commitment to, the Program should continue. (iii) GE's should provide active support in underscoring the important role of the CRO's in ensuring the accuracy and quality of status reporting about implementation for their BU/SU.
Effective Project Management and Governance Disciplines	<ul style="list-style-type: none"> (i) CBA should work toward ensuring the central BROP team is empowered to drive the consistent and sustainable implementation of the RAP at the BU/SU level. (ii) The Program should work toward formalising responsibilities for monitoring overall implementation status and for addressing the issues and risks that inevitably arise. (iii) Within the parameters of the RAP revised to reflect the Foundational Review outcomes, the Program should continue to ensure the project execution and governance disciplines it has put in place are effective in delivering timely and effective outcomes. (iv) The Program should continue to invest in identifying tailored and disruptive ways of communicating the importance of the changes being made through the RAP, including through focusing on the positive risk and customer outcomes achieved by the Program to date. (v) The efficient and effective operation of the BDGF is critical to the success of the Program. The Program – and the central BROP team in particular – should work toward ensuring the following: <ul style="list-style-type: none"> • The consistency and rigour of BU/SU status reports; • CRO sign off on status reports is appropriately thorough and consistent across all BU/Sus; • Increased focus in meetings on the actions that should be taken to address the risks identified; and

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	<ul style="list-style-type: none"> Increased discussion on the how competing priorities affecting the implementation of the RAP at the BU/SU level are to be addressed. <p>(vi) The learnings from the PDMF in relation to the Implementation Plan should be socialised more broadly across the BU/SUs, and with others engaged in the Program.</p> <p>(vii) The central BROP team should work toward ensuring BU/SU CROs both have and understand their accountability for the accuracy and quality of status reporting for their BU/SU.</p>
Managing Dependencies and Competing Priorities	<p>(i) The Program should consider rolling out across the Group the types of dynamic resource prioritisation measures being developed in some BUs to manage competing priorities and their resource implications on an ongoing basis. The central BROP team should have an important oversight and co-ordinating role in this rollout.</p> <p>(ii) The Program should ensure it takes steps to confirm the impact of the reprioritisation of Milestones as a result of the Foundational Review may have on the timing of dependent Milestones. These impacts should be actively monitored through the PDMF and any changes should be communicated to BU/SU CCOs in a timely manner.</p>
Consistency, Simplicity and Sustainability	<p>(i) The Program should continue to ensure experiences can be shared across BU/SUs to reduce differences in both implementation and reporting of progress across the Group and so drive consistency.</p> <p>(ii) Consistency will be further supported by clear, unambiguous and focused communication and instructions to BU/SU's about the requirements and expectations of each Drop.</p> <p>(iii) In the interests of ensuring the sustainability of solutions developed through the Program, BU/SUs should comprehensively document the processes they are implementing to ensure that those who will be required to apply those processes have sufficient guidance.</p> <p>(iv) The Program should continue to work to ensure that new processes and approaches implemented under the RAP are supported by appropriate systems and technology.</p>
Assurance	<p>(i) The Program should reflect on how it will gain comfort, without Line 2 assurance, that (a) centrally implemented Milestones and (b) Milestones that are implemented by Line 2 are executed to a high level of quality and in a sustainable way.</p>
Resourcing	<p>(i) The Program should continue to further improve the quantification of the resourcing challenges and risks associated with implementation of the RAP</p> <p>(ii) The Program should give urgent consideration to how adequate skilled resources to successfully deliver the Program can be sourced, including through measures such as intensifying efforts to identify and upskill resources from Business Lines and other parts of CBA.</p> <p>(iii) The Program should work toward reducing the demand for resources by identifying synergies with other projects and programs.</p>

3. Board Governance Theme Milestones

The Board Governance Theme deals with the *Inquiry Report* Recommendations on Board governance.

The *Inquiry Report* found the degree of attention and priority afforded to the governance and management of NFRs at CBA had not been to the standard expected of a systemically important bank.

Significant shortcomings in governance of NFR were identified. The Board and its Committees had not demonstrated sufficient rigour and urgency in holding Management to account. There were significant gaps in reporting and metrics provided to the Board and its Committees, and heavy reliance on the authority of key individuals. Gaps in communication between Committees, overconfidence in the effectiveness of the Board and its Committees, and immature oversight of risk culture, were also observed. The *Inquiry Report* noted the new tone being set by the day-to-day actions of the refreshed Board and its Committees under the new Chair which, if maintained, would help to address many of the governance issues raised by the Inquiry.

The *Inquiry Report* recommended CBA make improvements to Board practices and processes, NFR information provided to the Board and its Committees, and the way Board Committees co-ordinate. It emphasised the need for the Board to promote a clear tone at the top.

CBA's response through the RAP is to make changes that will strengthen Board practices and co-ordination.

In particular, the RAP envisages the Board engaging with senior leaders and staff throughout the organisation in a more structured manner. It also envisages addressing gaps against global better practice for Boards and Committees, improving co-ordination between Board Committees, clarifying the delineation of roles and responsibilities between the Committees relating to oversight of NFR issues, improving BAC protocols, and improving the quality and consistency of NFR reporting.

3.1. Status of Board Governance Theme Milestones

Milestones for the Board Governance Theme Recommendations are on-track for completion by the due dates set out in the RAP.

Progress in the Board Governance Theme is set out in Table 3.1, and is discussed in more detail below.

During the Reporting Period:

- The Program submitted the Closure Pack for one Board Governance Theme Milestone (Milestone 4.3) to Promontory. The Closure Pack was submitted before the due date set out in the RAP.
- Promontory assessed three Board Governance Theme Milestones (Milestones 1.3, 2.1 and 5.1) as complete and effective. The Closure Packs for all Milestones were submitted in the Third Reporting Period.
- The Program was working on three other Implement and one other Embed Milestones for this Theme. Work had yet to start on four Embed Milestones.

At the Reporting Date, Promontory was assessing two Board Governance Theme Milestone (Milestones 1.2 and 3.3) and was yet to start its review of one other Milestone, the Closure Pack for which was submitted in late June (Milestones 4.3).

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Taking into account Milestones assessed as complete and effective in previous Reporting Periods, as at the Reporting Date, a total of nine of the 20 Board Governance Theme Milestones had been assessed as complete and effective.

Table 3.1: Progress on Board Governance Milestones




#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Progress
1	Board visibility	1.1 Implement	Increase Board engagement with Senior Management	Dec-18	
		1.2 Implement	Establish Board agenda item on NFR issues and quality of information	Mar-19	
		1.3 Implement	Amend ELT agenda to include discussion of Board information	Mar-19	
		1.4 Embed	Undertake an annual review on Board and Board Committees' performance	Dec-19	
2	Board better practice	2.1 Design	Compare the processes and practices of the Board to global better practice	Mar-19	
		2.2 Implement	Change processes and practices in line with Board approved recommendations	Oct-19	
		2.3 Implement	Update Board Corporate Governance Guidelines to require periodic review of practices	Dec-18	
		2.4 Embed	Assess whether the Board, BAC and Board Risk Committee (BRC) are aligned with better practice identified in Milestone 2.1	Dec-20	

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#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
3	Board co-ordination	3.1 Design	Amend the BAC Charter to provide for referral of relevant matters to the BRC	Oct-18	●
		3.2 Design	Review Board Committee Charters to consider appropriate cross-referral of matters	Oct-18	●
		3.3 Implement	Amend Board Committee agendas to include information sharing and issues referral	Mar-19	◐
		3.4 Implement	Establish Board Committee joint meeting to consider NFR matters related to executive performance and remuneration	Aug-19	◑
		3.5 Embed	Assess the effectiveness of co-ordination between the BRC, Board Remuneration Committee (RemCo) and BAC	Dec-20	○
4	Audit Committee	4.1 Design	BAC to set expectations on when BU/SU must present on material issues	Dec-18	●
		4.2 Design	Review, update and document the end-to-end internal audit practices in relation to issue management	Dec-18	●
		4.3 Implement	Amend internal audit process to include BU/SU issue owners appearing before BAC	Jun-19	◐
		4.4 Embed	BAC to arrange review of quality of internal audit process and whether BAC expectations on presentations by BU/SU accountable individual are being met	Dec-19	○

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
5	Board information	5.1 Design	Design Board reporting in relation to NFR	Feb-19	
		5.2 Implement	Commence revised operational risk, compliance and regulatory risk reporting to the Board and BRC	Oct-19 ¹⁶	
		5.3 Embed	Assess whether the Board and BRC received adequate NFR information	Dec-20	

3.2. Board Governance Theme Milestone Assessment Outcomes

3.2.1. Assessment of Recommendation 1 Milestone

The Target State for Recommendation 1 is that the Board continues to have a positive influence on the behaviours within the Group and is engaged and visible with Senior Management, and that Senior Leadership is clear about the behaviours and actions the Board expects of them.

a) Milestone 1.3

Milestone 1.3 (an Implement Milestone) requires the ELT agenda to be amended to include:

- feedback from Board and Committee meetings;
- key messages and any actions for Management from the Board and its Committees; and
- consideration of the draft Board agenda.

CBA has confirmed that matters arising from Board and Committee meetings are being communicated directly to ELT and the ELT's response and actions are being included in updates to the Board. CBA has also confirmed that the ELT forward agenda has been amended to include monthly 'Pre-Board Discussion' and 'Post-Board Discussion' agenda items.

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

- How the Pre-Board Discussion and Post-Board Discussion agenda items were reflected in agendas for and the actual conduct of ELT meetings (to confirm these discussions were routinely combined);
- Time allocated to these agenda items;

¹⁶ The due date for Milestone 5.2 was moved from September 2019 to October 2019 in line with the outcomes of the RAP Review described in our Third Report.

- Mechanisms in place to track and close out ELT actions in response to Board and Board Committee meetings; and
- How Board and Board Committees are informed of progress and the outcomes of these action items.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that the ELT agenda now allows for dedicated time for key messages from the Board and its Committees to be relayed, and consideration of draft Board agenda.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

3.2.2. Assessment of Recommendation 2 Milestone

The Target State for Recommendation 2 is that the processes and practices of the Board, and its BAC and BRC, are aligned with global better practice for risk management.

a) Milestone 2.1

Milestone 2.1 (a Design Milestone) requires CBA to engage an external party to determine relevant global better practice for risk management with respect to the processes and practices of the Board, the BAC and the BRC. Once determined, CBA is required to undertake a gap analysis and identify recommendations for consideration by the Board.

CBA has confirmed that an external party was engaged, among other efforts, to identify global better practices and provide high-level benchmarking of current practices in a range of areas, including the roles and responsibilities of the BAC and BRC, the role of Line 2 in reporting to the BRC on control assurances, the quality and frequency of audit and risk reporting to the Board, the BRC and the BAC and their interaction with Senior Management. A list of ten improvement opportunities set out in recommendations were identified and discussed by the Board in December 2018 and March 2019.

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

- The approach used to identify better practices and gaps – and whether and how the engagement of external parties addressed each of the matters listed in the Milestone;
- How interdependencies between Recommendation 2 and other Milestones which cover similar matters to this Milestone were being addressed; and
- The status of Board discussions in relation to each of the identified gaps.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that global better practices for risk management have been identified and documented, a gap analysis against identified better practice has been completed, and recommended changes to relevant Board, BAC and BRC processes and practices has been tabled at the Board for its approval.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

In finalising our assessment, we noted, however, that the Board was still discussing certain recommendations.

We foreshadowed, therefore, that our assessment of the Implement Milestone for this Recommendation will ask for an update on discussions the Board may have had on those recommendations.

We also foreshadowed that where the Board chooses not to address a gap and not implement the associated recommended change we will seek a statement from CBA explaining its decision.

3.2.3. Assessment of Recommendation 5 Milestone

The Target State for Recommendation 5 is for the Board to be able to understand, examine and identify issues associated with NFRs, including new and emerging risks. The Board will also receive granular information on CBA's position against its risk appetite so as to drive discussion and actions to manage NFR.

a) Milestone 5.1

Milestone 5.1 (a Design Milestone) requires the structure and content of operational risk, compliance and regulatory risk reports to be reviewed, and changes agreed by the Group CRO to be made, with a view to providing adequate reporting of NFRs to the Board and BRC. The reporting is to cover new and emerging risks, emerging regulatory risks, complaints data and analysis, granular metrics and information about significant control gaps and incidents.

CBA has confirmed a review of better practice in NFR reporting has been undertaken and that revised NFR reporting to the Board and BRC has been developed. The reporting covers new and emerging risks, complaints data, and significant control gaps and incidents. The Group CRO has approved the structure and content of the revised reporting. CBA has advised that the content of the revised reporting will continue to be tested and refined.

After reviewing Closure Packs for these Milestones, Promontory requested and received further information and interviewed relevant stakeholders about:

- The extent and nature of stakeholder consultation undertaken in developing the revised reporting;
- Whether and how CBA will ensure that the reports described in the Closure Pack will continue to be provided to the Board and BRC with the same frequency in future years;
- The staff responsible for determining the NFR information to be brought to the Board and BRC's attention;
- How CBA had addressed the opportunities identified in the review of better practice in relation to reporting formats (including the length and standardisation of reporting);
- The role of Line 1 in developing metrics and reporting; and
- How CBA has incorporated, and will incorporate, work done for other Milestones into revised reporting (particularly in relation to reporting on significant control gaps, emerging regulatory risks and new and emerging risks).

Based on our assessment of the Milestone Closure Packs, the additional information we received and the interviews we conducted, we concluded that the revised reporting provides a sound basis for the Board to understand, examine and identify issues arising across the categories of NFR.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

In finalising our assessment, we foreshadowed that our assessments of the Implement and Embed Milestones for this Recommendation will include consideration of how NFR reporting evolves, including the reporting of emerging risks and control gaps, and whether reporting provides a sound basis for the Board to understand and act on the information it receives.

4. Management Governance Theme Milestones

The Management Governance Theme deals with the *Inquiry Report* Recommendations on senior leadership oversight, the stature of the compliance function and regulatory engagement.

The *Inquiry Report* found that the Executive Committee had not been an effective vehicle for addressing Group-wide risks and issues. The Committee had no mandate to oversee the risk profile of the Group. Its dynamics did not encourage a sense of collective accountability for Group risk outcomes or constructive challenge of Committee members. CBA's compliance function had not been given sufficient recognition, stature or authority. In dealing with regulators, CBA was also seen to be defensive, reactive, perfunctory and slow to respond.

The *Inquiry Report* recommended that the Executive Committee embed collective accountability for management of the Group, mitigate the impact of risks that span BUs, elevate the stature of the compliance function, and establish an Executive-level Committee for oversight of NFRs (including emerging risks). It also recommended that CBA strengthen its dialogue and engagement with regulators and take a more pre-emptive approach to investment decisions in risk management.

CBA's response through the RAP is to elevate the stature of NFR, making it a top priority for the ELT. It includes establishing a new committee at the Executive level to oversee NFR with the Executive General Manager (EGM) Compliance as a member. Changes are also to be made to strengthen individual responsibility and accountability, improve governance, and encourage leaders to take a pre-emptive approach to risk management.

The RAP envisages measures to strengthen collective accountability and encourage greater challenge in the ELT. It also envisages refreshing CBA's regulatory engagement principles.

4.1. Status of Management Governance Theme Milestones

Milestones for the Management Governance Theme Recommendations are on-track for completion by the due dates set out in the RAP.

Progress in the Management Governance Theme is set out in Table 4.1, and is discussed in more detail below.

During the Reporting Period:

- The Program submitted the Closure Pack for one Management Governance Theme Milestone (Milestone 19.2) to Promontory. It was submitted before the due date set out in the RAP.
- Promontory assessed five Management Governance Theme Milestones (Milestones 6.2, 7.3, 7.4, 8.2 and 14.3) as complete and effective. The Closure Pack for all Milestones were submitted in the Third Reporting Period.
- The Program was working on six other Embed Milestones for this Theme.

At the Reporting Date, Promontory was yet to start its review of one Management Governance Theme Milestone, the Closure Pack for which was submitted in late June (Milestone 19.2).

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Taking into account Milestones assessed as complete and effective in previous Reporting Periods, as at the Reporting Date, a total of 12 of the 19 Management Governance Theme Milestones had been assessed as complete and effective.

Table 4.1: Progress on Management Governance Theme Milestones

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Progress
6	Collective accountability	6.1 Design	Develop Group Strategy scorecard that reflects shared accountabilities	Dec-18	●
		6.2 Implement	Board approves changes to GE scorecards/Key Performance Indicators (KPIs) to include shared priorities and accountability for RAP	Feb-19	●
		6.3 Embed	Interim and annual performance assessment of GEs completed, based on revised KPI structure with Group Strategy scorecard as key input	Sep-19	◐
7	Executive Committee	7.1 Design	Establish the ELT NFRC to consider risks that span the Group	Sep-18	●
		7.2 Design	Develop and communicate CEO expectations in relation to behaviours and interactions of the ELT	Oct-18	●
		7.3 Implement	ELT operating according to CEO's expectations	Mar-19	●
		7.4 Implement	ELT NFRC meetings are operating in accordance with Charter	Feb-19	●
		7.5 Embed	Engage external party to conduct a review of the behaviours and interactions of the ELT	Oct-19	◐
		7.6 Embed	Complete external assessment of ELT NFRC	Oct-19	◐

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
8	NFRC	8.1 Design	Establish the ELT NFRC with agenda, roles and responsibilities defined	Sep-18	
		8.2 Implement	ELT NFRC meetings are operating in accordance with Charter	Feb-19	
		8.3 Embed	Complete external assessment of ELT NFRC	Oct-19	
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	Sep-18	
		14.2 Implement	Provide EGM Compliance with access to Board and BRC and removal/appointment protocols	Sep-18	
		14.3 Implement	EGM Compliance attends ELT NFRC meetings	Feb-19	
		14.4 Embed	EGM Compliance attends Board and BRC meetings as required	Dec-19 ¹⁷	
19	Regulator engagement	19.1 Design	Define regulatory engagement target operating model	Dec-18	
		19.2 Implement	Target operating model for regulatory engagement in place	Jun-19	
		19.3 Embed	Demonstrate uplift in regulatory engagement through key interactions	Mar-20	

4.2. Management Governance Theme Milestone Assessment Outcomes

4.2.1. Assessment of Recommendation 6 Milestone

The Target State for Recommendation 6 is that each member of the ELT is held accountable and assessed against a set of shared priorities that have been approved by the CEO and the Board and are embedded in the

¹⁷ The due date for Milestone 14.4 was moved from June 2019 to December 2019 in line with a change request endorsed by Promontory in May.

Group's performance management framework. The Target State lists the shared priorities identified for the Group for FY19.

a) Milestone 6.2

Milestone 6.2 (an Implement Milestone) requires Board approval of proposed changes to the GE scorecard and KPIs for FY19 including (i) the appropriate mix of individual and shared priorities and (ii) giving significant weight to accountability for completing the items set out in the RAP. It also requires the Group Strategy Scorecard, including progress against the Group's shared priorities, to be discussed in GE one-on-ones and in ELT and Board discussions.

CBA has confirmed that the GE scorecard for FY19 has been amended to incorporate an appropriate mix of individual and shared priorities and has given significant weight (at least 30%) to accountability for completing items set out in the RAP. The RemCo approved these amendments in August 2018. Evidence of ELT and GE one-on-one discussions on progress towards shared priorities has also been provided.

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

- The thinking behind how the mix of individual and shared priorities reflected in the GE scorecard and KPIs embeds collective accountability for management of the Group;
- The parameters/mechanisms in place to ensure CEO and Board discretion when assessing GE KPIs adequately takes into account GE performance against the Group's shared priorities and whether there is documented guidance to support aspects of the assessment of these KPI's; and
- The topics the Board discussed regarding the Group's progress towards its shared priorities.

Based on our assessment of the Milestone Closure Packs, the additional information we received, and the interviews conducted, we concluded that CBA's amendments to the GE scorecard and KPIs provide a basis for the ELT being held accountable for and assessed against the Group's shared priorities.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

In finalising our assessment, we foreshadowed that our assessment of the Embed Milestone for this Recommendation will include consideration of:

- How, in practice, the scorecards are populated and used in the GE performance review process;
- How Group-level performance (e.g., against the Group's shared priorities) impacts GE scorecard KPIs;
- The consistency of remuneration decisions and transparency about the rationale for adjustments to and differences in GE remuneration outcomes; and
- Evidence of Board discussion around the Group's progress towards its shared priorities.

4.2.2. Assessment of Recommendation 7 and 8 Milestones

Recommendations 7 and 8 together address the operation of Executive-level Committees.

The Target State for Recommendation 7 is the ELT exhibiting a number of characteristics, including operating with collective accountability, exhibiting a culture of constructive challenge, encouraging diversity of thinking, support functions having an equal voice in deliberations and members having an understanding of the business beyond their individual roles.

The Target State for Recommendation 8 is that the establishment of a NFRC at the Executive level raises the visibility and stature of NFR, provides a central view for considering NFR issues across the Group and improves decision-making and consistency.

a) Milestone 7.3

Milestone 7.3 (an Implement Milestone) requires the ELT to operate according to the CEO's expectations in relation to behaviours and interactions of the ELT.

CBA has confirmed the conduct of an externally designed and facilitated 360-degree style survey of ELT members, with a focus on assessing the extent to which ELT members are collectively performing against the Target State characteristics. The survey identified areas for improvement. Results were discussed with the ELT at a meeting in February, during which the CEO provided his insights. A high-level action plan to address the improvements was endorsed by the ELT at a meeting in March.

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

- The design of the survey (including the potential assessments of individual behaviours);
- The selection of actions to address identified areas for improvement and how they address the Target State characteristics;
- What was communicated to ELT members; and
- Plans for the continuation of external observations of ELT meetings.

Based on our assessment of the Milestone Closure Pack, the additional information we received, and the interviews we conducted, we concluded that CBA has taken appropriate steps to assess whether the ELT is demonstrating the required characteristics, with plans in place to address any identified deficiencies.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

In finalising our assessment, we foreshadowed that our assessment of the Embed Milestone for this Recommendation will include consideration of the extent and quality of process and mechanisms to provide a more granular assessment of the Target State characteristics, and an assessment of the contribution and performance of individual ELT members in relation to these characteristics.

b) Milestone 7.4 and 8.2

Milestone 8.2 (an Implement Milestone) requires the ELT NFRC to operate in accordance with its Charter and forward agenda. Milestone 7.4 (an Implement Milestone) repeats and refers directly to Milestone 8.2. We assessed Milestone 7.4 and Milestone 8.2 together.

CBA has confirmed that the ELT NFRC has met on a monthly basis since June 2018 with members attending as required by the Charter and topics set out in the forward agenda being discussed. CBA has described improvements made to the operation of the ELT NFRC since that time (including improvements to the content and format of reporting to the Committee).

Promontory representatives attended ELT NFRC meetings on 22 March 2019 (chaired by the Group CRO) and 29 April 2019 (chaired by the CEO) as observers to witness the operation of the Committee and the behaviours of its members.

After reviewing the Closure Packs for these Milestones, the minutes of meetings of the Committee and reflecting on its observations of the two meetings its representatives attended, Promontory requested and received further information and interviewed relevant stakeholders about how the ELT NFRC is carrying out, or expects to carry out, the following responsibilities:

- Monitoring implementation of the Risk Management Approach (**RMA**) and overseeing the effectiveness of the NFR frameworks at a holistic level;
- Monitoring and reviewing the impact on the Group's reputation in respect of NFR;
- Overseeing the health of the Group's risk culture; and
- Reporting and escalation to the Board.

Based on our assessment of the Milestone Closure Packs, the additional information we received and insights from attendance at the ELT NFRC meetings, we concluded that CBA's ELT NFRC is operating generally in line with its Charter and forward agenda, and demonstrating the Target State attributes.

The ELT NFRC meetings Promontory attended demonstrated the Committee operating with a robust sense of collective accountability, diversity of views and constructive challenge, and with a strong knowledge of NFRs and each other's businesses. The voice of support functions was actively listened to. Risk function participants were providing appropriate and adequate challenge to Committee deliberations.

As such, we consider the Milestones to provide a sound basis for achieving the Target State and that they are, therefore, complete and effective.

In finalising our assessment, we foreshadowed that our assessment of the Embed Milestones for these Recommendations will include consideration of the following:

- The time allocated to discussion of individual papers;
- Clarity of reporting and escalation to the Board in terms of how the NFRC ensures the Board receives the appropriate level of detail in reporting;
- The extent of continued improvement in the content and format of reporting to the NFRC;

- The effectiveness of the operation of the ELT NFRC Policy Sub-Committee;
- The extent to which discussion of key matters and agreed approaches translates to documented actions; and
- The approach to monitoring progress, outcomes and accountabilities of those documented actions.

Our assessment also noted that Promontory may attend further ELT NFRC meetings in assessing Embed Milestone 8.3 (due in October 2019).

4.2.3. Assessment of Recommendation 14 Milestone

The Target State for Recommendation 14 is compliance matters receiving an increased level of consideration at the Board and ELT level which will be a factor in promoting better compliance risk management outcomes.

a) Milestone 14.3

Milestone 14.3 (an Implement Milestone) requires the ELT NFRC to operate in accordance with its Charter, including attendance and participation by the EGM Compliance at ELT NFRC meetings.

We assessed Milestone 14.3 in conjunction with our assessment of Milestones 7.4 and 8.2 (with comments in those assessments on the operation of the NFRC applying equally to this Milestone).

CBA has confirmed that the ELT NFRC has met on a monthly basis since June 2018. The EGM Compliance has attended these meetings as contemplated by the Charter. Compliance matters have been discussed at each meeting.

As noted above, Promontory representatives attended ELT NFRC meetings as observers on 22 March 2019 and 29 April 2019 to witness the operation of the Committee and the behaviours of its members (including the EGM Compliance).

Based on our assessment of the Milestone Closure Pack and insights from attendance at the ELT NFRC meeting, we concluded that CBA's ELT NFRC is operating generally in line with its Charter and forward agenda in relation to compliance matters.

The EGM Compliance was attending meetings and was seen to be an engaged participant at the meetings with evidence of challenge and effective participation. In particular, the EGM Compliance has:

- Presented and initiated discussion at each NFRC meeting;
- Actively engaged in discussions of the compliance implications of matters raised in BU/SU related agenda items; and
- Provided constructive challenge.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

5. Operating Model (3LoA) Theme Milestones

The Operating Model (3LoA) Theme deals with the *Inquiry Report* Recommendations on aspects of the operating model for NFR, in particular the three lines of defence model (described at CBA as three lines of accountability or 3LoA) and related issues.

The *Inquiry Report* found that CBA had not implemented the three lines of defence model effectively despite numerous attempts. The *Inquiry Report* also noted that BU CROs retained reporting lines to relevant GEs. It said CBA needed to ensure that this reporting line did not impede their independence.

The *Inquiry Report* recommended that CBA ensure its 3LoA principles are effectively embedded and subject to strict governance principles with BUs taking primary ownership of risk management. It also recommended that BU CROs have the necessary independence to provide effective challenge to the business.

CBA's response through the RAP is to generate a consistent understanding, ownership and governance of risks across the bank by adhering to 3LoA principles.

The RAP envisages establishing clear requirements on the roles of each line of defence, and strengthening the ability of Line 2 to provide challenge and assurance.

5.1. Status of Operating Model (3LoA) Theme Milestones

Milestones for the Operating Model (3LoA) Theme Recommendations are on-track for completion by the due dates set out in the RAP.

Progress in the Operating Model (3LoA) Theme is set out in Table 5.1, and is discussed in more detail below.









During the Reporting Period:

- Promontory assessed one Operating Model (3LoA) Milestone (Milestone 10.2) as complete and effective. The Closure Pack for this Milestone was submitted in the Third Reporting Period.
- The Program was working on one other Design, one other Implement and one other Embed Milestone for this Theme. Work had yet to start on one Embed Milestone.

At the Reporting Date, Promontory was assessing one Operating Model (3LoA) Theme Milestone (Milestone 9.2) submitted in late March. The Milestone requires BU/SUs to develop plans to realign Operational Risk and Compliance activities in accordance with the 3LoA Principles described in Milestone 9.1, and for these plans to be endorsed by the ELT. Discussions continue with CBA after our initial assessment and review of the plans.

Taking into account Milestones assessed as complete and effective in previous Reporting Periods, as at the Reporting Date, a total of three of the eight Operating Model (3LoA) Theme Milestones had been assessed as complete and effective.

Table 5.1: Progress on Operating Model (3LoA) Theme Milestones

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
9	3LoA	9.1 Design	Develop approach and tools to align OR&C activities with the 3LoA Principles	Sep-18	
		9.2 Design	Develop plans to align BU/SU OR&C activities to the 3LoA Principles	Mar-19	
		9.3 Design	Endorse plan to align to the 3LoA Principles of all risk types other than OR&C	Sep-19	
		9.4 Implement	Realign Lines 1 and 2 OR&C activity	Mar-20	
		9.5 Embed	Complete Line 3 assessment of Lines 1 and 2 to ensure they operate in accordance with the 3LoA Activities for OR&C	Dec-20	
10	CRO independence	10.1 Design	Clarify engagement protocol between BU CROs and BUs to maintain connectivity without compromising independence	Dec-18	
		10.2 Implement	Reinforce independence of BU CRO by amending reporting lines and KPIs	Feb-19	
		10.3 Embed	Complete Group CRO performance assessment of BU CROs ¹⁸	Oct-19	

5.2. Operating Model (3LoA) Theme Milestone Assessment Outcomes

5.2.1. Assessment of Recommendation 10 Milestone

The Target State for Recommendation 10 is that BU CROs are, and are perceived to be, independent from BUs, but continue to be well-connected to BUs to enable them to provide effective review and challenge.

a) Milestone 10.2

Milestone 10.2 (an Implement Milestone) requires all relevant artefacts to be amended to remove any suggestion that a dotted reporting Line exists between BU CROs and BU GEs.

¹⁸ Milestone description was changed to 'Complete Group CRO performance assessment of BU CROs' from 'Complete Group CRO performance review of BU CROs' in line with the outcomes of the RAP Review described in our Third Report.

BU CRO KPIs and position descriptions are also to be reviewed and updated, if needed, to confirm independence, with approval by the Group CRO.

CBA has confirmed that relevant artefacts (e.g., directory entries, organisation charts) have been updated to remove the dotted reporting line from BU CROs to BU GEs and senior leaders. BU CRO KPIs and position descriptions have also been updated to explicitly require BU CROs independence. BU CRO co-location with the business and attendance of the BU CRO at BU leadership meetings has also been confirmed. BU CRO Engagement Protocols setting out measures to reinforce CRO independence have also been documented.

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

- The arrangements in place to ensure adequate ongoing independence of a particular CRO, who provides Line 1 General Executive support for one Division and is the CRO for another line of business in another Division;
- The extent to which all organisational charts have been amended to remove any dotted lines that exist between BU CROs and BU GEs or senior leaders;
- The processes for reviewing BU organisational charts to ensure compliance with the CRO independence requirements;
- Whether the Group CRO had approved or endorsed the review and updated BU CRO KPIs and position descriptions as required by the Milestone closure criteria; and
- CBA's approach to formally communicating and confirming acceptance of the BU CRO Engagement Protocols (as developed under Milestone 10.1) to the BUs and BU CROs.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that CBA has taken the steps contemplated by the Milestone to ensure that CROs remain independent from the business while remaining sufficiently connected to BUs to enable them to provide effective review and challenge.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

In finalising our assessment, we foreshadowed our assessment of the Embed Milestone for this Recommendation will include consideration of whether each BU CRO has confirmed compliance with the BU CRO Engagement Protocols (as part of the required annual attestation), including that there is no dotted reporting line between the BU CRO and the BU GEs or senior leaders on organisational charts.

6. Risk Appetite, Taxonomy and Standards Theme Milestones

The Risk Appetite, Taxonomy and Standards Theme deals with *Inquiry Report* Recommendations on aspects of NFR management. These aspects include setting Risk Appetite Statement (**RAS**) limits, setting minimum standards for NFR management, assurance of BU/SU risk profiles, and identifying and managing emerging risks.

The *Inquiry Report* found that CBA's management of operational and compliance risks had been inadequate. It concluded that operational and compliance risk metrics in the Group RAS were under-represented relative to metrics for financial risks and that policies and frameworks for managing operational and compliance risks had been inconsistently implemented. It noted that operational risk and compliance functions had been reactive and had a heavy procedural bias that fostered a 'form over substance' approach to compliance risk management. The quality of Line 2 assurance across BUs had been variable.

The *Inquiry Report* recommended that CBA strengthen its management of operational and compliance risk. In doing so, it recommended that CBA develop granular metrics for limits relating to NFRs in the Group RAS, create and embed minimum standards for management of NFRs in policies across the Group, heighten Executive-level focus on emerging NFRs, and enhance the ability of Line 2 to fulfil its assurance responsibilities.

CBA's response through the RAP is to build employees' understanding of risk appetite, policies and procedures so that CBA can more proactively identify gaps and manage risks. Changes envisaged include standardising risk management tools across the bank, developing more common risk management language, and developing and monitoring more granular risk metrics to support the bank's risk appetite settings.

The RAP envisages defining and embedding a more robust framework for overseeing and monitoring NFR consistently across the Group.

6.1. Status of Risk Appetite, Taxonomy and Standards Theme Milestones

Milestones for the Risk Appetite, Taxonomy and Standards Theme Recommendations are on-track for completion by the due dates set out in the RAP.

Progress in the Risk Appetite, Taxonomy and Standards Theme is set out in Table 6.1, and is discussed in more detail below.

During the Reporting Period:

- The Program submitted Closure Packs for two Risk Appetite, Taxonomy and Standards Theme Milestones (Milestones 12a.6 and 12d.2) to Promontory. Both Closure Packs were submitted before the due dates set out in the RAP.
- Promontory assessed two Risk Appetite, Taxonomy and Standards Theme Milestones (Milestones 12a.5 and 12d.1) as complete and effective. The Closure Packs for these Milestone were submitted in the Third Reporting Period.

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- The Program was working on two other Implement and two other Embed Milestones for this Theme. Work had yet to start on two Embed Milestones.

At the Reporting Date, Promontory was assessing one Risk Appetite, Taxonomy and Standards Theme Milestone (Milestone 12a.6) and was yet to start its review of one other Milestone, the Closure Pack for which was submitted in late June (Milestone 12d.2).

Taking into account Milestones assessed as complete and effective in previous Reporting Periods, as at the Reporting Date, a total of eight of the 16 Risk Appetite, Taxonomy and Standards Theme Milestones had been assessed as complete and effective.










Table 6.1: Progress on Risk Appetite, Taxonomy and Standards Theme Milestones

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
12a	RAS limits	12a.1 Design	Board to define the OR&C types that are required to have granular metrics in the Group RAS	Aug-18	
		12a.2 Design	Define the high-level process, timeline and design principles for developing, cascading and monitoring Group-level granular metrics	Aug-18	
		12a.3 Design	Design granular metrics for inclusion in the Group RAS and cascading into the BU/SU	Oct-18	
		12a.4 Implement	Update the Group RAS to incorporate granular metrics for OR&C types	Nov-18	
		12a.5 Implement	Cascade the Group RAS metrics, triggers and limits into BU/SUs RASs	Mar-19	
		12a.6 Embed	Hold enhanced discussion at ELT NFRC and BRC on risk profile versus risk appetite	May-19	
		12a.7 Embed	BU/SU RASs include metrics for locally material OR&C	Dec-19	

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#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
12b	NFR minimum standards	12b.1 Design	Define criteria for minimum standards in relation to NFR	Dec-18	
		12b.2 Implement	Define minimum standards for prioritised risk types	Sep-19 ¹⁹	
		12b.3 Embed	Embed minimum standard for first wave of prioritised risk types with reporting to ELT NFRC and BRC on progress and non-compliance	May-20	
12c	Emerging risks	12c.1 Design	Dedicate time to consider emerging risks at the ELT NFRC	Dec-18	
		12c.2 Implement	Discuss emerging risks at ELT NFRC	Nov-19	
		12c.3 Embed	ELT NFRC holds high quality discussion on emerging risks and receives effective reporting on risks from BU/SU forums	Jun-20	
12d	Line 2 assurance	12d.1 Design	Define the Line 2 Assurance/Monitoring Program for OR&C	Dec-18	
		12d.2 Implement	Assurance/Monitoring Program for OR&C implemented	Jun-19	
		12d.3 Embed	Complete Line 3 assessment of Line 2 Assurance/Monitoring Program	Aug-20 ²⁰	

¹⁹ The due date for Milestone 12b.2 was moved from May 2019 to September 2019 in line with the outcomes of the RAP Review described in our Third Report.

²⁰ The due date for Milestone 12d.3 was moved from April 2020 to August 2020 in line with the outcomes of the RAP Review described in our Third Report.

6.2. Risk Appetite, Taxonomy and Standards Theme Milestone Assessment Outcomes

6.2.1. Assessment of Recommendation 12a Milestone

The Target State for Recommendation 12a is that CBA's Group RAS contains granular limits and triggers for OR&C types that (i) establish clarity on the Board's appetite for OR&C, (ii) provide for monitoring that gives greater transparency over the risk profiles for those risk types, and (iii) enables the Group to make pre-emptive risk decisions.

a) Milestone 12a.5

Milestone 12a.5 (an Implement Milestone) requires CBA to cascade the limits and triggers for new Group RAS OR&C metrics into BU/SU RASs and that these new metrics are communicated to accountable executives to ensure awareness.

CBA has confirmed that new Group RAS OR&C metrics, including limits and triggers, have been cascaded in whole, or in part, into existing BU/SU RASs and has described the process for determining the metrics to be cascaded. The metrics are those that were developed under Milestone 12a.4 and approved by the BRC in November 2018.

An approach has been articulated to ensure the new Group RAS OR&C metrics are cascaded to those BU/SU RASs which are currently under development or, due to recent organisational changes within the Group, have not yet fully integrated the updated metrics into their RAS.

The new OR&C RAS metrics have been cascaded to accountable executives through (i) tabling the updated BU/SU RASs at the BU/SU-level ELT NFRCs for noting and awareness, and/or (ii) obtaining individual approval of the updates by the appropriate GE or senior leader.

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

- The approach to monitoring Group RAS OR&C metrics for (i) lines of business where the new Group RAS OR&C metrics have yet to be fully cascaded, and (ii) the BU/SUs which do not currently have a BU/SU-level RAS in place;
- The status of cascading Group RAS OR&C metrics to BU/SU RASs currently under development;
- Examples of how the new Group RAS OR&C metrics were communicated to accountable executives to ensure awareness; and
- The decision to remove residual risk metrics from the Group RAS, and whether there has been communication to the BU/SUs about the importance of residual risk ratings.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that CBA has taken appropriate steps to update BU/SU RASs to include Group RAS OR&C metrics. These updates provide a basis for greater transparency over the Group's risk profile and enable the Group to make pre-emptive risk decisions.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

In finalising our assessment, we foreshadowed that our assessment of the Embed Milestones for this Recommendation will include consideration of whether and how cascaded Group RAS OR&C metrics have been included in (i) BU/SU RASs under development or under consideration for future development, and (ii) existing RASs where the Group RAS OR&C inclusion had not been finalised at the time of our assessment of this Milestone.

6.2.2. Assessment of Recommendation 12d Milestone

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

a) Milestone 12d.1

Milestone 12d.1 (a Design Milestone) requires CBA to define its Line 2 Assurance Program and align it with the prioritised risk types. The Milestone sets out detail about the content of the Program and how it is to be developed and designed. The Program is to articulate the methodology, supporting materials, a schedule of planned activities and the capability and capacity uplift required.

CBA has confirmed a Line 2 Assurance Standard has been developed setting out accountabilities, the approach to developing a Line 2 assurance plan, the types of assurance activities, and the process for confirming and reporting assurance outcomes. Prioritised risk types have been identified and the current BU/SU assurance plans aggregated to form a Line 2 Assurance Plan for FY19. The Line 2 Assurance Program was presented and noted by the ELT NFR Committee and approved by the Group CRO.

After reviewing Closure Packs for these Milestones, Promontory requested and received further information and interviewed relevant stakeholders about:

- The process to determine the prioritised risk types;
- Aspects of the approach to developing the Line 2 Assurance Plan for FY19 in light of the finalised Line 2 Assurance Standard; and
- The approach to CBA's capability and capacity uplift plan.

Based on our assessment of the Milestone Closure Packs, the additional information we received and the interviews we conducted, we concluded that the Line 2 Assurance Standard and supporting documents provide a sound basis for developing assurance plans, executing assurance reviews, documenting outcomes and reporting the results.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

In finalising our assessment, we foreshadowed that our assessments of the Implement and Embed Milestones for this Recommendation will include consideration of how the Line 2 Assurance Standard has been applied in

developing CBA's FY20 Line 2 Assurance Plans, the information documented and considered when planning for each Line 2 assurance review, and the level of reliance placed on Line 1 assurance activities.

7. Accountability and Controls Delivery Theme Milestones

The Accountability and Controls Delivery Theme deals with *Inquiry Report* Recommendations on the Group's control environment, the conduct of root cause analysis, and the resolution of significant and outstanding issues.

The *Inquiry Report* found shortcomings in CBA's handling of issues escalated from staff, customers and regulators. CBA had difficulty identifying broad systemic issues in its business and resolving identified issues as a result of organisational complacency, low senior-level oversight, and weak project execution capabilities. In addition, the *Inquiry Report* noted significant scope for improvement in CBA's control environment.

The *Inquiry Report* recommended that the CBA Board and Executive Leadership improve their processes for monitoring issues, and end tolerance for untimely and ineffective resolution of significant, outstanding matters of concern. It also recommended that CBA ensure its control environment is robust, reflecting effective control design and testing, and that root causes of issues are addressed in a timely and effective manner.

CBA's response through the RAP centres on improving the processes used to manage risk, and the environment in which that risk is managed.

In particular, the RAP envisages refreshing CBA's risk profiles so they are comprehensive and consistent, assessing current risk controls and improving them where necessary. It also envisages enhancing root cause analysis and implementing a number of measures to ensure timely and effective resolution of outstanding issues.

7.1. Status of Accountability and Controls Delivery Theme Milestones

Milestones for the Accountability and Controls Delivery Theme Recommendations are on-track for completion by the due dates set out in the RAP.

Progress in the Accountability and Controls Delivery Theme is set out in Table 7.1, and is discussed in more detail below.

No Milestones for this Theme were due for submission during the Reporting Period.

During the Reporting Period, the Program was working on three Implement Milestones for this Theme. Work had not begun on any of the three Embed Milestones for this Theme.

At the Reporting Date, Promontory was assessing one Accountability and Controls Delivery Theme Milestone (Milestone 12e.2). The Closure Pack for this Milestone was submitted in the Third Reporting Period.

Taking into account Milestones assessed as complete and effective in previous Reporting Periods, as at the Reporting Date, a total of three of the 10 Accountability and Controls Delivery Theme Milestones had been assessed as complete and effective.

Table 7.1: Progress on Accountability and Controls Delivery Theme Milestones

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
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	Dec-18	●
		12e.2 Implement	Establish an initial baseline understanding of material risks and controls for each BU/SU	Mar-19	◐
		12e.3 Implement	Complete prioritised risk and control reviews for each BU/SU	Nov-19	◐
		12e.4 Embed	Evidence of uplift in risk and control environment provided by each BU and Group standards fully operationalised	Jun-20	○
12f	Root causes	12f.1 Design	Define root cause analysis as part of the Issues Management Standard	Dec-18	●
		12f.2 Implement	Implement root cause analysis as part of the Issues Management Standard	Dec-19	◐
		12f.3 Embed	Root cause analysis completed for all issues prescribed in the Issues Management Standard	Mar-20	○
16	Issue management	16.1 Design	Design the Issues Management Standard	Dec-18	●
		16.2 Implement	Roll out updated Issues Management Standard to each BU/SU	Dec-19	◐
		16.3 Embed	BU/SUs manage all issues in line with Issues Management Standard	Mar-20	○

8. Customer Outcomes Theme Milestones

The Customer Outcomes Theme deals with *Inquiry Report* Recommendations on conduct risk, customer complaints reporting, identifying systemic issues, and championing the 'should we' question.

The *Inquiry Report* found that CBA had, in the past, applied a narrow definition of conduct risk which focused primarily on risk arising through the design and distribution of CBA's products. The Report also found that CBA had difficulty identifying broad, systemic issues in its businesses, including linking sources of risk data across the institution and analysis of customer complaints. The CBA Board did not receive any metrics or analysis of customer complaints and reporting to the Executive Committee did not emphasise severe customer complaints. The Report found that there were examples of decisions being made in which financial objectives were implicitly prioritised over the 'customer voice'.

The *Inquiry Report* recommended that CBA review its conduct risk profile in BUs, incorporate the findings into its Conduct Risk Strategy and ensure that conduct risk is fully considered in decision-making processes. The Report also recommended that CBA report on customer complaints to the Board and Executive Leadership, and prioritise investment in the identification of systemic issues from customer complaints. The Report recommended that Leadership champion the 'should we' question.

CBA's response through the RAP is to put in place changes that will make dealing with CBA simpler and fairer for customers, particularly when things have gone wrong.

In particular, the RAP envisages changes being made to improve the way customer complaints are reported, and systemic issues are identified and fixed. It also envisages embedding the 'should we' question as part of key decision-making processes and actions so there is a clearer focus on ensuring good customer outcomes across the organisation.

8.1. Status of Customer Outcomes Theme Milestones

Milestones for the Customer Outcomes Theme Recommendations are on-track for completion by the due dates set out in the RAP.

Progress in the Customer Outcomes Theme is set out in Table 8.1, and is discussed in more detail below.

During the Reporting Period:

- The Program submitted the Closure Packs for one Customer Outcomes Theme Milestone (Milestone 21.1) to Promontory. The Closure Pack was submitted before the due date set out in the RAP.
- Promontory assessed three Customer Outcomes Theme Milestones (Milestones 15.3, 17.1 and 18.1) as complete and effective. The Closure Pack for all Milestones were submitted in the Third Reporting Period.
- The Program was working on three other Implement Milestones for this Theme. Work had yet to start on one Implement Milestone. Work had not begun on any of the four Embed Milestones for this Theme.

At the Reporting Date, Promontory was yet to start its review of one Customer Outcomes Theme Milestone, the Closure Pack for which was submitted in late June (Milestone 21.1).

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Taking into account Milestones assessed as complete and effective in previous Reporting Periods, as at the Reporting Date, a total of six of the 15 Customer Outcomes Theme Milestones had been assessed as complete and effective.

Table 8.1: Progress on Customer Outcomes Theme Milestones

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Status
15	Conduct Risk Strategy	15.1 Design	Develop and CEO communicate 'Values expectations'	Aug-18	●
		15.2a Design	Develop the Code of Conduct, and accompanying roll-out plan	Oct-18	●
		15.2b Design	Ensure the conduct components of Group RMA and RAS support improvement in conduct risk management	Dec-18	●
		15.3 Implement	Code of Conduct rolled out, including communication and training	Mar-19	●
		15.4 Implement	Implement Conduct Risk Strategy across the Group	Dec-19	◐
		15.5 Embed	Conduct Risk Strategy embedded across the Group	Dec-20	○
17	Customer complaints	17.1 Design	Design the complaints reporting standard and define supporting data and system requirements	Dec-18	●
		17.2 Implement	Review complaints reports at ELT NFRC, BRC and BU/SU Risk Committees	Oct-19 ²¹	◐
		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	Feb-20 ²²	○

²¹ The due date for Milestone 17.2 was moved from June 2019 to October 2019 in line with the outcomes of the RAP Review described in our Third Report.

²² The due date for Milestone 17.3 was moved from September 2019 to February 2020 in line with the outcomes of the RAP Review described in our Third Report.

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
18	Systemic issues	18.1 Design	Develop the criteria and plan to enhance systemic issues identification and reporting	Dec-18	
		18.2 Implement	Review systemic issues reports at ELT NFR, BRC and BU/SU Risk Committees	Oct-19 ²³	
		18.3 Embed	Regular reporting to ELT NFRC and BRC on systemic issues	Feb-20 ²⁴	
21	'Should we'	21.1 Design	Incorporate customer outcomes into key Group policies	Jun-19	
		21.2 Implement	BU/SUs operate in accordance with new key Group policies ²⁵	Jun-20 ²⁶	
		21.3 Embed	Apply key Group policies related in governance forums	Dec-20 ²⁷	

8.2. Customer Outcomes Milestone Theme Assessment Outcomes

8.2.1. Assessment of Recommendation 15 Milestone

The Target State for Recommendation 15 is that consideration of conduct is fully embedded across CBA, including in key decision-making processes, risk profile reviews and employee life-cycle management. This includes the Group's RMA setting out clear principles on conduct, and being supported by a well-communicated and well-understood Code of Conduct. It also includes the Group RAS providing clear metrics and qualitative statements that define CBA's appetite with respect to conduct risk.

²³ The due date for Milestone 18.2 was moved from June 2019 to October 2019 in line with the outcomes of the RAP Review described in our Third Report.

²⁴ The due date for Milestone 18.3 was moved from September 2019 to February 2020 in line with the outcomes of the RAP Review described in our Third Report.

²⁵ Milestone description was changed from 'BU/SUs implement changes required as a result of changes to key Group policies' in line with the outcomes of the RAP Review described in our Third Report.

²⁶ The due date for Milestone 21.2 was moved from December 2019 to June 2020 in line with the outcomes of the RAP Review described in our Third Report.

²⁷ The due date for Milestone 21.3 was moved from June 2020 to December 2020 in line with the outcomes of the RAP Review described in our Third Report.

a) Milestone 15.3

Milestone 15.3 (an Implement Milestone) requires the Code of Conduct to be rolled out across the Group. The rollout should be informed by a review of the implementation of the Values Expectations.

CBA has confirmed an assessment of the Values Expectations implementation has been conducted and the planned rollout of the Code altered in line with the findings of that assessment. The CEO launched the Code in September 2018, and GEs followed up the launch with communications to their BU/SUs. Training on the Code, including an online module and leader-led training, has also been rolled out.

After reviewing Closure Packs for these Milestones, Promontory requested and received further information about:

- the detail of progress on certain aspects of the Communication and Implementation Plans provided to us in the Closure Pack for Milestone 15.2a; and
- mechanisms in place to ensure new starters are trained in the Code and modules are updated and completed annually.

Based on our assessment of the Milestone Closure Pack, and the additional information we received, we concluded that the Code has been effectively communicated to staff, and they have been trained in its use.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

8.2.2. Assessment of Recommendation 17 Milestone

The Target State for Recommendation 17 is the ELT and Board elevating the focus on customer complaints²⁸, regular reporting to the NFRC and BRC presented by accountable executives with a strong focus on effective and timely resolution of prioritised customer issues. BU/SUs respond to complaints and take action in a timely manner. Insights from complaints inform key decisions related to the customer.

a) Milestone 17.1

Milestone 17.1 (a Design Milestone) requires the design of a complaints reporting standard, which leverages better practice and is incorporated into the ELT NFRC Charter, Board reporting and BU/SU reporting. The reporting should include an analysis of trends in customer complaints, systemic issues and prioritised customer complaints. CBA should also outline and document how complaints data will be fed into decision making forums.

CBA has confirmed templates reporting customer complaints to the ELT NFRC and BRC have been developed and incorporate findings of a review of better practice. The templates include trends observed in customer complaints, additional customer metrics, systemic issues observed in customer complaints and prioritised customer complaints. Requirements for data, analytics, and systems requirements to support the reporting have been developed and endorsed by the ELT NFRC.

²⁸ The Target State for Recommendation 17 has been changed to 'the ELT and Board elevating the focus on customer complaints' from 'the ELT and Board elevating the focus on customer complaints through a clear standard' in line with the outcomes of the RAP Review described in our Third Report.

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

- the layout and content of the templates;
- how some aspects of better practice had been integrated into the design of the templates;
- whether accountable executives would present reporting on customer complaints;
- data, analytics and system requirements; and
- how CBA will ensure that complaints insights flow through to various decision-making forums.

We also queried whether complaints made to certain in-scope entities were included in the templates.

After Promontory's review, CBA undertook to add a footnote to the templates describing which CBA entities are included in the reported figures. CBA also undertook to conduct a review of in-scope entities and take steps to include complaints made to any omitted entities in reporting to the NFRC and BRC.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that complaints-reporting templates for the NFRC and BRC take into account better practice and provide a sound basis for ensuring the timely and effective resolution of complaints have been designed.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

In finalising our assessment, we foreshadowed that our assessments of the Implement and Embed Milestones for this Recommendation will consider the process for incorporating omitted entities, if any, into complaints reporting, and how the CBA entities that are included in the reporting is noted.

8.2.3. Assessment of Recommendation 18 Milestone

The Target State for Recommendation 18 is to deliver improvements in the identification of systemic customer issues, and to implement system improvements that increase the use of data and analytics in driving insights on systemic issues.

a) Milestone 18.1

Milestone 18.1 (a Design Milestone) requires CBA to develop a plan, which takes into account better practice, to enhance systemic issues identification and reporting, and outline how systemic issues insight will be used to inform decision making.

CBA has reviewed better practice and developed a plan to enhance systemic issues identification based on its findings. The plan includes data, analytics, system and investment requirements.

After reviewing the Closure Pack for this Milestone, Promontory requested and received further information and interviewed relevant stakeholders about the definition of 'systemic issues', details of the three models that CBA designed to identify systemic issues, evidence to support whether the models can identify systemic issues at product, business line and geography level, and the quality of input data.

Based on our assessment of the Milestone Closure Packs, the additional information we received and the interviews we conducted, we concluded the plan to enhance systemic issue identification and reporting considers better practice and provides a sound basis for supporting accountable executives taking early action on systemic issues.

As such, we consider the Milestones to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

9. Culture, Capability and Consequences Theme Milestones

The Culture, Capability and Consequences Theme deals with *Inquiry Report* Recommendations on culture, the resourcing and capability of the NFR function, accountability and remuneration.

The *Inquiry Report* identified a set of cultural themes that had inhibited sound risk management in CBA, including widespread complacency, reactivity rather than pre-emption regarding risk, not fully 'walking the talk' when it came to risk management, and over-reliance on good intent.

The *Inquiry Report* found inadequate resourcing and a lack of capability in CBA's operational and compliance risk management functions. It also found that a lack of accountability had been a common theme underlying several of the issues observed in the Inquiry. Further, the Report observed significant weaknesses in the implementation and broader oversight of the remuneration process in CBA, particularly in adjusting remuneration as a result of poor risk and customer outcomes.

On **culture**, the *Inquiry Report* recommended that CBA take a holistic approach to ensuring a robust and healthy risk culture. It made four recommendations focused primarily on the role of leaders in driving cultural change.

On **capability**, the *Inquiry Report* recommended that CBA build up the capabilities and subject matter expertise of operational and compliance risk staff.

On **accountability**, the *Inquiry Report* recommended building on the foundation established by the Banking Executive Accountability Regime (**BEAR**) by incorporating a set of Accountability Principles set out in the Report. The Principles are intended to place the onus for individual and collective accountability on the CEO and GEs.

On **remuneration**, the *Inquiry Report* recommended that CBA introduce changes to its remuneration framework and to the governance and effective application of that framework.

CBA's response through the RAP is to create a culture that recognises the importance of sound operational and compliance risk management, to build the capability of employees to manage these risks, and to deliver consequences for employees whose actions lead to poor outcomes for customers.

In particular, the RAP envisages extensive measures to uplift CBA's risk culture driven by its leaders, measures to uplift the resourcing and capability of its NFR management functions, incorporating and cascading the Accountability Principles through the organisation, and changing the content, governance and application of its remuneration framework.

9.1. Status of Culture, Capability and Consequences Theme Milestones

Milestones for the Culture, Capability and Consequences Theme Recommendations are on-track for completion by the due dates set out in the RAP.

Progress in the Culture, Capability and Consequences Theme is set out in Table 9.1, and is discussed in more detail below.

During the Reporting Period:

- The Program submitted the Closure Pack for one Culture, Capability and Consequences Theme Milestone (Milestone 26.2) to Promontory. The Closure Pack was submitted before the due date set out in the RAP.
- Promontory assessed nine Culture, Capability and Consequences Theme Milestones (Milestones 13.1, 23.1, 24c.1, 25a.1, 25b.1, 27.1, 28.1, 29.1 and 30.1) as complete and effective. The Closure Pack for all Milestones were submitted in the Third Reporting Period.
- The Program was working on one other Design, 12 other Implement and two other Embed Milestones for this Theme. Work had yet to start on 12 Embed Milestones.

At the Reporting Date, Promontory was yet to start its review of one Culture, Capability and Consequences Theme Milestone, the Closure Pack for which was submitted in late June (Milestone 26.2).

Taking into account Milestones assessed as complete and effective in previous Reporting Periods, as at the Reporting Date, a total of 15 of the 43 Culture, Capability and Consequences Theme Milestones had been assessed as complete and effective.

Table 9.1: Progress on Culture, Capability and Consequences Theme Milestones

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
13	Resourcing	13.1 Design	Design the risk capability uplift plan	Mar-19	●
		13.2 Implement	Implement training, recruitment and retention capability uplift	Mar-20	◐
		13.3 Embed	Refresh of risk capability plans presented to ELT NFRC and targeted plans for the year developed	Feb-21	○

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#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
22	Accountability Principles	22.1 Design	Design plans to incorporate and communicate APRA's Accountability Principles into existing accountability frameworks and processes	Dec-18	●
		22.2 Implement	Implement Accountability Principles via BEAR requirements, existing accountability frameworks and staff communication	Oct-19 ²⁹	◐
		22.3 Embed	Accountability consequences are reflected in key individuals' performance reviews and the remunerations and consequences outcomes for FY20	Oct-20 ³⁰	○
23	Board governance of remuneration	23.1 Design	Develop plans for enhanced Board governance and processes for remuneration	Mar-19	●
		23.2 Implement	Implement enhanced governance processes including increased reporting and review	Dec-19 ³¹	◐
		23.3 Embed	Board RemCo exercises stronger governance on CEO and GE remuneration outcomes	Oct-20	○
24a	CRO assessment	24a.1 Design	Enhance the CRO assessment of CEO and GE risk scorecards	Jun-18	●
		24a.2 Implement	Finalise enhanced CRO assessment of CEO and GE performance	Aug-18	●
		24a.3 Embed	The Board uses further enhanced CRO assessment in determining appropriate CEO and GE remuneration outcomes	Aug-19	◐

²⁹ The due date for Milestone 22.2 was moved from August 2019 to October 2019 in line with the outcomes of the RAP Review described in our Third Report.










³⁰ The due date for Milestone 22.3 was moved from August 2020 to October 2020 in line with the outcomes of the RAP Review described in our Third Report.

³¹ The due date for Milestone 23.2 was moved from August 2019 to December 2019 in line with the outcomes of the RAP Review described in our Third Report.

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#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
24b	Analytics and reporting	24b.1 Design	Develop plan for enhanced analytics and reporting on remuneration outcomes to be provided to the RemCo	Jul-19	
		24b.2 Implement	Improve analytics and reporting provided to Board	Dec-19 ³²	
		24b.3 Embed	Management provides analytics and reporting in line with Target State requirements	Feb-21	
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	Mar-19	
		24c.2 Implement	Co-ordination between BRC, BAC and RemCo and referral of key matters to and sharing of information with RemCo	Oct-19	
		24c.3 Embed	Annual remuneration review and allocation of Short-Term Variable Remuneration (STVR) payments under the new STVR model	Dec-20	
25a	Board guidance on risk adjustments	25a.1 Design	Strengthen guidance to Management on the Board's expectations for risk adjustments to remuneration outcomes	Mar-19	
		25a.2 Implement	Incorporate strengthened Board guidance into FY19 remuneration reviews	Aug-19	
		25a.3 Embed	FY19 remunerations outcomes across all staff reflect Board guidance	Dec-19 ³³	

³² The due date for Milestone 24b.2 was moved from October 2019 to December 2019 in line with the outcomes of the RAP Review described in our Third Report.

³³ The due date for Milestone 25a.3 was moved from October 2019 to December 2019 in line with the outcomes of the RAP Review described in our Third Report.

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#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
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	Mar-19	●
		25b.2 Implement	New process in place to strengthen the role of the risk function in FY19 remuneration reviews	Aug-19	◐
		25b.3 Embed	FY19 remuneration outcomes across all staff analysed and reflect robust applications of the risk modifier	Dec-19 ³⁴	○
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	Oct-18	●
		25c.2 Implement	Communicate good and poor FY18 risk outcomes with the organisation	Nov-18	●
		25c.3 Embed	FY19 risk and remuneration outcomes exhibit appropriate aggregation and anonymisation, and communications approach revised	Nov-19	◐
26	Remuneration framework review	26.1 Implement	Implement upside remuneration facility for positive risk assessment	Oct-18	●
		26.2 Design	Review the Group Remuneration Policy, informed by better global practices	Jun-19	◐
		26.3 Implement	Reflect enhancements in FY19 remuneration outcomes	Jun-20	◐
		26.4 Embed	FY20 remuneration outcomes reviewed by RemCo and shown through analysis to be consistent with the fully updated remuneration frameworks and policies	Nov-20 ³⁵	○

³⁴ The due date for Milestone 25b.3 was moved from October 2019 to December 2019 in line with the outcomes of the RAP Review described in our Third Report.




³⁵ The due date for Milestone 26.4 was moved from October 2020 to November 2020 in line with the outcomes of the RAP Review described in our Third Report.

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#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
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	Mar-19	●
		27.2 Implement	Implement targeted interventions on senior leader capability, leadership diagnostics and performance assessment	Mar-20	◐
		27.3 Embed	Conduct annual risk culture reassessment and refresh of the targeted initiatives to reinforce senior leadership challenge	Feb-21	○
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	Mar-19	●
		28.2 Implement	Implement targeted interventions and annual re-assessment of leader led training and senior leader communications	Mar-20	◐
		28.3 Embed	Conduct annual risk culture reassessment and refresh of the targeted initiatives to cascade good risk management	Feb-21	○
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	Mar-19	●
		29.2 Implement	Implement targeted interventions including Lines 1 and 2 engagement forums and career pathways	Mar-20	◐
		29.3 Embed	Conduct annual risk culture reassessment and refresh of the targeted initiatives to ensure effective working relationship between BUs and Risk	Feb-21	○

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
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	Mar-19	
		30.2 Implement	Implement targeted interventions including communications, recognition, values performance assessment and HR processes	Mar-20	
		30.3 Embed	Conduct annual risk culture reassessment and refresh the targeted initiatives to shift staff mindsets and behaviours	Feb-21	

9.2. Culture, Capability and Consequences Theme Milestone Assessment Outcomes

9.2.1. Assessment of Recommendation 13 Milestone

The Target State for Recommendation 13 is for CBA to have an adequate number of OR&C risk professionals, as defined by the target 3LoA operating model, with the right skill sets to support effective NFR management.

a) Milestone 13.1

Milestone 13.1 (a Design Milestone) requires CBA to design a risk capability uplift plan which includes a skills gap analysis covering all existing OR&C staff, develop a holistic training program to address identified gaps in skills and expertise, develop a work force recruitment plan and a retention strategy.

CBA has confirmed that the ELT has endorsed an OR&C capability assessment to baseline current capability, measure capability uplift over time and provide employees and managers insights into employee development. The ELT has also endorsed a plan to uplift capabilities through a 'Build, Buy and Retain' strategy to ensure that Line 1 Controls Office and Line 2 OR&C professionals develop the necessary skills and expertise. The strategy includes the development of a capability framework, a learning and development strategy, a talent acquisition strategy and an employee value proposition to attract potential internal and external OR&C professionals to CBA as an employer of choice. CBA has also confirmed the impact and effectiveness of its initiatives will be monitored with a view to continuous improvement.

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

- How the rollout of the strategy aligns to delivering the RAP in the face of the current regulatory demands CBA is being required to address;
- How the Capability Assessment and the supporting communication, governance and reporting mechanisms will be conducted; and
- Further detail on training programs, talent acquisition and retention strategies.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that CBA has plans to ensure it has an adequate number of OR&C risk professionals with the right skill sets to support effective NFR management.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

In finalising our assessment, we foreshadowed that our assessments of the Implement and Embed Milestones for this Recommendation will include consideration of the following:

- The actions taken by CBA in response to the results of the assessment to determine the capabilities CBA will require of OR&C professionals in the longer term; and
- The extent to which CBA has considered outcomes from Recommendation 9 (e.g., in relation to workforce planning) in its design and implementation of initiatives under Recommendation 13.

9.2.2. Assessment of Recommendation 23 Milestone

The Target State for Recommendation 23 is for the RemCo to have the visibility, knowledge and expertise to challenge the Group and Executive remuneration process and its outcomes and to ensure it makes appropriate remuneration adjustments in discharging its responsibilities (including assessing each GE's performance and effectiveness in managing risk).

a) Milestone 23.1

Milestone 23.1 (a Design Milestone) requires the Board to review its governance of remuneration frameworks and processes, including making enhancements to Board Committee coordination, Board guidance on expectations for risk adjustments, reporting to the Board, and Line 2 challenge of remuneration outcomes.

CBA has confirmed a suite of enhancements has been designed to provide stronger Board and RemCo governance of remuneration outcomes addressing all elements of the Milestone described above. These enhancements will be delivered by work to be undertaken in a number of related Milestones (including Milestones 3.1, 3.2, 24b.1, 24c.1, 25a.1 and 25b.1). The Board has also approved FY18 remuneration outcomes for the CEO and GEs reflecting both individual and collective accountability.

After reviewing the Closure Pack for this Milestone, Promontory requested and received further information about documentation of the plan for stronger Board governance and how the activities across the Milestones above will be coordinated.

Based on our assessment of the Milestone Closure Pack and the additional information we received, we concluded that CBA has appropriate plans to strengthen Board governance of remuneration frameworks and processes.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

9.2.3. Assessment of Recommendation 24c Milestone

The Target State for Recommendation 24c is for RemCo's approach to remuneration to take account of the full range of current and potential risks through coordination and support from the BAC and BRC.

a) Milestone 24c.1

Milestone 24c.1 (a Design Milestone) requires the design of a coordinated approach between the BAC, BRC and RemCo to ensure risk outcomes are reflected in GE remuneration. In addition, the Board is to approve the design of a discretionary (STVR model that incorporates a financial and NFR assessment in consideration of pool outcomes.

CBA has confirmed Board Committee Charters have been amended to provide for cross-referral of matters and for concurrent meetings of the BRC, BAC and RemCo to consider risk, financial and reputation-related matters relevant to executive performance and remuneration. A Concurrent Committee Meeting Process has been developed to set out the expected process for seeking input between Committees. The Board has also approved the design of an enhanced discretionary STVR model (with formal risk assessment requirements).

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

- Aspects of the agendas for planned Concurrent Meetings and the Process Document developed for these meetings;
- Plans for presentations and papers from BU/SU executives (i.e., from risk, internal audit and finance functions) at those meetings; and
- How the risk matters to be considered in determining pool outcomes under the new STVR funding model are to be documented.

Based on our assessment of the Milestone Closure Pack and the additional information we received, we concluded that CBA has designed an appropriate approach to the coordination of Board Committees for input into GE risk and remuneration outcomes, and that the Board has approved an appropriate model for incorporating risk assessment into STVR pool outcomes.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

In finalising our assessment, we foreshadowed that our assessment of the Implement and Embed Milestones for this Recommendation will include consideration of the following:

- Whether risk, audit and financial matters have been considered in the determination of the Discretionary STVR Pool for FY19 and FY20; and
- Whether processes set out in the 'Concurrent Committee Meeting Process' for seeking input from the BRC and BAC on risk and remuneration outcomes were followed for FY19 and FY20.

9.2.4. Assessment of Recommendation 25a Milestone

The Target State for Recommendation 25a is for the Board to set clear expectations and provide comprehensive guidance and criteria on how adjustments to remuneration should be determined for positive³⁶ or poor risk outcomes.

a) Milestone 25a.1

Milestone 25a.1 (a Design Milestone) requires the Board to review and strengthen the guidance provided to management on their expectations for risk adjustments to remuneration outcomes. This guidance is to include a comprehensive set of criteria, mandated minimum downward STVR adjustments and practical consequence management examples.

CBA has confirmed that the Board has approved strengthened guidance on how adjustments to remuneration should be determined for positive and poor risk outcomes. The guidance sets out specific criteria to be considered when determining risk adjustments and the appropriate level of STVR adjustment based on risk behaviours and outcomes. It has mandated a minimum 10% downward STVR adjustment for a 'Partially Met' risk rating and a 100% adjustment for a 'Not Met' risk rating. Examples have also been developed to provide guidance on how the risk adjustments should be applied.

Based on our assessment of the Milestone Closure Pack, we concluded that CBA has developed appropriate Board-approved guidance to management on expected risk adjustments to remuneration.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

In finalising our assessment, we foreshadowed that our assessment of the Implement and Embed Milestones for this Recommendation will include consideration of the following:

- Any changes made to the guidance to apply to FY19;
- The extent and quality of additional guidance and training sessions provided to assist employees and leaders apply the Board approved guidance; and
- Whether there has been further consideration (with supporting rationale for decisions made) for the development of a library or database of consequence management examples (based on real-life examples).

9.2.5. Assessment of Recommendation 25b Milestone

The Target State for Recommendation 25b is the robust application of the risk assessment process and the risk modifier, with challenge from the risk function, to link risk outcomes with remuneration.

³⁶ The Target State for Recommendation 25a has been changed by replacing 'good risk outcomes' with 'positive risk outcomes' in line with the RAP Review described in our Third Report.

a) Milestone 25b.1

Milestone 25b.1 (a Design Milestone) requires the design and approval of an enhanced approach to risk assessment that appropriately penalises and rewards risk and compliance outcomes. The approach must include identifying and assessing outliers, inconsistencies and absolute levels of risk reduction. It must also include enhanced expectations on the Risk function to effectively and formally provide independent challenge of the application of the risk modifier to enhance consistency, validity and continuously evolve the application and enabling elements (e.g. guidelines, training).

CBA has confirmed an enhanced Group-wide approach for Line 2 review and challenge of risk assessment and remuneration outcomes has been designed, which has been endorsed by the BRC. The challenge will be conducted by BU CROs for staff at General Manager (**GM**) level and below, using standardised templates. This new approach complements the Line 2 challenge of senior leader Executive Risk Scorecards. An approach setting out minimum considerations has also been developed to identify and assess outliers, inconsistencies and absolute levels of risk reduction. Systems and data improvements on the application of the risk modifier are also being scoped. Risk assessment and remuneration processes and guidance have also been enhanced with a view to both rewarding and penalising risk outcomes.

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

- The relationship between the new approach and the review of Executive Risk Scorecards for senior leaders;
- The role of Group functions in the new processes;
- The scope of the challenge and plans for review of a broader range of data sources and metrics;
- Calibration activities to ensure consistency;
- Reporting of results of the challenge approach;
- Plans for improvements to data, analytics and systems to support the review and challenges approach; and
- Plans for continuous improvement to the processes including plans for improved supporting guidance.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that CBA has designed an appropriate approach for Line 2 review and challenge of risk assessment and remuneration outcomes.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

In finalising our assessment, we foreshadowed that our assessment of the Implement and Embed Milestones for this Recommendation will consider whether plans for enhancement of the approach consider:

- A wider range of data sources and metrics to be reviewed by the BU CROs;
- Greater analysis and calibration by Group Operational Risk (for levels GM and below); and

- Enhanced supporting guidance material.

9.2.6. Assessment of Recommendation 27 Milestone

The Target State for Recommendation 27 is for senior leaders, including the ELT, to demonstrate appreciation and capability for reflection, challenge and learning, with this shown by taking and creating time to personally reflect on issues and absorb lessons, displaying a lack of defensiveness in receiving challenge, emphasising actions to establish feedback loops and 'risk memory', and prioritising optimal outcomes over collegiality.

a) Milestone 27.1

Milestone 27.1 (a Design Milestone) is one of four closely linked Milestones (under Recommendations 27 to 30) intended to shift mindsets and behaviours.

Common to each of Milestones 27.1 to 30.1 is the requirement for a baseline risk culture assessment to further understand the mindsets and behaviours to support the development of a comprehensive cultural change roadmap.

Each Milestone also envisages a number of targeted interventions as part of the cultural change road map.

This Milestone requires targeted interventions in relation to developing senior leader capability (through a program of immersion and practical training), the design of leadership diagnostic and feedback tools (to provide insights to leaders about the impact of their style and behaviour on organisational culture and risk culture in particular) and performance assessment (integrating key behavioural expectations into annual performance assessment cycles and career progression).

CBA has confirmed that:

- the Board and ELT have endorsed a risk culture assessment mechanism and identified quantitative and qualitative data sources to support the assessment;
- the Board has established CBA's risk culture baseline using the risk culture assessment mechanism;
- the Board and ELT have endorsed an Implementation Road Map addressing the interventions to be implemented over Milestones 27.1 to 30.1 in what we see as a well thought through and detailed way; and
- Of particular relevance to this Milestone, the Board and ELT endorsed the senior leader capability program, tools to provide senior leaders with 360-degree feedback and performance assessment mechanisms.

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

- Plans for continuous improvement of the risk culture assessment mechanism;
- Links between the risk culture definition and the metrics to measure risk culture;
- Management of the outputs of the risk culture assessment; and

- How leaders will be assessed against key skills in terms of performance assessment and career progression.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that CBA has appropriate plans for its senior leaders to develop and demonstrate capability for reflection, challenge and learning.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

9.2.7. Assessment of Recommendation 28 Milestone

The Target State for Recommendation 28 is that senior leader capabilities are uplifted to enable role-modelling of good risk management behaviours including (i) the key behaviours of reflection, challenge and continuous learning, (ii) NFR awareness and ownership³⁷, and (iii) authentic emphasis, communication and training of their teams on good risk management expectations.

a) Milestone 28.1

Milestone 28.1 (a Design Milestone) is the second of four closely linked Milestones (under Recommendations 27 to 30) intended to shift mindsets and behaviours.

This Milestone envisages targeted interventions to address senior leader role-modelling and embedding of good risk management behaviours comprising leader-led training (a program of BU/SU immersions and ongoing team training facilitated by leaders), senior leader communications (covering personal messaging to teams to reinforce expectations) and performance assessment (as described for Milestone 27.1).

CBA has confirmed that the Board and ELT have endorsed the design of each of the targeted interventions for this Milestone, including a leadership development program to uplift leaders' understanding and ability to demonstrate the required behaviours, a leader-led training program and a framework to support leaders communicating to their teams in a personal, authentic and consistent way to reinforce risk, customer and conduct expectations.

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

- How cascading of messaging as part of the leader-led training will be managed;
- Coaching available to leaders on cascading the tone from the top;
- How leadership capabilities would be assessed against the requirement to 'walk the talk' in a personal and authentic manner; and
- Leadership diagnostic tools to assess leaders' capabilities to deliver the leader-led training and communications program.

³⁷ The Target State for Recommendation 28 has been changed to 'NFR awareness and ownership' from 'knowledge including the RMI program methodology, minimum standards, RAS etc' in line with the outcomes of the RAP Review described in our Third Report.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that CBA has designed processes to uplift senior leader capabilities, for senior leader involvement in leader-led training and for leaders to communicate required messages in a personal and authentic manner.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

In finalising our assessment, we foreshadowed that our assessments of the Implement and Embed Milestones for this Recommendation will consider the adequacy of questions included in the leader 360 feedback to assess senior leader capability to cascade the desired tone at the top in a personal and authentic manner.

9.2.8. Assessment of Recommendation 29 Milestone

The Target State for Recommendation 29 is for CBA to shift the mindsets and behaviours to considering risk as integral to strategic decision-making and seeing the risk function as providing credible support and challenge to ensure good risk and customer outcomes. Relationships of mutual respect and open communication between BU/SU and risk counterparts at all levels are enabled by clear roles and responsibilities, strengthened risk capabilities and 360-feedback.

a) Milestone 29.1

Milestone 29.1 (a Design Milestone) is the third of four closely linked Milestones (under Recommendations 27 to 30) intended to shift mindsets and behaviours.

This Milestone notes significant interdependencies with other Milestones (for Recommendations 7, 9, 12 and 13). It requires the development of targeted behavioural interventions designed to embed mutual respect by way of Line 1 and Line 2 (L1/L2) engagement forums and career pathways.

CBA has confirmed that the Board and ELT have endorsed the establishment of a regular L1/L2 NFR Engagement Forum for senior leaders (including representatives of Line 2 and Line 1 CCOs) to discuss matters of common interest, the purpose being to embed mutual respect. 'Skills, activities and experience' have been designed to apply to the career pathways for non-risk leaders.

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

- The purpose, structure and intended operation of the proposed L1/L2 Engagement Forum;
- How interdependent Milestones will support achieving the shift in mindsets and behaviours relevant for this Milestone;
- Plans to measure the quality and effectiveness of the relationship between the BU/SUs and risk function; and
- The design of the 'skills, activities and experience' for non-risk leaders.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that the L1/L2 NFR Engagement Forum has been designed and rolled out with sufficient attention to its purpose to embed mutual respect and open communication.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

In finalising our assessment, we foreshadowed that our assessment of the Implement and Embed Milestones for this Recommendation will include consideration of the adequacy of the information cascaded from the Forum into the BU/SUs.

9.2.9. Assessment of Recommendation 30 Milestone

The Target State for Recommendation 30 is that the refreshed CBA Values set clear expectations for ethical behaviour of staff and pro-active action to deliver optimal outcomes. Positive behaviours of questioning and reflection are embedded in the day-to-day work patterns of staff. Recognition programs, consequence management and career progression reinforce and give staff skin-in-the-game to deliver good risk and customer outcomes.

a) Milestone 30.1

Milestone 30.1 (a Design Milestone) is the fourth of four closely linked Milestones (under Recommendations 27 to 30) intended to shift mindsets and behaviours.

This Milestone requires targeted interventions in relation to evolving values and expectations (to more clearly define the requirements of each individual to moving from good intent to getting things done), co-ordinating messaging through cultural change stories, establishment of recognition programs to reinforce good risk behaviours and changes to HR processes to enhance the focus on risk mindsets, behaviours and skills.

CBA has confirmed the Board and ELT have reviewed and agreed plans in relation to each of the following to uplift risk culture mindsets and behaviours:

- The rollout of the refreshed Values Expectations;
- A communication strategy through the Culture Change Story to reinforce expected behaviours in a high-profile manner and on an ongoing basis;
- A recognition program that reinforces good risk behaviours and builds on existing recognition programs; and
- Changes to recruitment, onboarding and promotion processes to increase focus on risk mindsets, behaviour and skills.

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

- How communications related to the Culture Change Story will be coordinated with other communications sources;
- The process used to determine the 'winners' in the recognition program;
- The particular risk and behavioural attributes that are highlighted as being desirable; and
- How the promotions process will be modified to require the right risk mindsets, behaviours and skills.

Based on our assessment of the Milestone Closure Packs, the additional information we received and the interviews we conducted, we concluded that the plans to uplift risk culture mindsets and behaviours provide a sound basis for supporting staff in exhibiting ethical values that lead to good risk and customer outcomes.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

In finalising our assessment, we foreshadowed that our assessments of the Implement and Embed Milestones for this Recommendation will include consideration of the success of refreshed communications in addressing the risk of message fatigue, the criteria developed for winning the Simpler, Better Banks Awards and whether and how these criteria are communicated to staff.

10. Program Execution Theme Milestones

The Program Execution Theme deals with *Inquiry Report* Recommendations on aspects of managing the Program to deliver against *Inquiry Report* Recommendations, strengthening the role of Line 2 in Risk in Change 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.

The *Inquiry Report* noted that CBA's track record in delivering major risk initiatives had been a chequered one. It noted that remediation programs that fail typically do so not for want of design, but for want of execution.

The *Inquiry Report* also found that adequate measures had not been in place to ensure sufficient Line 2 oversight of Risk in Change assessments. It also found that CBA had generally only addressed risk, compliance and resilience issues on a reactive basis once they had become 'high-rated' issues.

On program execution, the *Inquiry Report* recommended CBA senior leadership be identified, held accountable and remunerated for the success of major risk initiatives. It recommended that organisational capacity be created to deliver the Program, and that rigorous project disciplines for delivering risk initiatives be developed. It also recommended that CBA strengthen the Risk in Change process to ensure effective oversight from Line 2, and take a more pre-emptive approach to investments in risk management, compliance, and resilience areas.

CBA's response through the RAP is to strengthen implementation of change programs by implementing and maintaining delivery standards, sharing insights and focusing on building the capability of people charged with delivering programs.

In particular, the RAP envisages enhanced project management disciplines, strengthened Line 2 involvement in Risk in Change activities and improved processes for prioritisation of risk management program investments.

10.1. Status of Program Execution Theme Milestones

Milestones for the Program Execution Theme Recommendations are on-track for completion by the due dates set out in the RAP.








Progress in the Program Execution Theme is set out in Table 10.1, and is discussed in more detail below.

During the Reporting Period:

- Promontory assessed two Program Execution Theme Milestones (Milestones 32.1 and 33a.2) as complete and effective. The Closure Pack for all Milestones were submitted in the Third Reporting Period.
- The Program was working on one other Design, three other Implement and one other Embed Milestones for this Theme. Work had yet to start on two Design, two Implement and seven Embed Milestones.

Taking into account Milestones assessed as complete and effective in previous Reporting Periods, as at the Reporting Date, a total of nine of the 25 Program Execution Theme Milestones had been assessed as complete and effective.

Table 10.1: Progress on Program Execution Theme Milestones

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
11	Risk in change	11.1 Design	Revise Risk in Change practices to strengthen the role of Line 2	Jul-19	
		11.2 Design	Develop BU/SUs plans to implement the revised Risk in Change methodology, and update the Line 2 assurance program	Sep-19 ³⁸	 ³⁹
		11.3 Implement	BU/SUs implement Risk in Change methodology	Dec-19	
		11.4 Embed	BU/SUs have demonstrated effectiveness of Risk in Change in core processes as evaluated by Line 2	Jul-20	
20	Investment prioritisation	20.1 Design	Revise the Investment Prioritisation Process (IPP) in relation to risk and regulatory projects	Dec-18	
		20.2 Implement	Develop quarterly ELT dashboard on investment allocation	Nov-19	
		20.3 Embed	IPP cycle completed having incorporated new process and with new reporting on emerging risk and pre-emptive risk investment	Dec-20 ⁴⁰	

³⁸ The due date for Milestone 11.2 was moved from June 2019 to September 2019 in line with the outcomes of the RAP Review described in our Third Report.

³⁹ In addition to the change in the due date, some activities which were previously being performed under Milestone 11.2 will now be performed under Milestone 11.1. As a result, the status of Milestone 11.1, which was previously 'Work to deliver Milestone has commenced but has not yet been completed', has been revised to 'Work to deliver Milestone has not commenced'.

⁴⁰ The due date for Milestone 20.3 was moved from December 2019 to December 2020 in line with the outcomes of the RAP Review described in our Third Report.

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#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
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	Sep-18	●
		31.2 Implement	Identify programs that require senior leaders to perform a lead role and update KPIs	Dec-18	●
		31.3 Embed	Performance Reviews of delivery leads reflect delivery KPI allocations	Nov-20	◐
32	Consequences	32.1 Design	Define changes to the GDF in relation to remuneration outcomes reflecting delivery requirements and accountabilities	Mar-19	●
		32.2 Implement	Update KPIs for relevant staff to reflect delivery requirements and standards	Nov-19 ⁴¹	◐
		32.3 Embed	Performance reviews of BEAR Accountable Executives reflect KPI allocations	Nov-20 ⁴²	○
33a	Organisation capacity	33a.1 Design	Define resourcing and technology needs to support delivery of the 35 APRA Recommendations	Sep-18	●
		33a.2 Implement	BU/SU BROP resource forecasting process defined	Mar-19	●
		33a.3 Embed	Regularly review BU/SU BROP resource forecasting	Dec-20	○

⁴¹ The due date for Milestone 32.2 was moved from September 2019 to November 2019 in line with the outcomes of the RAP Review described in our Third Report.

⁴² The due date for Milestone 32.3 was moved from September 2020 to November 2020 in line with the outcomes of the RAP Review described in our Third Report.

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#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
33b	Organisation capacity	33b.1 Design	Design 'capacity' prioritisation processes and guidelines to assist with program decisioning	Nov-18	●
		33b.2 Implement	Stop or defer existing Programs as directed by ELT and reallocate funding to delivery of Recommendations	Dec-18	●
		33b.3 Embed	Regularly consider in line with the IPP process the need to stop Programs in flight	Jun-20	○
34	Project disciplines and review	34.1 Design	Enhance the GDF to ensure it is fit for purpose for all Programs in the Group	Dec-18	●
		34.2 Implement	Enhance CBA GDF including formalising Stage Gate review, Health Checks, required skillsets and risk in change process	Jul-20	◐
		34.3 Embed	Regularly consolidate a Program status view of all IPP endorsed Programs	Nov-20	○
35	Embedding project framework	35.1 Design	All Design Milestones are assessed as effective	Dec-19 ⁴³	○
		35.2 Implement	All Implement Milestones are assessed as effective	Sep-20 ⁴⁴	○
		35.3 Embed	The appropriate areas have demonstrated effective deployment of the design standards	Mar-21	○

⁴³ The due date for Milestone 35.1 was moved from July 2019 to December 2019 in line with the outcomes of the RAP Review described in our Third Report.

⁴⁴ The due date for Milestone 35.2 was moved from November 2019 to September 2020 in line with the outcomes of the RAP Review described in our Third Report.

10.2. Program Execution Theme Milestone Assessment Outcomes

10.2.1. Assessment of Recommendation 32 Milestone

The Target State for Recommendations 32 is for all projects endorsed through the IPP to have a BEAR Accountable Executive, CBA Sponsor and Delivery Lead, and for remuneration outcomes for these roles to be aligned with formal assessment of successful project delivery⁴⁵.

a) Milestone 32.1

Milestone 32.1 (a Design Milestone) requires CBA to identify changes to the GDF required to ensure that KPI allocation and remuneration outcomes for BEAR Accountable Executives, CBA Sponsors and Delivery Leads of IPP-endorsed projects reflect delivery requirements and accountabilities.

CBA has confirmed a performance and remuneration frameworks have been developed for BEAR Accountable Executives, CBA Sponsors and Delivery Leads of IPP-endorsed projects that reflect delivery requirements and accountabilities and are linked to the GDF.

After reviewing the Closure Packs for this Milestone, Promontory requested and received further information about:

- Whether there is an explicit requirement for a BEAR Accountable Executive to be assigned to each project under the GDF;
- The application of the performance and remuneration frameworks to BEAR Accountable Executives assigned to IPP projects, and, in particular, how the framework ensures that the KPI assessment includes consideration of IPP program delivery outcomes; and
- If the GDF intranet has a link to the expected outcomes, evidence and feedback, and assessment for the IPP KPIs.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that CBA has developed an effective performance and remuneration frameworks that reflects delivery requirements and accountabilities and are linked to the GDF.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

10.2.2. Assessment of Recommendation 33a Milestone

The Target State for Recommendation 33a is CBA is able to ensure sufficient resources are made available to ensure the prioritisation of the Recommendations of the *Inquiry Report* through to successful delivery.

⁴⁵ The Target State for Recommendation 25a has been changed to include 'remuneration outcomes for these roles to be aligned with formal assessment of successful project delivery' in line with the outcomes of the RAP Review described in our Third Report.

a) Milestone 33a.2

Milestone 33a.2 (an Implement Milestone) requires CBA to define and implement a BU/SU resource forecasting process, which demonstrates regular engagement with BU/SUs to provide independent review and challenge of resource forecasts and escalation of any risks and issues for resolution. It also requires that the technology capacity needed for BROP be captured in the overall FY19 indicative forecasting for the Group.

The Milestone was created in March 2019 to address issues that Promontory identified in our assessment of Milestone 33.1, which as noted above took 189 days to assess as complete and effective. Our assessment of Milestone 33.1 found that further work was required by BROP to develop a multi-year view of resourcing and technology needs for delivery of the RAP. As estimating resource and technology needs for a project of the RAP's size, breadth and complexity is a challenging and dynamic undertaking, CBA undertook to develop a dynamic resource forecasting process under Milestone 33a.2.

CBA has confirmed that a resource forecasting process has been developed and documented in a Standard Operating Procedure (SOP). It includes processes for escalating any identified risks or issues. The process has been implemented and the resource forecasts developed through this process. Regular engagement between the central BROP team and BU/SUs has been evidenced with the central BROP team providing independent review and challenge of resource forecasts. At the central BROP team's request, resource forecasts have been escalated to GEs. The ELT has reviewed the technology capacity to deliver BROP as part of the IPP Group Prioritisation process.

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

- The status of the SOP provided in the Closure Pack;
- Processes to escalate any identified risks or issues, determine actions plans in response, and endorse the resource forecast for each BU/SU; and
- The planned approach to monitor, manage and report any constraints with technology capacity.

Based on our assessment of the Milestone Closure Pack and the additional information we received, we concluded that CBA has developed and implemented an effective process for forecasting resource requirements to deliver the RAP across the BU/SUs, with sufficient engagement and challenge by the central BROP team. Any issues with technology capacity will be monitored under the Group Prioritisation process.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

In finalising our assessment, we foreshadowed that our assessment of the Embed Milestone for this Recommendation will include consideration of the following:

- Ongoing refinements to the SOP and how they have been communicated;
- Consistency across BU/SUs in escalation processes for agreed action plans; and
- Effectiveness of the planned approach to monitor and report on technology capacity to deliver the BROP projects.



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