



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

Progress in Addressing Prudential Inquiry Recommendations

Prepared by Promontory Australia, a division of IBM

Fifth Report

31 October 2019

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*Promontory Australia, a division of IBM (**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 fifth report (**Fifth 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 July 2019 to 30 September 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.

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Definitions

3LoA	Three Lines of Accountability
APRA	Australian Prudential Regulation Authority
BAC	Board Audit Committee
BDGF	BU/SU Delivery Governance Forum
BEAR	Banking Executive Accountability Regime
BGF	BROP Governance Forum
BPB	Business and Private Banking
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
BWA	BankWest
CBA	Commonwealth Bank of Australia
CCO	Chief Controls Officer
CEO	Chief Executive Officer
CRO	Chief Risk Officer
EGM	Executive General Manager
ELT	Executive Leadership Team
ES	Enterprise Services
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
GRP	Group Remuneration Policy
IB&M	Institutional Banking and Markets

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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
NFRC	Non-Financial Risk Committee
OR&C	Operational Risk and Compliance
PDMF	Planning and Dependencies Management Forum
PRC	People and Remuneration Committee
Previous Reports	Promontory's previous reports dated 28 September 2018, 20 December 2018, 30 April 2019 and 31 July 2019
Program	Better Risk Outcomes Program
Promontory	Promontory Australia, a division of IBM
RAP	Remedial Action Plan
RAS	Risk Appetite Statement
RBS	Retail Banking Services
RemCo	Board Remuneration Committee
Reporting Date	30 September 2019
Reporting Period	1 July 2019 to 30 September 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
TOM	Target Operating Model

Executive Summary

This is the fifth report (**Fifth 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**), 30 April 2019 (**Third Report**) and 31 July 2019 (**Fourth Report**).¹

The Fifth 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 July 2019 to 30 September 2019 (the **Reporting Period**). The status of RAP Milestones is reported as at 30 September 2019 (the **Reporting Date**).

Since signing the EU, CBA has made, through the Better Risk Outcomes Program (**BROP** or **Program**), solid progress in executing the RAP. At the Reporting Date, 75 Milestones (out of a total of 156) had been closed. Seven were being assessed by Promontory. Work was underway by CBA on a further 52 Milestones.

Through the Program's Design and Implement Phases, a generally sound basis has been laid for the outcomes the RAP has been developed to deliver.

The momentum for change galvanised by the EU has been sustained.

The Program's success to date can be attributed to the Board and Executive Leadership's active and genuine commitment to the Program, an effective and agile central BROP team guiding the Program, an effective process for delivering the RAP across the Group, the increasing maturity of the network of BU/SU Chief Controls Officers (**CCOs**) and increasingly effective management by CBA of the competing priorities it faces.

The Program's success to date will be tested over the next nine months as the Program transitions to embedding the designs developed and implemented to date. The Program is now tasked with ensuring the Target States described in the RAP are delivered consistently across the Group in a way that ensures those Target States continue once the Program has ended.

The need to ensure the momentum evident to date is maintained will, therefore, intensify. With that intensification will come heightened change risks.

A particularly important risk in a long, ambitious Program working to exacting timelines, is change fatigue. The risk of change fatigue will need to be monitored and, if it appears likely to emerge, addressed. If this risk is not addressed, the sustainability of Program outcomes will be threatened.

We urge CBA and the Program to continue to take decisive action to address these challenges.

The Board and Executive Leadership, in particular, will need to ensure messaging about the Program carefully recognises the challenges of delivering sustainable outcomes within the timeframes contemplated by the RAP. The central BROP Team and CCOs will also have important roles to play in ensuring simple, practical, implementable processes are developed and communicated across the Group.

¹ Promontory's First, Second, Third and Fourth Reports are available [here](#), [here](#), [here](#) and [here](#), respectively.

As the Program transitions to the Embed Phase, our focus in assessing Program success and effectiveness will increasingly focus on how new processes are, in practice, being applied at all levels of the Group.

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 had completed almost all design activity. By the Reporting Date:

- CBA had started or completed work on all 54 Design Milestones³.
- CBA had submitted Milestone Closure Packs to Promontory evidencing completion of work on 52 Design 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 51 Design Milestones as complete and effective (five of which were assessed during the Reporting Period).
- We had not yet completed our assessment of one Design Milestone (which was delivered at the end of the Reporting Period).

The Program made significant progress on implementation during the Reporting Period. By the Reporting Date:

- CBA had started or completed work on 54 (of 55) Implement Milestones.
- CBA had submitted Milestone Closure Packs to Promontory evidencing completion of work on 28 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 24 Implement Milestones as complete and effective (five of which were assessed during the Reporting Period). We also closed an additional Implement Milestone but did not assess it as complete and effective (see section 1.3 for further detail).
- We had not completed our assessment of three Implement Milestones.

Certain design features and approaches to implementation were not fully mature at the time of assessment. We have, therefore, foreshadowed in relation to a total of 53 Milestones (11 of which were closed 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 rollout 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 has begun work on more than half the Embed Milestones contemplated by the RAP. By the Reporting Date:

- CBA had started or completed work on 27 (of 47) Embed Milestones.
- CBA had submitted Milestone Closure Packs to Promontory evidencing completion of work on a total of three Embed Milestones (two of which were received during the Reporting Period).
- We had not completed our assessment of any of the three Embed Milestones submitted.

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		Milestones Closed	Total
			Assessment Not Started	Assessment Underway		
Board Governance	0	7	0	1	12	20
Management Governance	0	5	1	0	13	19
Operating Model (3LoA)	0	4	0	0	4	8
Risk Appetite, Taxonomy and Standards	2	4	0	2	8	16
Accountability and Controls Delivery	3	3	0	0	4	10
Customer Outcomes	3	5	0	0	7	15
Culture, Capability and Consequences	8	15	0	2	18	43
Program Execution	5	9	1	0	10	25
TOTAL	21	52	2	5	76	156

CBA's commitment to addressing the Recommendations made in the *Prudential Inquiry into the Commonwealth Bank of Australia (CBA) Final Report* (the **Inquiry Report**) remained firm and clear during the Reporting Period.

We continued to observe many of the characteristics of successful remediation programs, as described in our Previous Reports. The Board and Executive Leadership Team (**ELT**) continued to display a strong commitment to and provide active oversight of the Program. The Program continued to function with an effective operating rhythm, benefiting from ongoing incremental changes to Program governance. Program management remained strong, with delivery risks continuing to be identified, understood and addressed in a timely way.

Recent changes stand the Program in good stead to continue to deliver on this commitment as it transitions to the Embed Phase in coming months.

The Head of BROP was elevated to the newly created role of Group Executive Program Delivery. This role will be responsible for supporting the Group in driving the implementation of critical risk and simplification programs, managing program interdependencies, and strengthening the Group's ability to effectively deliver major programs of work. A new position of Group CCO has also been created, reporting to the Group Executive Program Delivery. The creation of these roles is an expression of the Group's commitment to ensuring its risk and remediation priorities are addressed in a timely and effective way.

Program design continued to evolve with the RAP revised to reflect the outcomes of the Foundational Review and the quarterly RAP review finalised during the Reporting Period. The changes made, particularly as a result of the Foundational Review, are ambitious and complex, but welcome.

Program delivery also continued to adapt. The Reporting Period saw increased maturity in both the Drop Process and the role being played by CCOs and Chief Risk Officers (**CROs**). Significant progress was also made on managing competing priorities and interdependencies.

The Program also continued to be managed effectively. The central BROP team demonstrated an ongoing strong commitment to meeting the timeframes set out in the RAP, and Program-related communications remained vibrant and engaging.

Risks and Challenges

In order to ensure that the remainder of the RAP is executed in a sustainable and consistent way, the Program must address several challenges.

As set out above, the key challenge faced by the Program is executing the RAP in a sustainable way while managing change fatigue and the risk of what we describe as 'over-implementation'.

Drops 6, 7 and 8, which will be delivered in the nine months from 1 October 2019, will involve significant activity relating to a number of Recommendations that are critical to the Program's success. The risk of fatigue in Business Units and Support Units (**BU/SUs**) in implementing these extensive changes should not be underestimated.

In the post-Prudential Inquiry and post-Royal Commission environment, and in the context of an apparent Group-wide commitment at all levels to restore public trust and confidence in the CBA brand, there is also a risk that those tasked with implementation will overcomplicate new processes. Over-complication will make embedding change harder.

CBA also faces challenges in implementing the Program in a consistent way, given the different levels of maturity in relation to Non-Financial Risk (**NFR**) management across the Group.

Challenges in relation to resourcing, addressing competing priorities and assurance also continue.

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.

The *Inquiry Report* 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.

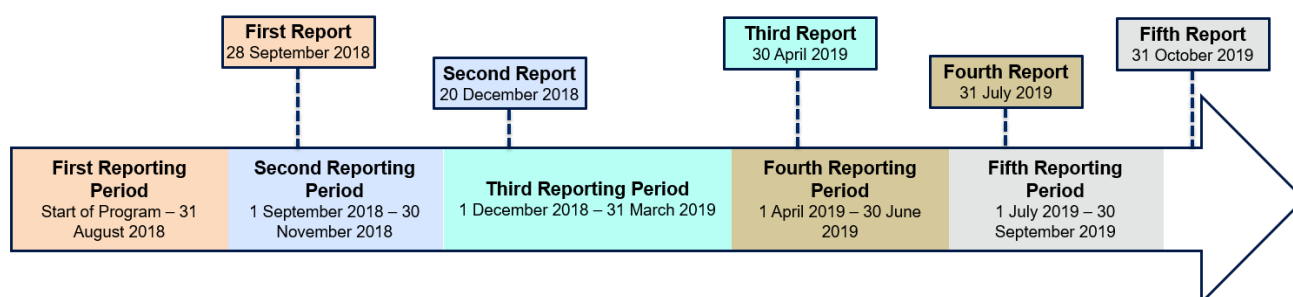
CBA engaged Promontory as the Independent Reviewer required under the EU. APRA confirmed the appointment on 29 June 2018.

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 Fifth Report. It covers the period 1 July 2019 to 30 September 2019 (the **Reporting Period**). The status of Milestones and other Program developments is reported as at 30 September 2019 (the **Reporting Date**).

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.

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.

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**):

- 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. This process remains unchanged.

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, and the rest of this Report, reflect the RAP as it stood at the Reporting Date. Further changes to the RAP, effective from 4 October 2019, have been made as a result of the most recent review of the RAP. These are described in section 2.1.

⁶ No Milestones have been assigned to this Work Stream.

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
March 2019	9	7	3	4	4	4	10	6	47
June 2019	1	1	0	2	0	1	1	0	6
September 2019	1	1	0	0	0	0	4	2	8
December 2019	4	4	2	3	3	3	7	4	30
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 two Milestones (Milestones 9.3 and 12b.2) were extended. The reasons for this are set out below in section 2.1.

All but two Design Milestones had been delivered by the Reporting Date. The Program was also roughly half way through delivery of Implement Milestones, and had begun to deliver the first Embed Milestones.

Further information on the RAP and CBA's approach to executing it 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 were identifying 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 participated in the following meetings:

- weekly project management meetings with representatives of the central BROP team; and
- meetings on various Milestones to walk through and discuss the artefacts provided to us.

We also attended, as observers:

- regular Program governance meetings including the monthly BROP Governance Forum (**BGF**), two meetings of the BU/SU Delivery Governance Forum (**BDGF**), two meetings of the BROP Planning and Dependencies Management Forum (**PDMF**), and one meeting of the ELT Non-Financial Risk Committee (**NFRC**);
- the 'Strengthening Implementation Approach' CCO team day on 27 September, during which CCOs discussed challenges associated with implementation of the RAP, including managing competing priorities and resourcing;
- the People Leader Forum on 18 July, designed to equip those managing large teams with the skills to successfully lead their teams through the changes associated with the Program and change management more generally; and
- a session on 29 July to brief APRA staff members on the design of the Program and how it is being implemented and embedded.

We participated in the following briefings and updates (which are described in more detail in section 2.2) including:

- Deep dive sessions with the Group Executives (**GEs**) and CCOs of Institutional Banking and Markets (**IB&M**), BankWest (**BWA**) and Business and Private Banking (**BPB**) on the approach to and progress in implementing the RAP in their BU/SUs. These were followed by separate deep dive sessions with the CRO of each BU on the approach to overseeing the implementation of the RAP in their BU/SUs. The sessions touched on topics such as executive oversight, Program governance, and the role of CCOs and CROs. After the Reporting Date we conducted similar sessions with the GE, CCO and CRO of Enterprise Services (**ES**) and Retail Banking Services (**RBS**).
- Monthly meetings with Group Audit and Assurance (**GA&A**), covering their observations on Program management and their forward audit plans. We also met with the BROP CRO to discuss his approach to oversight of the Program.

- Briefings on:
 - the Drop Process described in our Fourth Report;
 - overall progress in key themes, including the Culture, Capability and Consequences Theme and the Enabling Systems and Data Work Stream;
 - the Group Delivery Framework (**GDF**), Risk in Change processes and the Investment Prioritisation Process (**IPP**); and
 - the Program's approach to ensuring the sustainability of Target State outcomes.
- A number of briefings on proposals to revise the RAP, including revisions arising from the Foundational Review.

The deep dives described above have been particularly valuable. They have provided us with an opportunity to complement the information we receive from BU/SU and Theme-level status reports, the central BROP team and our observation of governance forums. They have given us a significantly deeper understanding of and insight into how businesses are structured and operate, how the RAP is being implemented in BU/SUs, the challenges BU/SUs face and the thinking behind how they are being addressed. We envisage continuing these deep dives for the life of the Program.

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 continued to involve reviews of the Closure Packs and additional evidence, including interviews and phone calls with staff engaged in Milestone delivery.

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 relevant changes in its approach. 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 or embed stages associated with the Recommendation.

During the Reporting Period, we closed one Milestone (Milestone 12e.2) but did not assess it as complete and effective. While we assessed the Closure Criteria as having been satisfied (so that the Milestone could be closed), the actions taken by CBA at the time of our assessment did not, in our opinion, provide a sound basis for achieving the Target State.

Given changes in the scheduling of processes covered by Milestone 12e.2 during 2019 and revisions to Recommendation 12e Milestones resulting from the Foundational Review, outlined in more detail in section 2.2, CBA has not had the opportunity to address our concerns and allow us to consider whether the Milestone provides a sound basis for achieving the Target State.

Our decision to close this Milestone was made on the understanding that our concerns would be considered in assessing the revised Recommendation 12e Milestones in coming months (see section 7.2.1 for further detail).

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Through the Program, we have taken an average of almost 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 just over one week (for Milestone 14.2). The longest assessment (which 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) took 27 weeks (for Milestone 33.1).

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.

A new rating for Milestones that have been closed but not assessed as complete and effective has been added to our reporting to reflect the assessment of Milestone 12e.2 described above.

In our Previous Reports, we reported work to deliver a Milestone as having commenced based on ratings used in internal CBA reporting.

During the Reporting Period, we sought greater clarity from CBA on how it defines whether work on a Milestone has commenced in its internal reporting.

CBA clarified that it is treating work on a Milestone as having commenced where activities set out in its Implementation Plan in relation to that Milestone have started. Work is not treated as having commenced where early planning work is being undertaken. Our reporting reflects this definition.

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
⦶	Milestone has been closed but not assessed by Promontory as complete and 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

Through the Reporting Period, during which CBA progressed through the Implementation Phase of the Program, its commitment to addressing the Recommendations made in the *Inquiry Report* remained firm and clear.

Recent changes stand the Program in good stead to continue to deliver on this commitment as it starts the transition to the Embed Phase in coming months.

However, the Program faces, and will continue to face, challenges in executing the Program in a timely and sustainable way.

We urge the Program to take decisive action, as it has done in the past, to address those challenges.

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

This 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 eight Milestones:

- Closure Packs for two Milestones (both Design Milestones) were submitted in late July 2019.
- Closure Packs for four Milestones (three Implement Milestones and one Embed Milestone) were submitted in late August 2019.
- Closure Packs for two Milestones (one Design Milestone and one Embed Milestone) were submitted in late September 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 two other Design Milestones, 26 other Implement Milestones and 24 other Embed Milestones.
- Work had yet to start on one Implement Milestone and 20 Embed Milestones.

During the Reporting Period, Promontory assessed 10 Milestones (five Design Milestones and five Implement Milestones) as complete and effective. We also closed one Milestone but did not assess it as complete and effective. The Closure Packs for these Milestones were submitted in the Third, Fourth and Fifth Reporting Periods.

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

- three were Board Governance Theme Milestones (Milestones 1.2, 3.3 and 4.3)⁷;
- three were Culture, Capability and Consequences Theme Milestones (Milestones 24b.1, 25a.2 and 26.2)⁸;
- one was a Management Governance Theme Milestone (Milestone 19.2)⁹;
- one was an Operating Model (3LoA) Theme Milestone (Milestone 9.2)¹⁰;
- one was a Customer Outcomes Theme Milestone (Milestone 21.1)¹¹; and
- one was a Program Execution Theme Milestone (Milestone 11.1)¹².

Taking into account Milestones assessed as complete and effective in previous Reporting Periods, in total, as at the Reporting Date, 75 Milestones (51 Design Milestones and 24 Implement Milestones) had been assessed and closed as complete and effective. One Milestone had been closed, but not 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 in some Milestones were, however, not fully mature at the time of assessment. We have, therefore, foreshadowed in relation to a total of 53 Milestones (11 of which were closed 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 (three Implement Milestones and two Embed Milestones) and had not yet begun assessing the two Milestones (one Design Milestone and one Embed Milestone) delivered to us on 27 September 2019.

⁷ See discussion in Section 3.2 below.

⁸ See discussion in Section 9.2 below.

⁹ See discussion in Section 4.2 below.

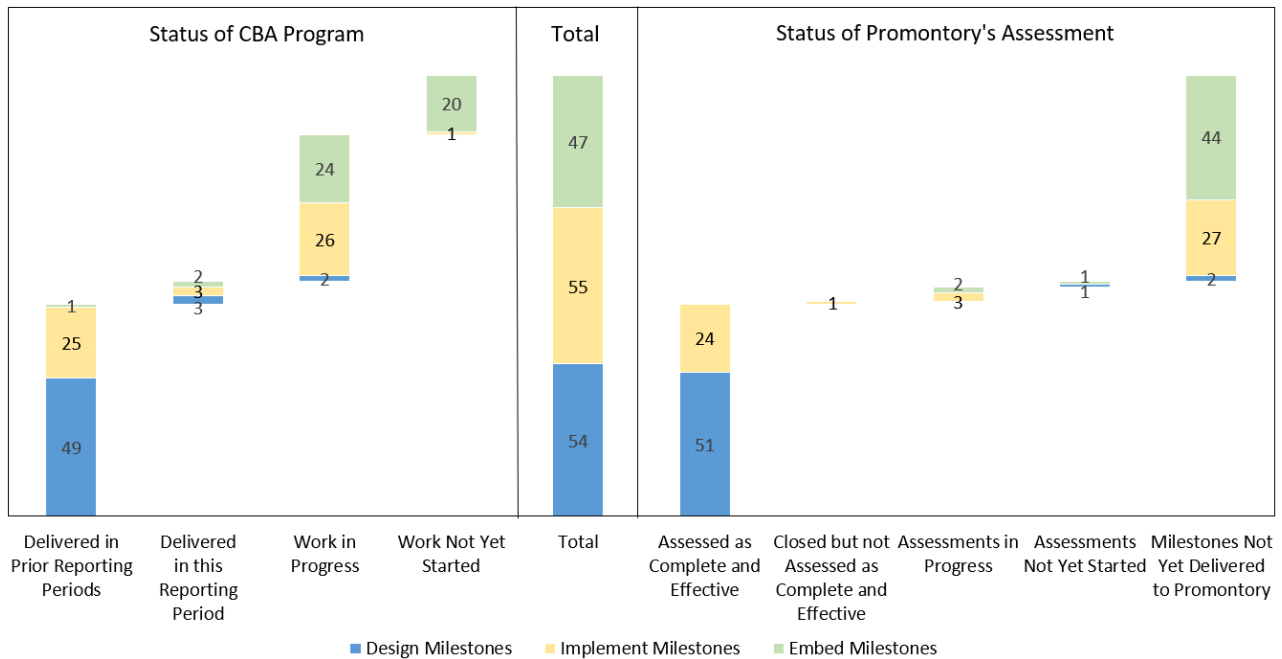
¹⁰ See discussion in Section 5.2 below.

¹¹ See discussion in Section 8.2 below.

¹² See discussion in Section 10.2 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 RAP¹³, in addition to changes associated with the regular quarterly review of the RAP. The requests related to clarifying the detail of either the Milestone Description, Target State, the identity of the Execution Lead, or the detail of the Closure Criteria¹⁴. We endorsed these changes.

Two requests sought to extend the due date for submitting a Milestone. The due date for Milestone 9.3, which deals with the ELT’s endorsement of Three Lines of Accountability (**3LoA**) realignment plans for risk types other than Operational Risk and Compliance (**OR&C**), was changed from September to October 2019 to allow time to seek ELT support for aspects of the relevant plans. The due date for Milestone 12b.2, which deals with defining minimum standards for the first wave of prioritised risk types, was changed from September to November 2019 to allow for the inclusion of certain policy updates to be made as part of Drop 6.

¹³ RAP Change Requests are part of the formal RAP changes process set out in our First and Second Reports.

¹⁴ The four Changes Requests we received were made in relation to Milestone 3.4, 9.3, 12b.2 and 24a.3.

2.2. Key Program Developments

During the Reporting Period, the Program's primary focus was on implementation of the RAP across the Group.

We continued to observe many of the characteristics of successful remediation programs, as described in our Previous Reports.

In particular:

- The Board and ELT continued to display a strong commitment to and provide active oversight of the Program.
- The Program continued to function with an effective operating rhythm, benefiting from ongoing incremental changes to Program governance.
- Program design continued to evolve, with significant changes to the RAP finalised shortly after the Reporting Date.
- Program delivery continued to adapt to manage competing priorities.
- The focus on ensuring Program outcomes are sustainable continued to develop.
- Program management remained strong, with delivery risks continuing to be identified, understood and addressed in a timely way.
- Risk and assurance oversight continued to mature as gaps in risk oversight were reviewed.

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 Fourth Report.

2.2.1. Board and Executive Leadership Oversight

Both the Board and ELT continued to display a strong commitment to the Program and continued to be actively engaged in overseeing the Program.

The Board continued to receive updates on Program progress at each meeting during the Reporting Period. The Head of BROPP presented and took questions at each meeting in what we understand were challenging and constructive discussions. We understand the Board continued to emphasise the importance of ensuring the Program is implementing changes which are built to last.

The Board also reviewed the outcomes of the Foundational Review and was updated on how the outcomes of the Review were expected to affect the RAP.

We are in no doubt that the Board remains committed to the successful and effective implementation of the Program and to the sustainability of the changes being made.

A similar level of commitment is evident in the ELT.

The ELT endorsed and is monitoring a response plan to address the focus areas we set out in our Fourth Report. The action plan sets out the actions the ELT and its members will take in addressing the focus areas.

The commitment of Executive Leaders was also evident in the deep dives, described in section 1.3, with GEs of BPB, IB&M, ES and RBS, and the Managing Director of BWA. These deep dives pointed to a strong commitment to implementing the RAP and to ensuring it is resourced, is given priority in the context of other pressing risk and regulatory concerns, and the solutions being built are sustainable. The deep dives also pointed to a generally excellent understanding of the RAP, the challenges that have been and will be faced in implementation, and how those challenges are being, and might be, addressed.

The Executive Leaders we spoke with all evidenced deep thought and a good degree of reflection on how sustainable Program outcomes could be achieved.

The ELT also engaged with aspects of Program design, including changes stemming from the Foundational Review (described in more detail below in section 2.2.3).

Executive Leadership of all BU/SUs should continue to ensure they have a detailed understanding of the Program, and the risks associated with execution. Executive Leadership should also continue to manage other priorities that have the potential to threaten timely and sustainable execution of the RAP in their BU/SUs.

2.2.2. Program Governance

Several changes were made to Program leadership and governance during the Reporting Period.

The Head of BROP, was elevated to the newly created role of Group Executive Program Delivery. This role will provide support to the Group in driving the implementation of crucial risk and simplification programs, managing program interdependencies, and strengthening the Group's ability to effectively deliver major programs of work.

The creation of this role is an expression of the Group's commitment to ensuring its risk and remediation priorities are addressed in a timely and effective way. It also provides the Group with an opportunity to understand and manage the links and synergistic opportunities between these priorities in a resource-constrained environment. We endorse the appointment.

A new position of Group CCO has also been created, reporting to the Group Executive Program Delivery. The Group CCO will be responsible for coordinating and driving consistency in the operationalisation of the Group's NFR management approach by Line 1. The Group CCO will be tasked with:

- ensuring consistent implementation of the RAP across BU/SUs;
- supporting the development of the CCO community of practice;
- facilitating resources and capability planning for BU/SU Control Office teams;
- working with BU/SU CCOs to ensure consistent and sustained improvement in risk profiles and efficacy of the 3LoA model; and
- leading Group-wide controls improvement initiatives.

The responsibilities of Senior Leaders charged with the management and delivery of the Program were also refined during the Reporting Period.

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The BROP Chief Operating Officer continues to be responsible for all aspects of Program management, including Program Governance, Theme-level Status Reporting, RAP Changes and Regulatory Engagement.

A single Executive General Manager (**EGM**) position is now responsible for all aspects of Program delivery, including the execution of Milestones for each Theme and the Drop process.

We endorse these changes. They reflect the Program's ongoing commitment to continuous improvement, learning from its experiences, reflecting on the adequacy and capability of its resources and making necessary changes.

During the Reporting Period, the BGF continued to mature as an effective forum for providing visibility of and challenge to Program progress. The quality of reporting to the BGF continued to improve. Challenge by BGF members, Line 2 and Line 3 participants and the central BROP team, and the quality of discussion, continued with a good focus on understanding and addressing key Program risks and challenges. Particular improvements were made in discussing the resourcing challenges the Program faces, facilitated by improvements to the rigour and quality of BU/SU reporting.

The BDGF also continued to mature through the Reporting Period. The quality and clarity of reporting tabled at the BDGF improved significantly and evidenced a greater level of engagement from BU/SU CROs.

Greater insight into competing priorities and resourcing at the BU/SU level is now provided.

Each of the BDGF meetings we observed included deep dives led by two BU/SU CCOs and an opportunity to discuss common issues being faced in implementing the RAP.

The Program also reflected on comments made in our Fourth Report about ensuring the efficient and effective operation of the BDGF.

Consideration was given to replacing the BDGF with GE deep dives and using other forums as a means of monitoring implementation status and bringing CCOs together to share experiences and learnings. We challenged whether these steps were premature, given the relatively recent establishment of the BDGF and the opportunity it provides for CCOs to share Program-related information at an important stage of the Program. In response to our challenge, the Program decided to postpone these changes and reconsider them as the Program matures.

The Program should continue to work to ensure the BDGF evolves as a forum in which implementation experiences, risks and issues are shared and fully understood with guidance on solutions and responses actively discussed. During the next Reporting Period, the BDGF should continue to focus on the particular challenges of managing priorities at the BU/SU level and better understanding resourcing needs and creative measures to address those needs.

A channel for the BROP Chief Operating Officer to escalate Program-related risks or issues to GEs was created during the Reporting Period. An example of the use of this channel was the escalation by the Program to the Group CRO of the need for BU/SU CROs to understand their accountability for the accuracy and quality of status reporting for their BU/SU, as highlighted in our Fourth Report. On being made aware of this concern, the Group CRO flagged those accountabilities to BU/SU CROs. We subsequently noticed a strong improvement in the quality of challenge provided by BU/SU CROs of status reports provided by CCOs on implementation progress. We welcome the development and use of this channel. It provides an excellent opportunity to flag to Executive Leadership particular issues and risks which require urgent and timely action.

2.2.3. Program Design, Delivery and Management

During the Reporting Period, Program design, delivery and management continued to evolve and address the challenges we identified in our Previous Reports.

Program Design

The design of the Program further evolved with revisions to the RAP being made to reflect the outcomes of the Foundational Review. The revised RAP was finalised four days after the Reporting Date.

Dependencies between activities in the RAP are now being effectively managed through established mechanisms, including the Implementation Plan, the Dependency Register and the PDMF. Work on measures to evaluate Program success has also progressed.

Foundational Review

The Foundational Review, described in detail in our Third and Fourth Reports, was finalised and the outcomes shared with us during the Reporting Period. As noted above, the Board, which instituted the Review in March, was also apprised of the outcomes.

The Program revised the RAP to reflect the outcomes of the Foundational Review during the Reporting Period in conjunction with the quarterly RAP review described below¹⁵.

Changes to reflect the Review outcomes were made to Milestones in the Risk Appetite, Taxonomy and Standards; Operating Model (3LoA); Accountability and Controls Delivery; and the Culture, Capability and Consequences Themes. Aspects of a number of Milestones were revised, with 10 new Milestones added.

Key outcomes of the Review and their impact on the RAP were the following:

- The creation of Risk Stewards, at the EGM or General Manager (**GM**) level, each tasked with Group-wide responsibilities in relation to a specific risk type. The RAP envisages Risk Stewards for Financial Crimes Compliance, Privacy and Data Management (the Prioritised Risk Types) being appointed by December 2019. These changes are reflected in revisions to Recommendation 9 Milestones.
- Changes to risk profiling, including introducing risk profile consolidation and a value chain approach, prioritising key risks for baselining, and developing control libraries and control taxonomies. These changes are reflected in revisions to Recommendation 12e Milestones.
- Uplifting the risk capability of staff through Group-wide OR&C training. This change is reflected in revisions to Recommendation 13 Milestones.
- Prioritising 27 of 70 policy suites for delivery as minimum standards reflected in revisions to Recommendation 12b. The prioritised policy suites are those either referenced in the *Inquiry Report*,

¹⁵ As the endorsement process for changes stemming from the Foundational Review has been combined with the endorsement process for changes stemming from the quarterly RAP review, which was not finalised until after the Reporting Date, this Report is not based on the post-Foundational Review RAP. Instead, Chapters 3 to 10 of our next report will incorporate these changes, along with the changes stemming from the RAP review.

explicitly committed to under Recommendation 12b or assessed by CBA as necessary to support delivery of other Recommendations.

- Using the Drop Process to deliver non-RAP related changes. The use of the Drop Process is now reflected in revisions to Recommendation 12e Milestones.

The impact on dependent Milestones as a result of changes stemming from the Foundational Review was considered during the September PDMF.

We believe the Foundational Review has given the Program an opportunity to address the resourcing and prioritisation challenges it faces by focusing on priority risks, key OR&C processes, and uplifting risk capability. The early focus on Financial Crimes Compliance, Privacy and Data Management risks are to be welcomed. These are areas which have not only been the subject of recent regulatory action but are also critical to restoring regulator faith in the credibility and reliability of the Group's approach to managing NFR. We encourage the Program to urgently progress changes it is considering to Recommendation 15 Milestones in the RAP to ensure similar priority is given to the profiling of conduct risks, and so providing a basis for restoring regulator faith in the credibility and reliability of the Group's approach to managing those risks.

The changes made as a result of the Foundational Review are ambitious and complex, but welcome.

Particularly important are the extensive changes to the Recommendation 12e Milestones dealing with risk profiling. Robust, accurate and timely risk profiling and assessment processes are the cornerstone of an effective NFR management framework. These changes are designed to ensure that the events that gave rise to the Prudential Inquiry are not repeated.

The Program should also work to ensure it does not over-engineer the implementation of these changes to the RAP. It should also place a very high premium on early engagement with BU/SU CCOs and CROs, and on clear communication about the reasons for the changes, what the changes entail and 'what good looks like', in order to assist in ensuring seamless implementation of what many will see as extensive changes. The Program should also continue to closely monitor the resourcing implications of the revisions made to the RAP and work to ensure the resourcing benefits the Foundational Review was intended to deliver are not lost.

The Program should grasp the opportunity it has been given by the Foundational Review to deliver a state of the art NFR management framework.

RAP Review

In line with its commitment to review the RAP on a quarterly basis, the Program finalised a comprehensive review of the RAP during the Reporting Period. Changes to the RAP as a result of the review, along with those stemming from the Foundational Review, were finalised on 4 October.

The proposed changes associated with the quarterly RAP review included:

- changes to clarify evidentiary requirements in relation to Milestones that involve consideration and approval at the Board-level;
- minor changes to Milestone due dates and Recommendation closure dates;
- wording changes to clarify the scope of certain Milestones;
- other wording changes to improve clarity and consistency; and

- changes to the Execution Lead for certain Milestones.

Finalising the RAP review was a lengthy and time-consuming process involving many meetings within CBA and with us. Although we acknowledge the scope of the RAP review during this Reporting Period was particularly extensive, the Program should work to ensure future RAP reviews are efficient, and agile enough to respond in a timely way to changes that may arise.

Going forward, we understand the Program will produce a new version of the RAP on the first working day of every month. It will include revisions endorsed in the previous month. To ensure the latest version of the RAP is being used by those involved in the Program, the RAP will be distributed only to staff on a restricted list, with a requirement to delete old versions.

RAP Dependencies

Our Previous Reports have repeatedly highlighted the critical importance of the Program fully understanding dependencies between RAP activities.

The Implementation Plan, complemented by a more detailed Dependency Register, continues to act as the single source of truth on Milestone dependencies.

The effectiveness of the PDMF as a forum to discuss, understand, monitor and reinforce dependencies, using the Implementation Plan, continued to mature through the Reporting Period. Reporting to the PDMF has greatly matured, supporting an improved understanding of cross-Theme dependencies.

Meetings of the PDMF consistently help to ensure that Milestone dependencies, and their implications, are widely appreciated, and to adjust Milestone due dates where necessary. For instance, the September PDMF explored the impact of the Foundational Review on dependent Milestones with active challenge from forum attendees. The PDMF has also introduced more rigour around identifying and managing 'category dependencies' (e.g., training, technology and approvals requirements).

The central BROP team also created a Commitments Register during the Reporting Period, designed to record instances in which our final Milestone assessments indicated our intention to consider particular design features or approaches to implementation when assessing related Implement and Embed Milestones. The Commitments Register and the implications for dependent Milestones are now discussed and considered at PDMF meetings.

Program Success Measures

The Program progressed work on the measures it will use to assess whether the RAP has been successfully executed in a sustainable way.

During the Reporting Period, a CCO working group was established to further develop metrics that could be used to measure Program success. The direct involvement of CCOs should ensure that the metrics developed are tailored to BU/SU requirements.

In future Reporting Periods, we will continue to monitor how program success measures are developed, in light of the need to evaluate whether Milestones have been sustainably embedded.

Program Delivery

The Program continues to be delivered in a diligent and professional manner.

The Reporting Period saw increased maturity in both the Drop Process and the role being played by CCOs and CROs through the process.

The Program also made significant progress on managing competing priorities and interdependencies.

Drop Process

The Drop Process, described in our Fourth Report and managed by the central BROP team, continues as the vehicle for delivering Program Milestones across the Group.

During the Reporting Period, the Program was engaged in activities across a number of Drops. In particular:

- Evidence was collected in relation to Drop 4 activities conducted in the last Reporting Period. The focus of Drop 4 was described as 'Clarifying and aligning our profiles, actions and accountabilities'. Drop 4 activities included introducing the new operating model for regulatory engagement and reporting on systemic issues identified from customer complaints.
- Drop 5 activities were implemented. The focus of Drop 5 was described as 'Strengthening improvements to date and laying the foundations for future change'. Drop 5 activities included rolling out pilot incident management standards and procedures, Risk Capability Assessments, and the Line 2 Assurance standard and procedures.
- Preparation was underway in relation to Drop 6, to be conducted in the next Reporting Period. The focus of Drop 6 is being described as 'Continuing the rollout of critical elements, while building on changes made to date'. Drop 6 activities include introducing the new compliance incident standard and procedure, an induction training program for new Controls Office roles, retention focus groups, and the GDF.
- Early thinking was being undertaken in relation to the activities in Drop 7, to be conducted in the first quarter of calendar year 2020.

During the Reporting Period, the Process continued to be refined and matured.

The Drop Process now comprises detailed steps and procedures which are supported by detailed documentation and regular communications about the Process and its requirements. These procedures involve early engagement with key stakeholders about the content of each Drop (in the planning stages), communication about the activities each Drop requires, the reasons for those activities and a description of the intended outcomes.

The Program also made a number of refinements to the Process during the Reporting Period, including the following:

- A 'calendar view' was developed of all upcoming RAP change requirements (include those outside the Drop Process) for use by BU/SU stakeholders.

- Communication materials about each Drop were enhanced. All Drop materials are now consolidated into a single Drop Implementation Guide. This change was designed to address the need, identified in our Fourth Report, for clear, unambiguous and focused communications and instructions.
- The Program has sought to ensure early consultation with BU/SUs on the scope of each Drop. This has resulted in improved clarity in what is expected of BU/SUs and better engagement between BU/SUs and the central BROP team. The practice of engaging with BU/SUs during the scoping process and providing clarity on Drop requirements at the earliest possible stage should continue going forward, especially in relation to the requirements of the value chain approach and risk profile consolidation introduced into the RAP after the Foundational Review.
- CCOs, in particular, have been active in providing feedback on a range of aspects of the Drop Process, including providing feedback on the scope of each Drop, the level of detail about particular activities and 'what good looks like'. The central BROP team has responded in a timely and constructive way to this feedback.

The Drop Process is emerging as a measured and pragmatic change delivery vehicle across the Group, evidenced by Executive Leadership's endorsement of the Process for other large-scale NFR initiatives. The Process is well placed to deliver consistent application of the RAP, and other Group-wide NFR change initiatives. The Program should continue to closely monitor the progress of, and any issues associated with, each Drop to ensure it realises this potential.

As the scope of Drops continues to expand, consideration should also be given to the need for evidence check points through each Drop, rather than waiting until the end of the Drop to collect evidence from BU/SUs. This could assist in identifying any Drop implementation issues (e.g., incorrect interpretation of a requirement or inadequate evidence) at an earlier stage and allow the BU/SU to correct course before the end of each Drop. As the scope of the Drop Process is expanded to include non-RAP requirements, the Program should also diligently monitor the risk of focus on RAP activities decreasing as a result of the introduction of additional non-RAP requirements within each Drop.

In coming months it will be important to ensure that there is a clear understanding of both the content of each Drop and its implications for resourcing in BU/SUs and across the Group.

For instance, the scope of Drop 6 activities will be greater than the scope of activities in Drop 5; the scope of Drop 7 and Drop 8 activities are expected to be even broader (as non-RAP activities are included). The importance of early engagement about the content of these Drops should not be understated, as it will provide an early opportunity to understand and address production and consumption resourcing requirements (particularly in the BU/SUs).

As the 'test and learn' approach is further deployed to roll out new standards, further consideration should be given to ensuring the outcomes of the 'test and learn' process (e.g., updates to minimum standard requirements) are reflected in the Drop materials and are communicated to the appropriate stakeholders in a timely manner.

The role of CCOs

BU/SU CCOs are playing, and will continue to play, an important role in ensuring that the Program delivers a significantly enhanced NFR management framework on a consistent and sustainable basis.

We see CCOs as having two important roles in delivering the Program.

Firstly, CCOs are project managers, responsible for managing (or participating in the management of) delivery of the Program at the BU/SU level. They have a key role to play in understanding the risks to meeting deadlines and the risks to consistent and sustainable delivery of the Program. During the 'Strengthening Implementation Approach' team day described in section 1.3, we urged CCOs to continue to display 'chronic unease' in challenging themselves to understand the risks they face and to be creative in understanding how the challenges might be addressed. We suggested a particular focus on understanding and challenging themselves on their resourcing needs.

Secondly, CCOs are change agents. They are the closest part of the Program to the areas of the Group in which new or revised processes will need to be implemented and applied. They, therefore, have a key role in driving the change the Program is designed to deliver, ensuring the hearts and minds of staff are captured and that process changes are applied as intended on an ongoing basis. How CCOs engage with the front line will therefore be of great importance to the Program's success. They must present messages and information so that staff in their BU/SU not only understand, but also remain committed to, the need for change.

We have been encouraged through our deep dive discussions and observations that CCOs understand and are working to meet the challenges of their roles; there is now an elevated awareness of their role as change agents.

We have also observed a good level of engagement between CCOs in sharing their experience, their ideas and solutions in addressing the challenges they face.

Our deep dives also generally pointed to good engagement and a level of comfort between GEs and their CCO. In our view, where there is genuine and active engagement between the CCO and GE and active endorsement of the CCO by the GE, BU/SUs are likely to be better positioned to deliver sustainable outcomes. We urge GEs to continue to work closely with and support their CCOs through the Program.

The central BROP team also has an important role in supporting CCOs, for instance by equipping them with clear messages the CCO can disseminate to their BU/SUs. We encourage CCOs to continue to provide feedback to the central BROP team where they believe these messages are not hitting the mark. The Group CCO, once appointed, will also have a vital role to play in supporting the work of the CCOs, especially in ensuring that BU/SU CCOs share their experiences with implementation and learn from each other.

Managing Competing Priorities and Program Interdependencies

As noted in our earlier reports, CBA faces a number of challenges in delivering the Program in the context of competing priorities, including ensuring that:

- competing priorities across the Group are identified, and appropriately and explicitly prioritised with adequate resources;
- dependencies between priorities are understood and sequenced appropriately; and
- competing priorities within BU/SUs are discussed and prioritised consistently with Group priorities.

During the Reporting Period, significant progress was made in addressing these challenges, building on the work of and experience with the Foundational Review.

As discussed above, the Group Executive Program Delivery will now provide support to the Group in driving the implementation of crucial risk and simplification programs, managing program interdependencies, and strengthening the Group's ability to effectively deliver major programs of work.

We understand that the new GE has embarked on a program that, through the final quarter of 2019, will build the foundational elements of the Group's approach to monitoring and managing competing priorities and interdependencies.

This approach is likely to include:

- Regular meetings of GEs to review resourcing and funding contentions and make overt decisions about prioritisation within the program portfolio.
- Expanding the Drop Process to deliver changes associated with other large-scale NFR initiatives activities as noted above.
- Deepening CBA's understanding of interdependencies across seven major programs identified by the Group Executive Program Delivery, and increasing awareness of these interdependencies among program leaders.

The new approach to managing competing priorities and interdependencies should provide the Group with a solid foundation from which to better identify, understand and harness synergies between competing priorities.

We will monitor how the new approach is progressing and its impact on the RAP and the Program.

Competing priorities are also being managed at the BU/SU level. During the Reporting Period, we saw further evidence of prioritisation processes being put in place in many of the BUs. In each of the BUs which were the subject of deep dives, we discussed particular measures taken to monitor and address prioritisation challenges. Measures generally included monthly meetings of BU/SU Leadership Teams, supported by more frequent formal and informal processes, such as weekly scrums, to monitor project status and priority and whether and how resources could be reallocated. Further work on developing and, where appropriate, formalising these processes should be considered in each BU/SU.

Program Management

During the Reporting Period, the Program continued to be managed effectively.

Questions posed by us in relation to Milestone Closure Packs were responded to in a timely way. Status and risk reporting matured, program-related communications remained vibrant and engaging, and appropriate attention was paid to resourcing and technology needs.

Closure Pack Assessment and Quality Assurance

During the Reporting Period, the central BROP team demonstrated an ongoing, strong commitment to meeting the timeframes set out in the RAP.

In order to track progress, the central BROP team created a document to track its undertakings in relation to timely delivery of responses to our assessments and information requests. The tracker records various metrics such as the number of days between receiving our initial assessment and CBA's response, and the number of days between Closure Pack submission and Milestone closure.

The central BROP team's commitment to providing a timely response to our post-submission questions and the development of the assessment tracker has contributed to an increase in the efficiency of the Milestone assessment and closure process.

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Quality assurance over Closure Packs continued to improve during the Reporting Period. The overall quality of Closure Packs is now greatly improved over the quality of some that we have received in the past. The mechanics of the Drop Process now also allows for relevant evidence to be efficiently gathered in relation to Milestones executed at the BU/SU level.

Delivery Risk and Status Reporting

The rigour and consistency of reporting by Major Theme Leads to the BGF continued at a uniformly high standard during the Reporting Period.

The Theme implementation status reports to the BGF continue to provide a clear, and consistent, overview of the progress and risks associated with each Theme.

Improvements in resource reporting to the BGF were made during the Reporting Period. BGF reporting now distinguishes between resources required in the SUs for the production of RAP deliverables, resources required in BU/SUs for the consumption of RAP deliverables and resources required to achieve the 3LoA target state. Data broken down by BU/SU and Drop number are presented. It is critical to ensure that the data underlying this reporting are accurate.

The rigour and consistency of reporting by BU/SU CCOs to the BDGF also improved during the Reporting Period. Issues with the level of rigour with which the implementation status of each BU/SU is challenged by BU/SU CROs and, as noted in Previous Reports, inconsistencies between BU/SUs in their evaluations of similar delivery risks are being addressed.

BU/SU implementation status reporting, and the discussion it leads to at the BDGF, remains a vital component in tracking BU/SU progress, and in monitoring and mitigating the risks posed to successful Program delivery at the BU/SU level. The Program should continue to focus on ensuring that resourcing estimates, in particular, are accurate and actively discussed in BDGF meetings.

Communications

We continue to monitor CBA's approach to Program-related communications. During the Reporting Period, communications remained vibrant and engaging, and were delivered at the level of quality and frequency described in our Previous Reports thereby addressing the risk of 'message fatigue'.

We continue to be impressed by the quality of Program-related communications and the variety of channels used to disseminate them. Innovations to continually change and refresh the style of communication were made during the Reporting Period. For example, podcasts in which GE's were interviewed about Program-related activities were launched during the Reporting Period. Communications in relation to 3LoA are planned for future Reporting Periods, as are videos of CCOs describing Drop 6. These innovations will serve to maintain the momentum of the Program and support the significant changes it is planning to achieve.

The Program continued to be supported through communication initiatives at all levels of the Group.

During the Reporting Period, the Chairman discussed Program-related topics at the People Leader Forum. In discussion with the GE of HR, the Chairman touched on the importance of organisational purpose, personal values, and leadership.

Regular, co-ordinated and authentic messaging from the Chief Executive Officer (CEO) also continued throughout the Reporting Period. These messages were delivered through a variety of channels, including the

CEO Town Hall, the People Leader Forum, email updates and video. For instance, email updates on RAP progress continued to be shared across the Group.

The Chairman and CEO's communications were supported by communications from GEs to their BU/SUs about their ongoing and strong commitment to the Program. Tailored communications from GEs via channels such as staff forums and email updates continue to play a vital role in making the Program relevant to staff on a day-to-day basis. Staff feedback on these communications, particularly GE podcasts, remarked on the candour and authenticity of the GE's messages.

Communications on the Program have also been disseminated by EGMs and GMs. These communications touch on topics such as applying the five skills and operational aspects of the Drops. Detailed updates on progress against the RAP also continue to be distributed by GEs, EGMs and GMs.

Ensuring communications are relevant and concrete remains critically important to the success of the Program. During the Implement and Embed Phases, the Program is affecting the grass roots of the organisation. The Program should ensure that communications continue to be designed to win the hearts and minds of staff in order to ensure the Program receives buy-in at all levels of the organisation.

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.

We also note that our Third and Fourth Reports were released publicly during the Reporting Period. We welcome the transparency demonstrated by CBA in releasing these reports¹⁶.

Monitoring and Addressing Resourcing needs

As discussed above, significant progress on resource reporting was made during the Reporting Period. The Program now has an improved sense of resourcing needs across production and consumption of the RAP and resourcing in line with 3LoA realignment plans. There is also a better understanding of capability gaps. Nonetheless, further work is needed to ensure consistency in reporting between BU/SUs and to confirm resourcing in line with the 3LoA realignment plans.

Much of the work on improving reporting during the Reporting Period focused on resourcing needs in relation to consumption in Drops 5 and 6. Further work is needed to ensure the Program has an understanding of the resourcing needs in future Drops and for the life of the Program. We recognise the challenge in developing reliable forecasts, but note also the need to ensure appropriate forward planning in the context of competing priorities.

Despite the improvements made in resource reporting, capacity and capability to implement key aspects of the Program generally remain the most significant risks to successful implementation. These risks continue to be acknowledged in both Theme and BU/SU level status reports, and discussed in various governance fora. They will continue in the context of early Drops in 2020, which are expected to involve a broader scope than Drops during 2019.

While resourcing needs in relation to the Program have been confirmed by BU/SUs and necessary approvals to hire staff have been given, the Program continues to face significant challenges in filling the relevant positions. The Program should continue to concentrate on creative hiring to fill these positions. Consideration should be

¹⁶ Available [here](#).

given, for instance, to hiring risk professionals from other industries, which has been done with some success in some BU/SUs.

As noted above, the Program is uplifting risk capability as part of the outcomes of the Foundational Review. The Program should continue to take steps to improve risk capability through assessment and training.

We will continue to keenly observe the success of these and other initiatives developed by the Program in addressing the risk of insufficient capacity and capability. We will pay particular attention to whether sufficient capability exists in all parts of the Group to successfully and sustainably deliver the Program.

Monitoring and Addressing Systems and Technology Needs

Ensuring that systems and technology support execution of the RAP on an ongoing and sustainable basis continues to be an important aspect of the Program.

During the Reporting Period, we continued to monitor initiatives being taken by the Enabling Systems, Data and Reporting work stream to support this aim.

Progress on developing and launching technology to support execution of the RAP continued to be made during the Reporting Period.

The Program also continued to display a detailed understanding of interdependencies between Program activities and technology. For example, Milestone actions that involve a technology component are flagged as such in the Implementation Plan. To ensure that these dependencies are successfully managed, staff responsible for developing the related technology continue to be involved at an early stage in the Milestone action design process.

The Program has also undertaken several measures to improve the quality of NFR data. In the coming Reporting Period, the Program should remain focused on ensuring that NFR data is of sufficient quality to support effective decision-making at all levels of the organisation.

2.2.4. Risk and Assurance Oversight

During the Reporting Period, we observed continued improvement and strength in Line 2 oversight of the Program. Contributions made by BROP Line 2 in Governance meetings we attended continued to be both appropriate and constructive; they continue to generate a good level of reflection and discussion.

The following gaps in the coverage of Line 2 oversight over the Program identified in our Fourth Report remain. In particular:

- there is no Line 2 oversight of centrally-designed and implemented Milestones; and
- there is no Line 2 oversight of Milestones being implemented by Line 2.

BROP Line 2 has acknowledged these gaps and conducted an analysis to identify those Recommendations for which an appropriate level of assurance coverage of Line 2 activities may be lacking. Work continues in clarifying and agreeing what oversight and assurance is needed in each of these areas.

BU/SU CROs also play a vital role in ensuring that the Program is executed in a timely and sustainable way. During the Reporting Period, we met with the CROs of several BU/SUs. We were pleased to see an appropriate

level of BU/SU CRO engagement with the Program, particularly in relation to providing challenge on the implementation of the Program in their BU/SUs.

BU/SU CROs are now actively reviewing their BU/SU's delivery risk profile and how risks are being managed. The deep dives and reporting of BU/SU status evidenced an increased level of engagement with, and robustness in challenge of, Line 1's assessment of implementation progress and risks.

We will continue to meet regularly with BROP Line 2 and BU/SU CROs to discuss their findings in relation to oversight activities.

During the Reporting Period, we met regularly with GA&A to discuss their observations on Program design, delivery and management. We have found these meetings to be a useful opportunity to share our impressions of Program developments and test them against another independent view. The impressions we have developed through our monitoring and assessment activities have generally aligned with the views of GA&A staff.

GA&A finalised an audit of the GDF during the Reporting Period. It noted that increased reliance had been placed on an external delivery partner in developing the latest version of the GDF, and the need for CBA to build internal capability and capacity to ensure that the GDF is sustainably embedded. It also noted elevated delivery risk in relation to the development of future versions of the GDF and that the scope of GDF improvements had not been mapped to RAP requirements. Management has committed to take action to remediate these issues. We will undertake an assessment of the activities that were the subject of this audit under Milestone 34.2 in July 2020.

The preliminary findings about the Program's processes and controls as part of the GA&A review of the Group's OR&C Management Framework, as set out in our Fourth Report, were also finalised during the Reporting Period.

GA&A will continue to employ a risk-based approach to auditing other organisational process and control changes introduced through the Program over FY20, including the implementation of the Issues Management Standard and 3LoA.

2.3. Ongoing Challenges and the Road Ahead

Each of our Previous Reports has noted the challenges posed by delivering an ambitious program of fundamental and complex change across an organisation the size of CBA in the timeframes contemplated by the RAP.

Each Report has stressed the critical importance of ensuring momentum is maintained throughout and across the Program.

In our view the Program has maintained the necessary momentum, with considerable success, through the Design and Implement Phases of the Program. A sound basis to achieve the Program's objectives and outcomes has been, and is being, delivered.

Key contributors to this success have been the following:

- The active and genuine engagement and commitment of the Board.

This has been evident in the Foundational Review, initiated by the Board, and the elevation of the Executive responsible for leading the Program to the ELT.

- An active and genuine commitment by the Group's Executive Leadership to ensuring implementation of the Program is given priority in an environment in which a number of critical risk and regulatory priorities have had to be addressed.

The Executive Leaders, with whom we have engaged, have demonstrated an excellent understanding, not only of the objectives and the need for the Program, but also of the detail and challenges associated with implementation. That commitment has been communicated through regular and engaging communication across each BU/SU. Progress is being monitored through Leadership Team forums and BU/SU NFRCs.

- An effective and agile central BROP team.

The team, staffed by CBA employees with business experience and standing across the Group, has driven and monitored the Program with good effect. It has been willing to adapt Program design and delivery to reflect feedback from those engaged in implementation. It has been willing to listen to, and actively address, the feedback being provided to them.

The central BROP team has been alert to the risk of complacency. It has continued to display and exemplify the 'chronic unease' described in the *Inquiry Report* by continuing to actively challenge Program participants on all delivery risks.

The authority of the central BROP team has also been enhanced by the appointment of the Executive responsible for leading the Program to the ELT. This has given the central BROP team a clear voice at all meetings of the ELT.

- The Drop Process acting as the vehicle to implement (and embed) central designs in a consistent way across the Group.

As we have noted, the Drop Process has been refined through the course of this year and has emerged as a well-accepted and increasingly well-understood change management vehicle. This was reflected in discussions during deep dives and our observations of discussions at Governance meetings, including the ELT NFRC, where the Drop Process is now taken as an essential part of the Program's landscape. It was also reflected in plans to use the Drop Process for other high priority NFR change programs (including Group-wide remediation programs).

- The creation and increasing maturity of the CCO role in each BU/SU.

The CCOs and their teams have displayed a strong and active commitment to effectively implementing each Milestone. Through our deep dives we have observed strong mutual support and generally good working relationships between the GE, CCO and CRO of each BU/SU. The CCOs and their teams, as the closest part of the Program to staff responsible for implementing new and revised processes, have a pivotal role to play as change agents.

- The increasingly effective management of competing priorities between the Program and other risk and regulatory initiatives, and the development of a sharper and better understanding of the resourcing needed to deliver the Program.

The Foundational Review and the resulting changes to the RAP were an opportunity to reflect on whether and how the Program's ambitions in relation to NFR management could be refocused on key, fundamental processes while addressing the most pressing risk and regulatory priorities from outside the Program, including conduct risk. Processes have also been developed at the BU/SU level for conducting deep dives to better quantify, understand, challenge and address resourcing needs.

The Program's journey will, however, change in character over the next six months. The Program will transition from the Implement Phase into embedding the designs developed earlier in the Program across the Group. Work is now underway (or has recently been completed) on 27 of 47 Embed Milestones. Between October 2019 and March 2020, 16 Embed Milestones are to be delivered.

The success and effectiveness of the Program through this transition period in building on the foundation developed to date will depend not only on achieving the Target State for each Recommendation consistently across the Group by the due date, but on steps being in place that are designed to ensure the Target State continues once the Program ends.

The importance of ensuring momentum is maintained around a consistency and sustainability focus as the Program is delivered in BU/SUs, and the challenges in achieving them, have been flagged in our earlier Reports. Other challenges will emerge.

Key these will be managing the risk of change fatigue and the risk of 'over-implementation'. Both risks threaten sustainability of Program outcomes.

Change fatigue is a risk in any long-term change program. It is a key risk for this Program.

Drops 6, 7 and 8, which will be delivered in the nine months from 1 October 2019, will involve significant levels of activity relating to a number of Recommendations that are critical to the Program's success. Changes to risk and control assessment processes, and the implementation of new minimum standards and policies are particularly important. The risk of fatigue in BU/SUs in implementing these extensive changes should not be underestimated. That fatigue may undermine commitment to the changes. It may put sustainability at risk if staff focus on getting over the line, rather than building changes to last.

In the post-Prudential Inquiry and post-Royal Commission environment, and in the context of an apparent Group-wide commitment at all levels to restore public trust and confidence in the CBA brand, there is also a risk that those tasked with implementation will strive to 'over-implement' new processes; that is, through a genuine desire to ensure all new requirements are fully met, there is a risk that additional, and possibly unnecessary processes, will be developed. Over-implementation would make embedding change harder.

The Program will need to ensure momentum is maintained while addressing the challenges posed by these change risks. The Board and Executive Leadership, in particular, will need to ensure its messaging about the Program carefully recognises the challenges of delivering sustainable outcomes within the timeframes contemplated by the RAP.

As the Program transitions to the Embed Phase, our focus in assessing Program success and effectiveness will increasingly focus on how new processes are in practice being applied at all levels of the Group.

In this section, we set out in more detail the challenges we see the Program facing in coming months. These challenges are interrelated.

2.3.1. Consistency

A key measure of the success of the Program will be the consistent application of the changes it is making across the Group.

As we have noted in Previous Reports, the difficulty of implementing the Program in a consistent and sustainable way at the BU/SU level should not be underestimated given the size of the organisation and the different levels of maturity in relation to NFR management across the Group.

These challenges have been well addressed to date.

During the Reporting Period, the Program's governance and execution disciplines further evolved and created a foundation for delivering consistent outcomes across the Group. The central BROP team is now receiving reliable reporting about delivery status across the Group. The quality and depth of this reporting has improved significantly this year. The reporting is now reviewed and subject to strong and robust challenge by CROs. The outcomes of this reporting are being shared with relevant Governance Forums, the ELT and the Board. Good challenge continues to be evident in these forums, particularly from Line 2. This challenge is generating reflective discussion and action.

The central BROP team has also developed processes to escalate issues and delivery risks as they arise, with evident good effect.

The central BROP team should continue to build on the good work to date and apply an even sharper consistency lens to the Program.

The Group CCO will also have an important role to play in driving consistency.

The Program should also reflect on how existing forums, in particular the BGF and the BDGF, can be used by those involved in execution to share experiences and drive consistent approaches across the Group.

The effectiveness of these measures will also depend on the effective contribution of both CCOs and CROs in closely monitoring Program delivery and working to ensure measures continue to be implemented in line with intended design.

2.3.2. Sustainability

As the Program transitions to the Embed Phase, it will need to focus squarely on ensuring the Target State for each Recommendation will continue to be met on an ongoing basis beyond the Program and becomes part of business-as-usual processes.

The Program will need to reflect on what sustainable outcomes look like, how they might be achieved and work toward ensuring they are delivered.

Some good early thinking about this was evident from our deep dive discussions with GEs and their CCOs and CROs.

Sustainable outcomes were seen by a number of those we spoke to as being delivered by ensuring processes are well understood, routine and applied in the same way every time. We endorse this view.

Achieving these outcomes will depend on a number of factors, which are likely to include the following:

- The processes themselves being simple, practical and easily repeatable.
- Clear communication about the reasons for the new processes, tied to demonstrable business outcomes.
- Recognising that the best way of delivering processes is to experience them, ideally in an environment supported by the experts responsible for participating in the design of the process. There is much to be said for continuing with the 'test-and-learn' approach which has been applied in developing new processes in a number of areas (with the design of the Compliance Incident Management and Risk in Change processes as recent examples).
- Ensuring application of the new processes is the subject of regular testing and inspection by line managers of staff applying the processes. The 'Brick Wall' inspection process developed in RBS is an example of a regular inspection process which is being conducted in relation to key processes across that Division and could be adapted to monitoring implementation.

Achieving these outcomes will, therefore, depend on more than simply capturing the hearts and minds of staff across the Group about why changes are needed. It will depend on staff understanding the outcomes they are contributing to achieving and the particular steps they need to take. It will require testing to give management confidence that the changes have become routine and are being correctly applied.

CCOs will have a key role to play in delivering these outcomes. They should reflect on their contribution, including how they communicate the reasons for changes and how those changes are to be delivered. These communications should focus on the outcomes being sought and the processes to achieve those outcomes. CCOs will have a role in supporting their businesses the first time they implement new processes. They should also have a role to play in inspecting and monitoring correct application of these processes.

The central BROP team should reflect on its roles in supporting these outcomes. Key among these will be ensuring clear communication about processes, the objectives of those processes and 'what good looks like'.

Executive Leadership and the Board will have an important role to play in communicating not only what sustainable outcomes look like but how they are to be achieved.

We have flagged to the Program that in assessing upcoming Embed Milestones we will consider not only whether Closure Criteria have been satisfied and the Target State delivered, but also whether reasonable and practical processes have been designed to support the Target State continuing on an ongoing basis. These processes are being described as sustainability plans. We have foreshadowed that we will be testing the operation of sustainability plans before closing each Recommendation.

The Program has started to reflect on the design of sustainability plans. Thought will need to be given to how existing review, testing, reporting and assurance processes can be harnessed to provide mechanisms that can be incorporated into the plans.

2.3.3. Addressing Change Risks

As noted, we see two main change risks. The first is the risk of change fatigue. The second is the risk of over-implementing, as described above.

Change Fatigue

The Program should carefully work to understand and consider the risks associated with the level of intense change activity expected in coming months.

Unless addressed, fatigue in BU/SUs may not only sow the seeds of resistance to the Program (which we have not yet seen), but may also adversely impact the sustainability of outcomes.

The opportunities to manage change fatigue by increasing resources available for implementation are limited. The resources required to implement many of the changes envisaged by the Program are scarce. The Program continues to actively explore measures to direct resources from within the Group and to engage in creative recruiting from outside the Group.

Managing change fatigue risk is, therefore, more likely to be addressed by focusing on how the demand for implementation resources is being managed across the Group.

The Program should, therefore, reflect on ways of managing the demand for limited resources.

Consideration could be given to reviewing the timing and sequencing of Drops in coming months. The implementation of Drops 6, 7 and 8 are expected to involve significantly more activity than Drops 4 and 5 which, given the stage the Program has reached, is understandable.

The introduction of a pause between one or more of those Drops, for instance, could help to address the risk of change fatigue. Ensuring the rollout of activities within each Drop can be staggered might also be considered, as could descoping some activities to focus on high-risk priorities (as was done as a result of the Foundational Review).

A pause or staggered rollout may give those actively engaged in the Program and those implementing it, the opportunity to reflect and recharge.

Should any of these options be pursued, CBA will need to very carefully balance managing the risk of change fatigue with the possible loss of some of the momentum which has been evident to date and the risk of not meeting due dates currently set out in the RAP.

Over-Implementation Risks

Concern was expressed in some of our meetings with CCOs and in the deep dives that some staff tasked with delivering new and revised processes, and motivated by a genuine concern to get the processes right, may be inclined to 'gold plate' or over-engineer those processes.

We see this as a potentially significant risk. The risk reflects a focus on process over outcome, with the risk of unnecessarily over-complicating those processes.

As the Program enters the Embed Phase, the simplicity and practicality of the tasks BU/SUs are being asked to implement will, therefore, be even more critical than they have been. Unnecessarily complex processes will be more difficult and time-consuming to implement, and will take longer to embed. This will be further

exacerbated if the reasons for introducing new processes, or revising existing processes and the outcomes, are poorly explained.

A well explained process, described with a clear focus on the outcome it is designed to achieve, will contribute to limiting the temptation for staff to over-engineer and gold plate processes. Simple, well-understood and repeatable processes are more likely to provide the solid foundation needed for sustainable outcomes.

The central BROP team has an important role to play here. The team should work with SMEs and Execution Leads to ensure the content of Drops is simply designed, and that materials describe 'what good looks like' in clear and unambiguous terms. BU/SU CCOs and their teams should also work to ensure a strong emphasis is placed on the objectives of each element of the Drop when communicating Drop requirements.

2.3.4. Other Program Challenges

The Reporting Period has also highlighted other challenges to the success of the Program. We summarise them in this section.

Resourcing

Despite improvements during the Reporting Period in quantifying resourcing needs, and understanding and assessing capability gaps, further work is needed. The Program should ensure it works toward taking a longer-term perspective and understanding of resourcing needs beyond upcoming Drops and through the challenging Embed Phase of 2020 and 2021.

The Program should also continue its efforts to engage in 'creative recruiting' and to share approaches and successes evident to date (for instance by recruiting risk resources from outside the banking industry).

Addressing Competing Priorities

The Group continues to face many other competing risk and regulatory priorities which are placing significant resourcing pressure on most, if not all, BU/SUs.

In the context of limited resources and a significant number of other risk and regulator-driven initiatives, understanding, addressing and harnessing interdependencies between these various initiatives is of great importance.

The Foundational Review was an opportunity for the Program to reflect on and refocus the RAP in light of competing priorities. It resulted in a refocus of the RAP in relation to the most-pressing competing priorities in place at the time of the Review.

BU/SUs should continue to build on the thinking described in section 2.2.3 to develop both formal and informal mechanisms to understand interdependencies, harness and use them to address resourcing needs.

In coming months, CBA should also work to ensure the new Group Executive Program Delivery is fully supported in his efforts to understand and manage the links and synergies between the Program and competing priorities at a Group level and, if needed, make further changes to the RAP.

Assurance

The Program has benefited through this year from a heightened level of Line 2 oversight at both Group and BU/SU level. The quality of assurance and challenge reflected application of the new 'approve and accept approach', which has benefited the Program at all levels.

However, some of the gaps we identified in our Fourth Report in relation to oversight of Line 2 activity remain. These gaps should continue to be assessed and decisions made about how they might be addressed.

CBA should, therefore, clearly think through the risks and consequences of there being no Line 2, or other, assurance in relation to particular Milestones and consider whether any additional measures are needed to ensure timely oversight of Program-related activities.

Line 2 in BU/SUs also plays an important role in the production, consumption, assurance and oversight of the Program. This wide-ranging set of responsibilities places a heavy burden on Line 2. In particular, Line 2 faces challenges in providing appropriate assurance and oversight in relation to some Milestones, given its role in production and consumption of the Program.

We therefore urge CBA to clearly define the remit of Line 2 vis-à-vis production, consumption, assurance and oversight, by documenting and communicating Line 2's role in each of these areas, and ensuring sufficient resources are allocated to fulfilling those roles.

The Role of the CCO

Progress made during the Reporting Period has underscored the importance to the success of the Program of empowered and effective CCOs. As discussed, CCOs have a key role to play as change agents in delivering the consistent and sustainable outcomes which will be the hallmarks of the Program's success. They are the key source of information about, and judgement on, delivery progress and delivery risk in their BU/SUs.

CBA should, therefore, work to ensure that CCOs have the undisputed and active support of their GE to implement the significant changes that will be necessary to successfully execute the Program. The Group CCO should reinforce to CCOs the criticality of their role as change agents and support them in delivering on that role.

CCOs should continue to display chronic unease by continually challenging the progress and effectiveness of the Program in embedding a sound and effective NFR management framework and culture. Where delivery risks are rated Amber and have continued as Amber, over a number of months, CCOs should, for instance, redouble their efforts to ensure 'Go to Green' plans are not only in place but on track.

CCOs should also continually challenge whether they have sufficient resources to deliver the Program. This involves not just ensuring that forecasts are accurate, but also that actions are taken to ensure that adequate skilled resources to successfully deliver the Program are sourced.

2.4. Focus Areas

This section summarises the areas identified in this Chapter on which 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
<p>Board and Executive Leadership Oversight and Sponsorship</p>	<ul style="list-style-type: none"> (i) The Board should continue its clear commitment to the successful and effective implementation of the Program and the sustainability of the changes being made. (ii) The Board and Executive Leadership will need to ensure its messaging about the Program carefully recognises the challenges of delivering sustainable outcomes within the timeframes contemplated by the RAP. (iii) The Board and Executive Leadership should clearly communicate their view about what sustainable outcomes look like and how they might be achieved. (iv) Executive Leadership of all BU/SUs should continue to ensure they have a detailed understanding of the Program, and the risks associated with execution. (v) Executive Leadership should continue to manage other priorities that have the potential to threaten timely and sustainable execution of the RAP in their BU/SUs. (vi) Executive Leadership should continue to work with and give CCOs their active and undisputed support to implement the significant changes that will be necessary to successfully execute the Program.
<p>Effective Project Management and Governance Disciplines</p>	<ul style="list-style-type: none"> (i) CBA should consider measures it can take to streamline future RAP reviews in order to ensure that the process is efficient, and agile enough to respond in a timely way to changes in the challenges that may arise. (ii) The Program should continue to provide the BDGF with every opportunity to mature into a forum in which implementation experiences, risks and issues are shared and fully understood with guidance on solutions and responses actively discussed. (iii) The BDGF should continue to focus on the particular challenges of managing priorities at the BU/SU level, and better understanding resourcing needs and creative measures to address those needs. (iv) The Program should continue to escalate Program-related risks or issues to GEs using the formal escalation process, as it started to do during the Reporting Period.
<p>Managing Dependencies and Competing Priorities</p>	<ul style="list-style-type: none"> (i) BU/SUs should undertake further work on developing and, where appropriate, formalising processes to monitor and address prioritisation challenges. (ii) CBA should ensure the new Group Executive Program Delivery is fully supported in his efforts to understand and manage the links and synergies between the Program and competing priorities at a Group level and, if needed, make further changes to the RAP.
<p>Consistency, Simplicity, Practicality and Sustainability</p>	<ul style="list-style-type: none"> (i) The Program should reflect on what sustainable outcomes look like and how they might be achieved, and work toward ensuring these outcomes are delivered. (ii) The Program should give thought to how existing review, testing and assurance processes can be harnessed to provide mechanisms that can be incorporated into sustainability plans. (iii) The central BROP team should continue to build on the good work to date and apply an even sharper consistency lens to the Program.

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	(iv) The Program should reflect on how existing forums can be used by those involved in execution to share experiences and drive consistent approaches across the Group.
Risk and Assurance Oversight	<p>(i) CBA should continue to consider and address existing gaps in Line 2 oversight.</p> <p>(ii) CBA should document Line 2's role in relation to production, consumption, assurance and oversight, and communicate it to key stakeholders.</p>
Program Design, Delivery and Management	<p>(i) The Program should work to ensure the implementation of changes to the RAP as a result of the Foundational Review remain simple and are not over engineered.</p> <p>(ii) The Program should engage with BU/SU CCOs and CROs at an early stage and clearly communicate the reasons for changes to the RAP as a result of the Foundational Review and 'what good looks like'.</p> <p>(iii) The Program should progress changes it is considering to Recommendation 15 Milestones to ensure priority is given to the profiling of conduct risks in parallel with the prioritisation of Financial Crimes Compliance, Privacy and Data Management as a result of Foundational Review initiatives.</p> <p>(iv) The Program should work to ensure future RAP reviews are efficient and agile enough to respond to changes that may arise in a timely way.</p> <p>(v) The Program should continue its work on metrics to measure Program success.</p> <p>(vi) In relation to the Drops Process the Program should consider:</p> <ol style="list-style-type: none"> a) the need for evidence check points through each Drop; and b) how outcomes of the 'test and learn' processes are reflected in Drop materials and communicated to appropriate stakeholders in a timely manner. <p>(vii) The Program should continue to ensure that communications are able to win the hearts and minds of staff in order to ensure the Program receives buy-in at all levels of the organisation.</p> <p>(viii) The central BROP team should work to ensure the content of Drops is simply designed, and that materials and briefings describe 'what good looks like' in clear and unambiguous terms.</p> <p>(ix) The Program should carefully consider the risks associated with the level of change associated with Drop activity in calendar year 2020 and reflect on how demand for limited resources should be managed, and make appropriate changes. It should also continue to work toward ensuring the simplicity and practicality of the tasks BU/SUs are being asked to implement.</p>
Resourcing	<p>(i) The Program should closely monitor the resourcing implications of the recent revisions to the RAP, and work to ensure the resourcing benefits the Foundational Review was intended to deliver are not lost.</p> <p>(ii) The practice of engaging with BU/SUs during the Drop scoping process and providing clarity on Drop requirements at the earliest possible stage should continue going forward, in order to provide an opportunity to understand and address resourcing needs.</p>

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	<ul style="list-style-type: none">(iii) The Program should continue to focus on ensuring resourcing estimates are accurate and actively discussed at BDGF meetings.(iv) The Program should work towards ensuring it develops a longer-term perspective and understanding of resourcing needs, particularly through the challenging Embed Phase of 2020 and 2021.(v) The Program should also continue its efforts to engage in 'creative recruiting' and to share approaches and the successes evident to date (for instance recruiting risk resources from outside the industry).
CCOs	<ul style="list-style-type: none">(i) CCOs should continue to recognise their role as change agents critical to the Program's success. They should ensure they continue to clearly communicate the reasons for change and how those changes are to be delivered. They should continue to work closely with their BU/SU as they implement new processes.(ii) CCOs should continue to provide feedback to the central BROP team where they believe messages they are being asked to convey to their BU/SUs are not hitting the mark.(iii) CCOs should continually challenge whether they have sufficient resources to deliver the Program. This involves not just ensuring that forecasts are accurate, but also actions that can be taken to ensure that adequate skilled resources to successfully deliver the Program are sourced.(iv) The Group CCO, once appointed, should ensure that BU/SUs CCOs share their experiences with implementation and learn from each other.(v) CCOs should display chronic unease by continually challenging the progress and effectiveness of the Program in embedding a sound NFR management culture.

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 NFRs 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 Chairman 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 Board Audit Committee (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 3.4) to Promontory. The Closure Pack was submitted before the due date set out in the RAP.
- Promontory assessed three Board Governance Theme Milestones (Milestones 1.2, 3.3 and 4.3) as complete and effective. The Closure Packs for these Milestones were submitted in the Third (Milestones 1.2 and 3.3) and Fourth (Milestone 4.3) Reporting Periods.
- The Program was working on two other Implement Milestones and the remaining five Embed Milestones for this Theme.

At the Reporting Date, Promontory was assessing one Board Governance Theme Milestone (Milestone 3.4).

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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 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	◐
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	◐
		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 1.2

Milestone 1.2 (an Implement Milestone) requires Board Committee agendas to be amended to include a standing item to review each meeting, with a focus on the following (as relevant to the Board Committee):

- issues relating to NFR, and progress towards closure of issues;
- the quality of papers and presentations;
- red audit items and their progress towards closure;
- key messages and actions for management arising from the meeting; and
- whether the relevant individuals are attending and presenting at the relevant Board Committee meetings.

CBA provided evidence in the form of an attestation that the BAC and the BRC agendas include the following standing item: 'Review of Meeting and Committee Referrals'. CBA also provided extracts of the minutes that illustrate instances where there was discussion of each of the items listed in the Milestone (as noted above).

After reviewing the Closure Pack for this Milestone, Promontory requested and received further information and interviewed relevant stakeholders about whether agendas for the RemCo and the Board Nominations Committee included a similar agenda item covering the items listed in the Milestone.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that CBA has amended BAC, BRC, and RemCo agendas to include a similar standing review item for each meeting, with a focus on the items listed in the Milestone.

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 consider whether Board Committees do, in fact, focus on the agenda items listed in the Milestone. Assessment of this evidence may involve Promontory:

- reviewing Board Committee agendas;
- observing Board Committee discussions, interviewing Board Committee members or both; and
- reviewing a sample of Committee papers and related artefacts to confirm the items discussed as part of the review of each Board Committee meeting.

3.2.2. Assessment of Recommendation 3 Milestone

The Target State for Recommendation 3 is to have clear accountabilities, and effective and timely information flows between Board Committees to support issue oversight and resolution.

a) Milestone 3.3

Milestone 3.3 (an Implement Milestone) requires the BAC, BRC and RemCo¹⁷ agendas to be amended to include a 'referrals' agenda item for the purposes of:

- sharing information about key matters between Board Committees for ongoing oversight; and
- referring an issue to a particular Board Committee where the issue falls within that Committee's responsibility.

CBA provided evidence in the form of attestations about the agenda items included for each of the three Committees to address sharing of information and referral of issues between Committees. CBA also provided extracts of minutes of the BAC, BRC and RemCo meetings which provided some high-level detail about how issues were referred, and information shared between Board Committees.

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

- accountabilities between Board Committees;
- information flow between Board Committees; and
- oversight and resolution of matters referred between Board Committees.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that CBA has amended agendas for each Committee to include a referrals agenda item in line with the Milestone.

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 evidence of Board and Board Committee discussions about matters referred between Board Committees. We expect this is likely to involve us:

- observing Board discussions, interviewing Board members or both;
- reviewing a sample of Committee papers and related artefacts; and
- reviewing the timeliness of sharing information.

¹⁷ We note that effective 1 July 2019 RemCo became PRC.

3.2.3. Assessment of Recommendation 4 Milestone

The Target State for Recommendation 4 is that the owners of material issues are held accountable for the resolution and effective closure of issues within their remit.

a) Milestone 4.3

Milestone 4.3 (an Implement Milestone) requires that amendments to the end-to-end internal audit process developed for Milestone 4.2 are adopted and communicated to the ELT NFRC. This includes the communication of requirements for BU/SU owners of material issues to appear before the BAC about progress towards closure of these issues.

CBA confirmed and provided evidence of the following:

- amended end-to-end internal audit process;
- communication of the BAC's expectations with respect to managing material issues by accountable individuals to the ELT NFRC; and
- attendance by accountable individuals at BAC meetings in relation to Red Rated or Highly Significant audit reports.

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

- the planned activities to formulate a methodology for Line 3 to effectively rely on the assurance work of Lines 1 and 2;
- the governance and management of the respective assurance responsibilities across the 3LoA;
- presentations made to the BAC by issue owners; and
- communications from the BAC about its expectations.

CBA also provided evidence of an appropriate level of progress against actions and issues highlighted in our assessment of Milestones 4.1 and 4.2 which we foreshadowed considering in assessing Milestone 4.3. In particular:

- The GA&A Audit Manual now includes requirements about the recommendation and selection of attendees at BAC meetings (addressing matters we flagged in our assessment of Milestone 4.1).
- The GA&A Audit Manual now documents the key revisions to the audit process relating to audit planning, reporting timeframes, escalation processes, attendance and the accountabilities of Lines 1, 2 and 3. The expectation that the accountable individual is a senior person who is responsible for responding to the audit is also reflected in training materials (addressing matters we flagged in our assessment of Milestone 4.2).
- An assurance map template has been developed to set out Line 1, Line 2 and Line 3 assurance activities across Key Risk Categories (addressing matters we flagged in our assessment of Milestone 4.2). We were advised that Line 3 reliance on Line 1 and Line 2 activities is still being developed through the Controls Assurance Program.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that the end-to-end internal audit process has been communicated to the ELT NFRC and that requirements for BU/SU owners of material issues to appear before the BAC with respect to progress towards closure of these issues have also been communicated.

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 evidence of owners of material issues being held accountable for closure of material issues, and improved resolution and effective closure of issues.

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 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 6.3) to Promontory. It was submitted before the due date set out in the RAP.
- Promontory assessed one Management Governance Theme Milestone (Milestone 19.2) as complete and effective. The Closure Pack for this Milestone was submitted in the Fourth Reporting Period.
- The Program was working on the five remaining 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 September (Milestone 6.3).

Taking into account Milestones assessed as complete and effective in previous Reporting Periods, as at the Reporting Date, a total of 13 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	◐
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	◐

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Progress
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	◐
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 19 Milestone

The Target State for Recommendation 19 is that CBA adopts a revised regulatory engagement strategy that promotes a more collaborative relationship with regulators and the more proactive identification and management of regulatory issues to ensure that CBA meets and exceeds the expectations of all stakeholders, and rebuilds and maintains community trust.

a) Milestone 19.2

Milestone 19.2 (an Implement Milestone) requires that the revised regulatory engagement Target Operating Model (**TOM**) be in place and operating.

CBA has confirmed and provided evidence of the following:

- the elements of the regulatory engagement TOM it regards as key;
- the activities in relation to these elements which are in place and operating;

- detail about the Single Point of Accountability in relation to regulatory engagement and reporting lines of certain staff into Global Regulatory Affairs;
- communication of the Engagement Principles and success measures;
- development and socialisation of the Regulatory Engagement Standard;
- initiation of meetings of a central forum to discuss regulatory matters; and
- agreed enhancements needed to create a secure repository for storing and tracking regulatory interactions.

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

- progress on collecting and monitoring feedback from regulators; and
- whether evidence gathered to date indicated improvement in regulatory engagement in line with the approved Engagement Principles.

CBA also provided evidence of an appropriate level of progress against those actions and issues highlighted in our assessment of Milestone 19.1 which we foreshadowed considering in assessing this Milestone. In particular:

- CBA has created a Regulatory Feedback register to record instances of positive/neutral/negative regulatory feedback. The register provided shows feedback collected between December 2018 and May 2019, and shows a mix of positive/neutral/negative feedback.
- CBA has been able to demonstrate progress in collecting and monitoring feedback. We note there is no assessment provided which clearly indicates whether CBA's engagement with regulators is improving. CBA has suggested processes for collecting and assessing feedback evidence will mature as the regulatory engagement TOM is embedded.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that the revised regulatory engagement TOM is in place and operating.

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

Our assessment, however, identified that, as was the case in our assessment of Milestone 19.1, CBA's primary regulators continue to prefer to provide general feedback to CBA on regulatory engagement as part of business-as-usual processes rather than using a set of predetermined measures or metrics. CBA has advised that it will continue to collect feedback, including by monitoring correspondence for changes in tone, reviewing formal reports and letters for messages or feedback, and through informal discussion with regulatory officers.

In finalising our assessment, we foreshadowed that our assessment of the Embed Milestone for this Recommendation will include consideration of evidence of whether CBA has strengthened its regulatory engagement in line with approved Engagement Principles.

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.

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

During the Reporting Period:

- Promontory assessed one Operating Model (3LoA) Milestone (Milestone 9.2) as complete and effective. The Closure Pack for this Milestone was submitted in the Third Reporting Period.
- The Program was working on the one remaining Design and the one remaining Implement Milestone and the two remaining Embed Milestones for this Theme.

Taking into account Milestones assessed as complete and effective in previous Reporting Periods, as at the Reporting Date, a total of four 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 ¹⁸	◐
		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	Oct-19	◐

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

5.2.1. Assessment of Recommendation 9 Milestone

The Target State for Recommendation 9 is to have consistent adherence to CBA's 3LoA Principles across BU/SUs.

¹⁸ The due date for Milestone 9.3 was moved from September to October 2019 during the Reporting Period.

a) Milestone 9.2

Milestone 9.2 (a Design Milestone) requires the development and endorsement by the ELT of plans to align 3LoA Activities for OR&C. Any exceptions are to be specifically considered and endorsed by the ELT only in exceptional circumstances. All BU/SUs are to provide regular updates to the ELT on progress.

CBA has confirmed and provided evidence of the following:

- the creation of 3LoA realignment plans for each individual BU/SU (the plans were developed during Q4 2018 and Q1 2019);
- the ELT endorsing a consolidated view of the BU/SU 3LoA realignment plans;
- the ELT endorsing exceptions where a BU/SU intends to operate outside of the 3LoA Principles, Activities, OR&C Activities, or Organisational Guardrails; and
- a quarterly cadence for providing regular updates to the ELT on progress against 3LoA realignment plans, including capability and capacity reviews.

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

- the scope of exceptions to 3LoA that have been considered and endorsed by the ELT and the governance process involved;
- the consistency of the analysis of activities set out in the realignment plans;
- the appropriateness of the realignment plans, including the level of granularity and consideration of planned RAP initiatives;
- the achievability of the 3LoA realignment plans, including the level of detailed planning and the integration of CBA's Drop Process;
- the funding and resource commitments needed to uplift and implement each realignment plan and the relevant approvals obtained;
- the detail and analysis in relation to elements of each realignment plan, including timing, change impacts, capability and capacity requirements, and funding and resource commitments and the reasons for inconsistencies;
- the detail of plans which had yet to be finalised when the Closure Packs were delivered; and
- whether and what actions are contemplated to uplift 3LoA OR&C activity in addition to realignment of activities under the approved plans.

In response to Promontory's initial assessment, CBA provided a summary of the implementation governance approach for 3LoA, the outcomes of CBA's 3LoA OR&C activity reconciliation to support the plans, completed plans with updated plan elements, and detailed written responses to each of our BU/SU-specific queries set out in our initial assessment in relation to the consistency, appropriateness and achievability of each plan.

CBA also indicated that it envisaged undertaking OR&C uplifts through implementing other RAP Milestones.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that consistent, appropriate and achievable realignment plans have been developed and endorsed by the ELT.

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 CBA has ensured that each of the OR&C activities have been consistently established in each Line and are being performed effectively, in accordance with the 3LoA Principles. This includes clearly articulating how other relevant RAP recommendations deliver the consistent application and uplift of OR&C activities.

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 OR&C 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.

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

During the Reporting Period, the Program was working on the two remaining Implement Milestones and two Embed Milestones for this Theme. Work had yet to start on two Embed Milestones.

At the Reporting Date, Promontory was assessing two Risk Appetite, Taxonomy and Standards Theme Milestones (Milestones 12a.6 and 12d.2).

Milestone 12a.6 requires enhanced discussions to be held at the NFRC and BRC on CBA's RAS. Discussions continue with CBA, after our initial assessment, on evidence that demonstrates that open and challenging discussions are being held regarding the RAS at the NFRC and BRC.

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Milestone 12d.2 requires all Line 2 staff doing assurance activity to be trained in the new assurance standard and procedure, and for the FY20 assurance plans to be approved by the EGM Compliance and EGM Operational Risk. Discussions continue with CBA after our initial assessment and review of the FY20 assurance plans.

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	◐

¹⁹ The due date for Milestone 12b.2 was moved from September to November 2019 during the Reporting Period.

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:

- Promontory closed one Accountability and Controls Delivery Theme Milestone (Milestone 12e.2), but did not assess it as complete and effective (further detail of which is set out in section 7.2.1 below). The Closure Pack for this Milestone was submitted in the Third Reporting Period.
- The Program was working on the three remaining Implement Milestones for this Theme. Work had not begun on any of the three Embed Milestones for this Theme.

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	○

7.2. Accountability and Controls Delivery Theme Milestone Assessment Outcomes

7.2.1. Assessment of Recommendation 12e Milestone

The Target State for Recommendation 12e is that the end-to-end risk and control environment is consistently reviewed and assessed in detail, and challenged by Line 2. The Target State envisages that gaps in the

operating and control environment are captured as issues and addressed to maintain risks in line with risk appetite.

a) Milestone 12e.2

Milestone 12e.2 (an Implement Milestone) requires each BU/SU to establish a consistent initial baseline understanding of their material risks and controls to enable prioritised investigation of areas of concern, using the approach endorsed in Milestone 12e.1. The baseline is to include refreshed risk profiles using existing control effectiveness assessments.

CBA has confirmed and provided evidence that the initial baseline assessment was conducted by each BU/SU as part of the 90-day risk profile review process between October and December 2018 using the approach endorsed in 12e.1. BU/SUs performed risk profile reviews and developed prioritised Risk Management Action Plans.

The BU/SU risk committees (or the relevant EGM for those BU/SUs without NFRCs) approved the risk profiles and Risk Management Action Plans. Risk Profiles were updated in RiskInSite and were challenged by Line 2 in most instances.

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

- whether and how a consistent initial baseline understanding of material risks and controls had been established;
- the completeness of RiskInSite data;
- the consideration given to compliance risk assessments;
- the quality of Risk Management Action Plans and the associated Line 2 challenge; and
- the opportunities for improvement in relation to the 90-day risk profile review process identified by CBA.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that although the Closure Criteria for the Milestone had been technically satisfied, the quality of the risk profiles, control effectiveness assessments, Risk Management Action Plans, and related RiskInSite data included in the Closure Pack were yet to provide a sound basis for ensuring the end-to-end risk and control environment would be capable of being consistently reviewed and assessed as described in the Target State.

Had CBA continued with the 90-day risk profile review process in place when the baselining was conducted, CBA would have had an opportunity to address our concerns and provide evidence that the processes would provide a sound basis for achieving the Target State and enable us to assess the Milestone as complete and effective.

However, during our assessment of this Milestone, CBA confirmed that the 90-day risk profile review process was to be replaced by an annual assessment with BU/SUs expected to refresh risk profiles, in the interim, only in response to defined triggers. There was, therefore, no opportunity after receipt of the Closure Pack, during this year, for CBA to provide a single Group-wide view of its approach to risk profiling in light of our concerns.

Furthermore, revisions to RAP Milestones in relation to Recommendation 12e through the Foundational Review envisage changes to risk and control profiling and assessment processes for prioritised risk types between December 2019 and September 2020.

In these circumstances, we assessed the Milestone as closed, but not yet complete and effective. We did so on the understanding that we would assess whether the Milestone was complete and effective in the context of the delivery of new Recommendation 12e Milestones above.

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 Group.

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.

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

During the Reporting Period:

- Promontory assessed one Customer Outcomes Theme Milestone (Milestone 21.1) as complete and effective. The Closure Pack for this Milestone was submitted in the Fourth Reporting Period.
- The Program was working on the four remaining Implement Milestones and one Embed Milestone for this Theme. Work had not begun on three Embed Milestones for this Theme.

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

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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 Risk Management Approach (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	◐
		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	○
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	◐
		18.3 Embed	Regular reporting to ELT NFRC and BRC on systemic issues	Feb-20	○

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Status
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	Jun-20	◐
		21.3 Embed	Apply key Group policies related in governance forums	Dec-20	○

8.2. Customer Outcomes Theme Milestone Assessment Outcomes

8.2.1. Assessment of Recommendation 21 Milestone

The Target State for Recommendation 21 is better customer outcomes being achieved through championing the ‘should we’ question in decision-making. The Board and ELT elevate the ‘voice of the customer’ and actively champion the ‘should we’ question in discussions with management. Asking the question is embedded in policies and practices and as part of organisational culture across the Group.

a) Milestone 21.1

Milestone 21.1 (a Design Milestone) requires:

- Articulating plans for the inclusion of a number of desired customer outcomes²⁰ into four key Group policies²¹ as they are updated. These policies should also have periodic updates to reflect learnings from changing market expectations, root causes analyses and complaints analysis.
- Uplifting practices of existing Product Governance Forums and other required forums to focus on the desired customer outcomes, with the ‘should we’ question and the ‘voice of the customer’ to be considered in deliberations.
- Detailed action plans to be developed to address any identified deficiencies.
- Elevation by the Board and ELT of the ‘should we’ question and ‘voice of the customer’ through the rollout of the Code of Conduct, and through consideration of insights on conduct and customer at designated forums.

²⁰ These outcomes include ‘Customer and Communities’ outcomes listed in the Code of Conduct (page 11), and consideration of the following elements: a) Value; b) Target customer segments; c) Protections for vulnerable customers; d) Required information and communication to customers; e) Appropriateness of marketing, including not proactively marketing to some customer segments; f) Inclusion in bundles or packages; g) Adequate controls to protect the customer, with supporting monitoring and reporting; h) Hardship, and i) Management of distribution risk.

²¹ These four key Group policies are Product Development and Distribution, Consumer Protection and Competition, Customer Complaints Management and Customer Remediation.

CBA has confirmed and provided evidence of the following:

- an approach to champion the 'should we' question has been developed and approved by the ELT NFRC;
- plans designed to include the desired customer outcomes and other learnings in the four Group policies, both during an initial review and ongoing annual review;
- identification of the governance forums required to focus on customer outcomes (including the ELT, ELT NFRC, BU/SU NFRCs, BU Leadership Teams and BU Product Governance Forums); and
- development of minimum requirements to guide the uplift of these governance forums, including the need to consider customer outcomes, the 'voice of the customer' and the 'should we' question in decision-making.

CBA has noted that other elements of the elevation of the 'voice of the customer' and the 'should we' question will be addressed in other Recommendations²². It has also noted that action plans to effect the uplift will need to be developed in each BU/SU.

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

- the proposed uplift of the four Group policies, including timing, the elements to be considered, and the sign-off from the Group Customer and Community Advocacy;
- the Minimum Requirements for governance forums in relation to uplift of practices;
- plans for assurance activities to review policy compliance and the effectiveness of forums; and
- action plans to be developed by BU/SUs and plans for monitoring progress to completion.

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 to updating the four Group policies, to uplift practices of identified governance forums and to elevate the 'voice of the customer' and the 'should we' question across the Group.

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 whether the four Group policies have been updated to include:


- adequate references to desired customer outcomes and the 'should we' question;
- formal review and signoff from Group Customer and Community Advocacy and Group Conduct Risk;

²² Including Code of Conduct and conduct risk under Recommendation 15, reporting on customer complaints and systemic issues under Recommendations 17 and 18, cultural interventions under Recommendations 27-30, and investment prioritisation under Recommendation 20.

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- consideration of changing market expectations, emerging risks, and customer complaints and systemic issues (as tabled at the ELT NFRC); and
- clear accountabilities for Group Customer and Community Advocacy and Group Conduct Risk in relation to future policy review.

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 *Inquiry 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.

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During the Reporting Period:

- The Program submitted the Closure Packs for four Culture, Capability and Consequences Theme Milestones (Milestones 24a.3, 24b.1, 25a.2 and 25b.2) to Promontory. The Closure Packs were submitted before the due date set out in the RAP.
- Promontory assessed three Culture, Capability and Consequences Theme Milestones (Milestones 24b.1, 25a.2 and 26.2) as complete and effective. The Closure Packs for these Milestones were submitted in the Fourth (Milestone 26.2) and Fifth (Milestones 24b.1 and 25a.2) Reporting Periods.
- The Program was working on the ten remaining Implement Milestones and five Embed Milestones for this Theme. Work had yet to start on eight Embed Milestones.

Taking into account Milestones assessed as complete and effective in previous Reporting Periods, as at the Reporting Date, a total of 18 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	○
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	◐
		22.3 Embed	Accountability consequences are reflected in key individuals' performance reviews and the remunerations and consequences outcomes for FY20	Oct-20	◐

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#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
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	◐
		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	◐
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	◐
		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	○

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#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
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	◐
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	◐
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	◐

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#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
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	○
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	○

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
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	○
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 24b Milestone

The Target State for Recommendation 24b is for the People and Remuneration Committee (PRC)²³ to receive comprehensive reporting to enable it to challenge CBA’s remuneration outcomes. This reporting covers:

- the appropriateness of BU/SU variations in risk reduction;
- links between consequences and remuneration outcomes; and
- remuneration policy effectiveness and the application of the risk modifier, and values assessment.

It is supported by management guidance on the appropriate level of risk reductions.

²³ We note that effective 1 July 2019 RemCo became PRC.

a) Milestone 24b.1

Milestone 24b.1 (a Design Milestone) requires the design of and a plan to roll out comprehensive analytics and reporting to be provided to the PRC addressing each of the elements of the Target State.

CBA has confirmed and provided evidence that the PRC has approved the criteria for policy effectiveness (along with example data to measure each criteria). Prototype report templates have been developed to address Target State requirements, with further iterative refinements expected, and the PRC has approved the approach to scoping and phasing of data enhancements required to support planned reporting to the PRC. The PRC also approved a governance model for business-unit specific (including frontline) formula-guided STVR plans.

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

- how the examples of data, reporting and analytics identified will be used to demonstrate policy effectiveness;
- the proposed timing for data and system enhancements;
- plans for reporting to support the PRC review of management guidance; and
- plans for presentation of insights and higher-level analysis of the detailed reporting provided to the PRC to support decision-making.

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 to providing the PRC with the analytics and reporting needed to challenge risk 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 assessments of the Implement and Embed Milestones for this Recommendation will consider progress made on improvements to data and systems to support deeper analysis of remuneration outcomes and policy effectiveness.

9.2.2. 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 positive or poor risk outcomes.

a) Milestone 25a.2

Milestone 25a.2 (an Implement Milestone) requires strengthened Board guidance on remuneration adjustments to be incorporated into FY19 annual performance and remuneration reviews for all employees, with a primary focus on full-year reviews.

CBA has confirmed and provided evidence that the Board guidance has been enhanced and continues to include elements designed under Milestone 25a.1. This guidance will support the FY19 annual review process.

CBA has comprehensively communicated the enhanced guidance across the Group, including on the One.CBA website, in emails to all staff, and in training sessions.

CBA also provided evidence of an appropriate level of progress against those actions and issues highlighted in our assessment of Milestone 25a.1.

Based on our assessment of the Milestone Closure Pack, we concluded that CBA has appropriately communicated the strengthened Board-approved guidance to management to support the FY19 annual review 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:

- the extent and quality of additional guidance on the metrics and data supporting the risk assessments; and
- whether there has been further consideration for the development of a library or database of consequence management examples.

9.2.3. Assessment of Recommendation 26 Milestone

The Target State for Recommendation 26 is a better alignment of remuneration practices and prudent risk-taking consistent with global better practice, and those practices being operationalised with more effective governance and implementation.

a) Milestone 26.2

Milestone 26.2 (a Design Milestone) requires CBA's Group Remuneration Policy (**GRP**) and key frameworks to be informed by global better practice, which includes consideration of the:

- design of mechanisms for positive risk assessments;
- individual and collective risk and remuneration adjustments including for malus;
- adoption of FSB guidance including potential for the use of clawback;
- design of the discretionary STVR funding model; and
- final design of the FY20 GE remuneration framework.

CBA has confirmed and provided evidence that the Board has approved the revised GRP informed by the conduct of a review of global better practice. The revised GRP:

- provides for a new 'Exceptionally Managed Risk Recognition Award' to reward positive risk outcomes; and
- allows for the application of malus and collective risk adjustments across a range of circumstances.

CBA has confirmed and provided evidence of the Board approving the design of the Discretionary STVR funding model (refer to Milestone 24c.1). It has also advised that the Board has agreed to postpone consideration of the introduction of clawback and changes to the GE remuneration framework to better align with the timing of external and internal reviews of executive remuneration²⁴.

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

- how the new GRP would be reflected across related internal policies;
- the formal appeal process covering instances of malus; and
- the focus on both long- and short- term variable remuneration.

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 appropriate remuneration policy and framework addressing positive risk assessment, individual and collective risk assessments, and the application of malus. We considered that international guidance had been appropriately considered and reflected in the GRP.

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:

- updated clawback policy pursuant to new APRA guidelines;
- changes to the appeal process; and
- the governance framework for ensuring the flow of updates from the GRP to related policies.

²⁴ Including APRA's new Prudential Standard CPS 511 on remuneration, CBA's internal review of its reward strategy and consideration of findings from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

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:

- The Program submitted the Closure Packs for two Program Execution Theme Milestones (Milestones 11.1 and 11.2) to Promontory. The Closure Packs were submitted before the due date set out in the RAP.
- Promontory assessed one Program Execution Theme Milestone (Milestone 11.1) as complete and effective. The Closure Pack for this Milestone was submitted in the Fifth Reporting Period.
- The Program was working on one other Design, four Implement and four Embed Milestones for this Theme. Work had yet to start on one Implement Milestone and four Embed Milestones.

At the Reporting Date, Promontory was yet to start its review of one Program Execution Theme Milestone, the Closure Pack for which was submitted in late September (Milestone 11.2).

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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 ten 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	◐
		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 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	◑
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	◑

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#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
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	◐
		32.3 Embed	Performance reviews of BEAR Accountable Executives reflect KPI allocations	Nov-20	○
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	◐
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	○

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
35	Embedding project framework	35.1 Design	All Design Milestones are assessed as effective	Dec-19	
		35.2 Implement	All Implement Milestones are assessed as effective	Sep-20	
		35.3 Embed	The appropriate areas have demonstrated effective deployment of the design standards	Mar-21	

10.2. Program Execution Theme Milestone Assessment Outcomes

10.2.1. Assessment of Recommendation 11 Milestone

The Target State for Recommendation 11 is the implementation of a standard methodology for Risk in Change²⁵ across the Group, with Line 1 applying the methodology consistently, supported by effective review and challenge from Line 2.

a) Milestone 11.1

Milestone 11.1 (a Design Milestone) requires the design and approval of a revised methodology for Risk in Change to strengthen the role of Line 2 in providing challenge and formal sign-off. The methodology must define the scope of Risk in Change, the expected steps, approvals required, and the nature, timing and extent of Line 2 involvement. The approach must also include a supporting tool to assist BU/SUs in embedding the methodology.

CBA has confirmed and provided evidence that:

- A methodology for Risk in Change has been designed and documented in a Risk in Change Standard. The methodology defines the scope of change activity, checks to be performed at each step, roles and responsibilities (including for Line 2 and relevant subject matter experts) and approvals required.
- A tool has been designed to support the methodology and to facilitate a standardised approach.
- The Risk in Change process is to be embedded in the GDF for changes delivered through Group Investment Funded Projects that are greater than \$1 million.
- The methodology has been endorsed by the ELT NFRC following extensive discussion at meetings in March and June.

²⁵ Risk in Change refers to managing the potential impact of risks delivered into the business by change initiatives (including product, organisational, system, process, regulatory or supplier change).

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

- the Risk in Change processes to apply to non-GDF changes and how these will be documented;
- plans for Line 2 assurance activity;
- the application of Risk in Change to changes involving multiple BU/SUs;
- timeframes for completion of Risk in Change activities and the management of competing priorities; and
- the engagement of relevant subject matter experts.

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 methodology for Risk in Change, plus a supporting tool, that will provide a structured and comprehensive process to ensure adequate Line 2 involvement in change activities, including formal sign-off.

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:

- documentation of Risk in Change processes for non-GDF changes; and
- clarity of the role of Line 2 in providing critical challenge and formal sign-off of non-GDF changes.



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