



# 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

## Sixth Report

31 January 2020

Promontory Australia, a division of IBM  
Level 3, 120 Sussex St | Sydney, NSW, 2000  
+61 2 9478 8888 | [promontory.com](http://promontory.com)



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 sixth report (**Sixth 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 October 2019 to 31 December 2019. It also provides an update on CBA's program management of the RAP.

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

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

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## Definitions

3LoA	Three Lines of Accountability
APRA	Australian Prudential Regulation Authority
BAC	Board Audit Committee
BBLO	Better Bank Leadership Offsite
BDGF	BU/SU Delivery Governance Forum
BEAR	Banking Executive Accountability Regime
BGF	BROP Governance Forum
BRC	Board Risk Committee
BROP	Better Risk Outcomes Program
BU	Business Unit
BU/SUs	Business Units and Support Units
CBA	Commonwealth Bank of Australia
CCO	Chief Controls Officer
CEO	Chief Executive Officer
CIP	Change Investment Process
CRO	Chief Risk Officer
DCEO	Deputy Chief Executive Officer
EGM	Executive General Manager
ELT	Executive Leadership Team
EM	Executive Manager
ES	Enterprise Services
EU	Enforceable Undertaking
First Report	Promontory’s first report dated 28 September 2018
Fifth Report	Promontory’s fifth report dated 31 October 2019
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

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Inquiry	The inquiry to examine whether governance, culture and accountability practices at CBA had contributed to a series of incidents that had led to adverse publicity and regulatory scrutiny
Inquiry 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, 31 July 2019 and 31 October 2019
Prioritised Risk Types	Financial Crimes Compliance, Privacy and Data Management risk types
Program	Program of work to execute the RAP
Promontory	Promontory Australia, a division of IBM
RAP	Remedial Action Plan
RGF	RAP Governance Forum
RAS	Risk Appetite Statement
RBS	Retail Banking Services
Reporting Date	31 December 2019
Reporting Period	1 October 2019 to 31 December 2019
RMA	Risk Management Approach
Second Report	Promontory's second report dated 20 December 2018
SME	Subject Matter Expert
STVR	Short-Term Variable Remuneration
SU	Support Unit
Sustainability Plan	Plan to ensure that the Target State of a Recommendation will be maintained on an ongoing basis
Theme	A shared theme of a series of Recommendations
Third Report	Promontory's third report dated 30 April 2019

## Executive Summary

This is the sixth report (**Sixth 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 April 2018. It follows our **Previous Reports**, dated 28 September 2018 (**First Report**), 20 December 2018 (**Second Report**), 30 April 2019 (**Third Report**), 31 July 2019 (**Fourth Report**) and 31 October 2019 (**Fifth Report**)<sup>1</sup>.

The Sixth 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 October 2019 and 31 December 2019 (the **Reporting Period**). The status of RAP Milestones is reported as at 31 December 2019 (the **Reporting Date**)<sup>2</sup>.

Since signing the EU, CBA has made solid progress in executing the RAP. At the Reporting Date, 82 (out of a total of 173<sup>3</sup>) Milestones had been closed. 25 Milestones were being assessed by Promontory. Work was underway by CBA on a further 51 Milestones.

Through the Program's design and implement phases, a solid foundation has been laid for delivering the enhanced Non-Financial Risk (**NFR**) management framework contemplated by the RAP on a consistent and sustainable basis.

During the Reporting Period, we continued to observe many of the characteristics of successful risk remediation programs, as described in our Previous Reports. The Board and Executive Leadership Team (**ELT**) provided strong oversight over the Program, governance fora and processes functioned effectively, and program management remained strong with delivery risks continuing to be identified, understood and addressed in a timely way. The RAP underwent a number of important changes and refinements, reflecting work in previous reporting periods, designed to support the practical and effective execution of the Program.

With Embed Milestones being delivered for assessment in increasing numbers in the first six months of 2020 the objectives and outcomes of the Program should start to be realised.

Whether these outcomes in fact become evident will, at the very least, depend on the Program ensuring the risks and challenges identified in our earlier Reports continue to be managed effectively. Chief among these will be ensuring changes are embedded, as designed, consistently and sustainably across the Group, while ensuring change risks are closely monitored and effectively managed.

We expect these challenges to be particularly evident in implementing and embedding key elements of the redesigned NFR framework across the Group; in particular, in implementing and embedding new and updated policies and standards, and new approaches to risk profiling, monitoring risk appetite, and conducting Line 2 assurance.

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<sup>1</sup> Promontory's First, Second, Third and Fourth Reports are available [here](#), [here](#), [here](#) and [here](#), respectively. As at the Reporting Date, our Fifth Report had not yet been publicly released. CBA plans to publish the Fifth Report, along with this Report, in February 2020.

<sup>2</sup> We formally assessed one Milestone, Milestone 12d.2, as complete and effective on 8 January. For the purposes of this Report we consider the Milestone to have been assessed as complete and effective in the Reporting Period.

<sup>3</sup> An additional 17 Milestones were added to the RAP during the Reporting Period. Further information on these changes is set out in section 1.2.

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These changes, once made, have the potential to equip CBA to manage NFR significantly more effectively than it has in the past. The opportunity to implement and embed them across the Group should not be lost.

CBA should not underestimate the work which still needs to be done to ensure measures are implemented as designed across the Group.

The Program must work to ensure that the elements that have contributed to its success to date continue to be applied during the transition to the embed phase.

The Board should ensure it continues its active and genuine commitment to and engagement with the Program.

Group Executives (**GEs**) should work to ensure implementation of the Program continues to be given priority. They should work to ensure progress in implementing and embedding the RAP continues to be closely monitored and supported.

The central RAP team must continue to work to ensure the Program is implemented and embedded consistently and sustainably across the Group.

The Chief Controls Officers (**CCOs**) and their teams must continue to mature into their roles as change agents and effective project managers, with the newly appointed Group CCO providing a guiding, supporting and directing hand. The Group CCO and BU/SU CCOs will play a critical role in the Program delivering the enhanced NFR management framework contemplated by the RAP on a consistent and sustainable basis.

To date, CBA has responded positively and constructively to the challenges faced by the Program. We urge CBA and the Program to continue to do so.

### ***Program Progress***

The Program remained on-track at the Reporting Date, with all 173 Milestones either delivered to Promontory or generally on schedule to be delivered by the due dates set out in the RAP<sup>4</sup>.

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

- CBA had started or completed work on all 57 Design Milestones<sup>5</sup>.
- CBA had submitted Milestone Closure Packs to Promontory evidencing completion of work on 54 Design Milestones (two of which were received during the Reporting Period).
- Based on a review of Closure Packs, other documents and interviews with key stakeholders, Promontory had assessed a total of 52 Design Milestones as complete and effective (one of which was assessed during the Reporting Period).

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<sup>4</sup> Milestones are considered not to 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.

<sup>5</sup> 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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- We had not yet completed our assessment of two Design Milestone (one of which was delivered at the end of the Reporting Period).

The Program significantly advanced work on implementation during the Reporting Period. By the Reporting Date:

- CBA had started or completed work on 64 (of 66) Implement Milestones.
- CBA had submitted Milestone Closure Packs to Promontory evidencing completion of work on 45 Implement Milestones (17 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 28 Implement Milestones as complete and effective<sup>6</sup> (four of which were assessed during the Reporting Period).
- We had not completed our assessment of 16 Implement Milestones (seven of which were delivered at the end of the Reporting Period).

The Program continued to shift its focus to the Embed Milestones during the Reporting Period. By the Reporting Date:

- CBA had started or completed work on 37 (of 50) Embed Milestones.
- CBA had submitted Milestone Closure Packs to Promontory evidencing completion of work on eight Embed Milestones (five 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 one Embed Milestone as complete and effective (which was assessed during the Reporting Period).
- We had not completed our assessment of seven Embed Milestones (two of which were delivered at the end of the Reporting Period).

Certain design features and approaches to implementation described in Closure Packs submitted to us were not fully mature at the time of assessment. Through the Program to date, we have, therefore, foreshadowed in relation to a total of 56 Milestones (three 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.

Program progress by Theme is set out in Table 1.

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<sup>6</sup> We also closed one additional Implement Milestone but did not assess it as complete and effective in the Fifth Reporting Period. See section 1.3 of our Fifth Report for further detail.

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**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	4	1	2	13	20
Management Governance	0	3	1	2	13	19
Operating Model (3LoA)	1	2	2	2	4	11
Risk Appetite, Taxonomy and Standards	3	5	0	3	9	20
Accountability and Controls Delivery	0	7	3	0	4	14
Customer Outcomes	1	4	1	2	7	15
Culture, Capability and Consequences	6	17	2	2	21	48
Program Execution	4	9	0	2	11	26
<b>TOTAL</b>	<b>15</b>	<b>51</b>	<b>10</b>	<b>15</b>	<b>82</b>	<b>173</b>

CBA remained committed to addressing the Recommendations made in the *Prudential Inquiry into the Commonwealth Bank of Australia (CBA) Final Report* (the ***Inquiry Report***), and to rebuilding and embedding its new approach to NFR management, during the Reporting Period.

Program design continued to evolve with approaches to evidencing changes as being embedded and sustainable and closing Recommendations developed and finalised. Revisions to the RAP as a result of the Foundational Review and RAP Review conducted in earlier Reporting Periods were also incorporated into the RAP.

Program delivery also continued to adapt. The Drop Process continued to benefit from ongoing enhancements and improvements responding, in large part, to feedback provided by Business Units and Support Units (**BU/SUs**), primarily through the CCOs. Steps were also taken to ensure the Program remains focused on consistent delivery of practical, simple and sustainable outcomes across the Group.

The Program significantly progressed its thinking on steps needed to ensure outcomes would be sustainable. An approach to developing Sustainability Plans for all Recommendations was agreed.

The Program continued to be managed effectively. Status reporting continued to be appropriately detailed and of a high quality. Program-related communications remained vibrant and engaging. The Program's approach to forecasting and monitoring resourcing needs continued to mature.

### **Risks and Challenges**

CBA's primary challenge continues to be ensuring the Program is implemented as designed in a consistent and sustainable way while managing the change and over-implementation risks described in our Fifth Report.

A key theme in addressing these challenges will be ensuring simplicity and practicality, both in what is being implemented and how it is to be implemented.

Simplicity supports consistency. Complex and over-engineered processes are more likely to lend themselves to inconsistent implementation across the Group.

Simplicity supports sustainability. Simple, well-understood and repeatable processes are more likely to provide the solid foundation needed for sustainable outcomes.

Simplicity, while not guaranteeing Program success, will certainly support the Program achieving its intended outcomes. Failure to drive and achieve simplicity will leave the door open to a dampening of the ambition which has served CBA well to date and to putting the outcomes of the Program at risk.

Both senior leadership across the Group and the central RAP team, in particular, have important roles to play in continuing to emphasise the importance of simplicity and its role in ensuring consistency and sustainability.

Upcoming work on sustainability, and particularly the work to be done on developing Sustainability Plans, will be pivotal in giving us comfort that the changes made as a result of the Program will continue after the Program ends.

Change fatigue and over-implementation risks remain and may intensify as the Program moves to implement and embed fundamental elements of the Program in coming months. The Program and the Group's senior leadership should continue to closely monitor these risks and develop strategies and plans to reduce the chance of these risks crystallising.

# 1. Introduction

## 1.1. Background

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

In its final Report in May 2018, the Inquiry identified a series of shortcomings and made 35 Recommendations to address those shortcomings.

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

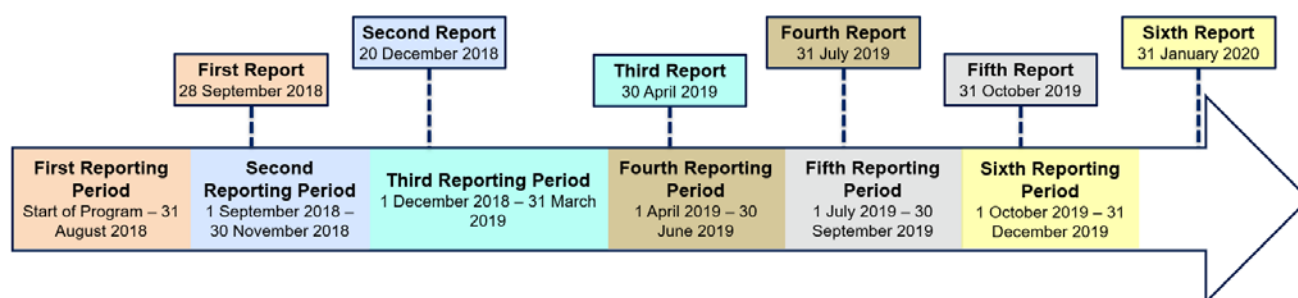
CBA engaged Promontory as the Independent Reviewer to monitor CBA’s execution of the RAP and to assess the effectiveness of the actions taken to address the *Inquiry Report* Recommendations as required under the EU. APRA confirmed the appointment on 29 June 2018.

As Independent Reviewer, Promontory is required to report to APRA on a quarterly basis on the status of compliance with the EU and the Milestones<sup>7</sup> in the RAP that CBA considers are nearing completion. Our Reports have described these matters as at the last day of the month before the Report is due to be delivered.

This is our Sixth Report. It covers the period 1 October 2019 to 31 December 2019 (the **Reporting Period**). The status of Milestones and other Program developments are reported as at 31 December 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 Periods<sup>8</sup>**



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

<sup>7</sup> Milestones are the actions CBA intends to take to address the Inquiry’s Recommendations.

<sup>8</sup> The Reporting Period for the Third Report was one month longer than for other Reports. This change was made to align the Reporting Date with the end of each calendar quarter, when a significant number of Milestones are generally 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.

CBA is delivering the RAP through a program of work (**the Program**) comprising nine work streams. The work streams correspond to the eight Themes noted above and include an additional work stream (Enabling Systems, Data and Reporting) with responsibility for managing and overseeing technology, analytics and data support across each of the Themes<sup>9</sup>. The Program is managed by a central team (the **central RAP team**, previously the central Better Risk Outcomes Program (**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 RAP team delivers a Closure Pack to Promontory that includes artefacts evidencing Milestone completion. This practice has remained unchanged.

As initially designed, the RAP contemplated 154 Milestones. Two additional Milestones were added during the Third Reporting Period and a further 17 were added during this Reporting Period. There are now 173 Milestones.

The Milestones added during this Reporting Period included new Milestones added as a result of the Foundational and RAP Reviews undertaken during the Fourth and Fifth Reporting Period, and Milestones added as a result of other change requests sought by the Program. All of the additional changes have been endorsed by Promontory.

The due dates for 23 Milestones were also changed during the Reporting Period.

Further information on these changes is set out in section 2.1,

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<sup>9</sup> No Milestones have been assigned to this work stream.

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The number of Milestones now due for delivery to Promontory by the Reporting Date for each future report is set out by Theme in Table 1.1 below.

**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	3	2	4	2	3	3	5	3	25
March 2020	1	3	1	1	1	0	5	1	13
June 2020	0	0	0	2	2	2	7	2	15
September 2020	0	0	0	2	2	0	1	3	8
December 2020	3	0	2	1	1	2	4	5	18
March 2021	0	0	0	2	1	1	6	1	11
<b>TOTAL</b>	<b>20</b>	<b>19</b>	<b>11</b>	<b>20</b>	<b>14</b>	<b>15</b>	<b>48</b>	<b>26</b>	<b>173</b>

All but three Design Milestone had been delivered by the Reporting Date. The Program was also a little over half way through delivery of the Implement Milestones. Several Embed Milestones had also been delivered.

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

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We participated in weekly project management meetings with representatives of the central RAP 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 three monthly meetings of the RAP Governance Forum (**RGF**) (formerly the BROP Governance Forum), three monthly meetings of the BU/SU Delivery Governance Forum (**BDGF**), two monthly meetings of the Planning and Dependencies Management Forum (**PDMF**), and one meeting of the ELT Non-Financial Risk Committee (**NFRC**).
- One meeting of the CCO LT and four meetings of the cross-stream scrum. The cross-stream scrum meets every week. The meetings are an opportunity for Stream Leads to present progress in their Stream to the central RAP team and for scrum participants (which include some Execution Leads) to discuss interdependencies and address blockers and issues as they arise.
- The Better Bank Leadership Offsite (**BBLO**) forum held in October. This forum was attended by over 2,000 leaders from across the Group (including Executive General Managers (**EGMs**), General Managers (**GMs**) and Executive Managers (**EMs**)) to discuss and build on progress made in the last year in delivering a better, simpler bank. The Forum provided an opportunity for participants to reflect on and consolidate experiences and lessons learnt over that period.

We participated in the following briefings and updates:

- A meeting in November with the Chairman to discuss the progress of the Program and several Board Governance and Management Governance Theme Milestones.
- A Project Implementation Review session, with members of the central RAP team, BU/SU CCOs and CROs, and some Execution Leads, to reflect on our experiences during the previous reporting periods and to identify improvements in how we engage with both the central RAP team and BU/SUs. This was the fourth such session in which we participated.
- Deep dive sessions with the GEs and CCOs of Enterprise Services (**ES**), Retail Banking Services (**RBS**) and the Office of the Deputy Chief Executive Officer (**DCEO**) on their approach to and progress in implementing the RAP in their BU/SU. These were each followed by separate deep dive sessions with the Chief Risk Officer (**CRO**) of each BU/SU on the approach to overseeing the implementation of the RAP in their BU/SU.
- A briefing on how the RAP is being executed in Aussie Home Loans.
- Two meetings with Group Audit and Assurance (**GA&A**), in which their observations on Program management and their forward audit plans were discussed.
- Two meetings with the RAP CRO to discuss their approach to and engagement with the Program.
- Briefings on:
  - the Drop Process;
  - Program-related communications;
  - Program resourcing; and

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- the overall progress in key work streams, including the Culture, Capability and Consequences work stream and the Enabling Systems, Data and Reporting work stream.

We also participated in one tri-partite meeting with CBA and APRA representatives during the Reporting Period after which we met with APRA representatives to discuss the status of compliance with the EU, and any major risks and issues we were identifying through our monitoring and assessment work.

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 reviews of additional evidence, interviews and phone calls with staff engaged in Milestone delivery and on-site reviews of confidential documents.

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 changes in its approach. In four cases during the Reporting Period, 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 embed or recommendation closure stages associated with the Recommendation.

Through the Program, we have taken an average of just over 11 weeks to assess a Milestone as complete and effective after a Closure Pack is delivered. The quickest assessment took just over one week (for Milestone 14.2). The longest assessment (which involved extensive discussion and clarification, and the creation of additional Milestones before we assessed the Milestone as complete and effective) took just under 28 weeks (for Milestone 12d.2<sup>10</sup>).

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.

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<sup>10</sup> Further information on the assessment of Milestone 12d.2 is provided in section 6.2.1.



**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 our 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

During the Reporting Period, CBA remained strongly committed to addressing the *Inquiry Report* Recommendations and rebuilding and embedding its new approach to NFR management.

The Program continued to make sound progress in moving through the implementation phase of the Program to the embed phase. Steps were also taken to develop Sustainability Plans for each Recommendation designed to ensure that Target States, once achieved, continue after the Program ends.

The RAP incorporated a number of revisions and new Milestones following reviews conducted in previous reporting periods and described in our Fourth and Fifth Reports. These revisions and new Milestones reflected an understanding and commendable awareness that a necessarily ambitious Program will achieve its outcomes only if it remains both practical and realistic.

The Program should not underestimate, and must remain vigilant in addressing, the challenges of ensuring consistent and sustainable execution of the Program as it moves, in coming months, to implement a number of Milestones which go to the heart of CBA's future approach to NFR management.

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

We then comment on the following:

- 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 24 Milestones:

- Closure Packs for eight Milestones (one Design Milestone, five Implement Milestones and two Embed Milestones) were submitted in late October 2019.
- Closure Packs for six Milestones (five Implement Milestones and one Embed Milestone) were submitted in late November 2019.
- Closure Packs for 10 Milestones (one Design Milestone, seven Implement Milestones and two Embed Milestones) were submitted in late December 2019.

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

At the Reporting Date:

- The Program was working on three other Design Milestones, 19 other Implement Milestones and 29 other Embed Milestones.

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- Work had yet to start on two Implement Milestones and 13 Embed Milestones.

During the Reporting Period, Promontory assessed six Milestones (one Design Milestone, four Implement Milestones and one Embed Milestone) as complete and effective. The Closure Packs for these Milestones were submitted in the Fourth, Fifth and Sixth Reporting Periods.

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

- three were Culture, Capability and Consequences Theme Milestones (Milestones 24a.3, 24c.2 and 25b.2)<sup>11</sup>;
- one was a Board Governance Theme Milestones (Milestones 3.4)<sup>12</sup>;
- one was a Risk Appetite, Taxonomy and Standards Theme Milestone (Milestone 12d.2)<sup>13</sup>; and
- one was a Program Execution Theme Milestone (Milestone 11.2)<sup>14</sup>.

Taking into account Milestones assessed as complete and effective in previous reporting periods, in total, as at the Reporting Date, 81 Milestones (52 Design Milestones, 28 Implement Milestones and one Embed Milestone) had been assessed and closed as complete and effective. One Implement Milestone had been closed, but not assessed as complete and effective (see section 1.3 of our Fifth Report for further details).

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 are well positioned to 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 56 Milestones (three 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<sup>15</sup>.

At the Reporting Date, Promontory was assessing 15 Milestones (one Design Milestone, nine Implement Milestones and five Embed Milestones) and had not yet begun assessing the 10 Milestones (one Design Milestone, seven Implement Milestones and two Embed Milestones) delivered to us on 19 December 2019.

Our approach to assessing Embed Milestones and the evidence we expect CBA to provide to support Embed Milestone closure was finalised late in the Reporting Period and enabled us to close the first Embed Milestone late in the Reporting Period. Details of our approach are set out in section 2.2 below.

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<sup>11</sup> See discussion in section 9.2 below.

<sup>12</sup> See discussion in section 3.2 below.

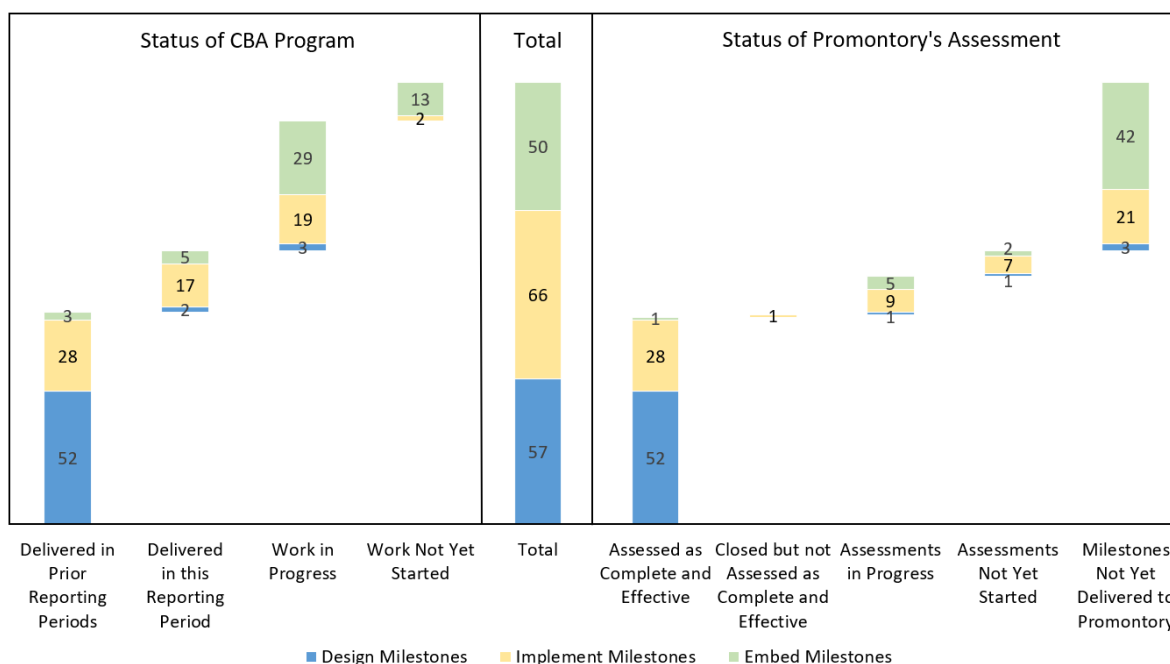
<sup>13</sup> See discussion in section 6.2 below.

<sup>14</sup> See discussion in section 10.2 below.

<sup>15</sup> We assessed an Embed Milestone as complete and effective for the first time during the Reporting Period. While we were satisfied that the requirements to assess the Milestone as complete and effective had been fulfilled, we foreshadowed that our assessment when closing the related Recommendation will include a consideration of the operation of certain features designed to ensure the sustainability of the changes.

The information above is summarised in Figure 2.1.

**Figure 2.1: Milestone Status**



As foreshadowed in our Fifth Report and noted above, during the Reporting Period, CBA made extensive changes to the RAP following the Foundational Review and the most recent RAP Review. Foundational Review and RAP Review related changes resulted in 10 new Milestones being added<sup>16</sup>, with the due dates changing for 18 existing Milestones<sup>17</sup>. Key changes to the RAP as a result of the Foundational and RAP Review are summarised in section 2.2.3.

During the Reporting Period, we endorsed 16 other requests to change aspects of the RAP<sup>18</sup>. The requests related to clarifying the detail of the Milestone Description, the Target State, the identity of the Execution Lead, the Definition of Terms, the Milestone number, the scope of the Milestone or the Closure Criteria<sup>19</sup>. These additional changes resulted in the addition of seven new Milestones<sup>20</sup> and changes in the Milestone Due Date for five Milestones<sup>21</sup>. Reasons for the introduction of new Milestones are set out in the description of progress in relevant Themes in Chapters 3 to 10.

At the Reporting Date, Promontory continued to assess one long-outstanding Risk Appetite, Taxonomy and Standards Theme Milestone (Milestone 12a.6), the Closure Pack for which was submitted in late May 2019.

<sup>16</sup> Milestones 9.1b, 9.4a, 9.5a, 12b.2b, 12b.3b, 12e.3b, 12e.3c, 12e.3d, 12e.4b and 13.1b.

<sup>17</sup> Milestones 4.4, 7.6, 8.3, 11.3, 11.4, 12a.7, 12b.3, 12c.3, 12d.3, 12e.3, 12e.4, 12f.3, 16.3, 17.3, 18.3, 21.2, 21.3 and 23.3.

<sup>18</sup> RAP Change Requests are part of the formal RAP changes process set out in our First and Second Reports.

<sup>19</sup> The Changes Requests we received were made in relation to Milestones 12c.3, 12d.3, 13.2, 15.4, 15.4a, 15.5, 17.2, 18.2, 22.2, 22.3, 25a.3, 25b.3, 26.3, 26.4, 27.2, 28.2, 29.2, 30.2 and 35.1, and Recommendation 6 and 24a.

<sup>20</sup> Milestones 12d.2b, 12d.2c, 27.2b, 28.2b, 29.2b, 30.2b and 35.1b.

<sup>21</sup> Milestones 13.2, 22.2, 25a.3, 25b.3 and 35.1.

Milestone 12a.6 requires enhanced discussions to be held at the NFRC and Board Risk Committee (**BRC**) on CBA's risk profile against its risk appetite, enabled by improved reporting against more granular early warning and intervention levels. It is an Embed Milestone. Our assessment of this Milestone has been delayed, for a number of reasons, including the ongoing development of processes to support risk appetite reporting, yet to be finalised as at the Reporting Date, and the need for further evidence about how Risk Appetite Statements (**RASs**) are being used. Assessment of this Milestone is to be considered in conjunction with assessment of the final Embed Milestone for Recommendation 12a (Milestone 12a.7) due for delivery in February 2020.

## **2.2. Key Program Developments**

During the Reporting Period, the Program's primary focus continued to be implementation of the RAP in BU/SUs. The Program also increased its focus on the steps needed to ensure changes brought about by the Program are embedded and remain embedded across the Group after the Program ends.

During the Reporting Period, we continued to observe many of the characteristics of successful risk remediation programs, as described in our Previous Reports. In particular:

- The Board and ELT continued to provide strong oversight over and engagement with the Program.
- Governance fora and processes generally continued to function effectively.
- Program design continued to evolve with the development of CBA's approach to Recommendation closure and the finalisation of our approach to assessing Embed Milestones.
- Program management remained strong with delivery risks continuing to be identified, understood and addressed in a timely way, although there is some scope for improvement.
- Risk and assurance oversight continued to mature, with gaps in assurance identified in our Previous Reports risk accepted by the Group CRO.

In this section, we describe these key Program developments in more detail and highlight aspects of the Program that continue to warrant attention.

### **2.2.1. Board and Executive Leadership Oversight**

Both the Board and ELT continued to be actively engaged in overseeing and contributing to the Program.

The Board received updates on the Program at each meeting during the Reporting Period. These updates included information on Program progress and status, our Fifth Report, and deep dives on Three Lines of Accountability (**3LoA**) and progress on the Risk Appetite, Taxonomy and Standards Theme.

We also met with the Chairman during the Reporting Period. This interview covered several topics, including Program progress and the specifics of several Board Governance Milestones. The interview confirmed our sense that the Board recognises the critical importance of the Program and its outcomes and is deeply committed to ensuring the sustainability of changes being made by the Program.

Executive Leaders also remain committed to the successful and effective implementation of the Program and to ensuring the sustainability of the changes being made.

That commitment was evidenced in the deep dives we conducted during the Reporting Period with a number of GEs. In each deep dive, GEs demonstrated an active and deep commitment to delivering the RAP, to giving delivery priority in the context of other risk and regulatory projects and to working to ensure changes are embedded and continue beyond the end of the Program.

GEs evidenced active oversight of the Program, a sound understanding of the risks and challenges faced in delivering the Program in their BU/SU, and a good grasp of how those risks and challenges are – and will be – addressed.

GEs must continue to actively monitor the risks and competing priorities that have the potential to threaten the timely and sustainable execution of the RAP in their BU/SUs. We will continue to conduct BU/SU deep dives to understand the way in which these risks are being managed.

During the Reporting Period, the ELT continued to receive and approve monthly updates on progress made in delivering the RAP and other key Program matters. We also sighted evidence of GEs:

- Leveraging Program Delivery roadshows with a view to ensuring BU/SU Leadership Teams understand and manage links and synergies between the Program and other Group priorities.
- Continuing to manage other priorities with the potential to threaten timely and sustainable execution of the RAP in their BU/SU.

The ELT considered an action plan in December to address relevant focus areas identified in our Fifth Report. The action plan sets out new and continuing activities the ELT and its members have committed to undertaking.

We were advised that the ELT and its members will act on the following new actions set out in the plan in coming months:

- Communicating what sustainable outcomes look like and how they are to be achieved, recognising the challenges of delivering those outcomes, within the timeframes contemplated by the RAP.
- Considering resource forecasts for the life of the Program.
- Ensuring plans are in place to address change fatigue and staff wellbeing across their BU/SUs.
- Working to ensure the quality and completeness of RiskInSite data in their BU/SUs.

GEs should closely monitor that the actions assigned to them under the action plan are actively progressed and completed. In future Reports, we will monitor GE progress in taking these actions.

### **2.2.2. Program Governance**

The BROP Governance Forum BGF (now the RGF), the BDGF and the PDMF continued to operate with increasing effectiveness during the Reporting Period.

The BDGF, in particular, continued to mature with a number of changes made to how it operates.

Instead of the BDGF being structured around deep dives of particular BU/SUs led by CCOs with CRO participation, meetings of the BDGF were reorganised during the Reporting Period into structured discussion of common issues being experienced in BU/SUs in implementing the RAP. These issues are now identified in

advance of the meeting by the central RAP team after reviewing status reports provided by all BU/SUs. Discussions continue to be led by individual CCOs.

The refocusing of the BDGF in this way has led to continuing improvement in the functioning and value of the forum to the Program. One example was the improvement in discussions on resource capability and 'creative recruiting'. During the November BDGF, the CCOs of several BU/SUs shared challenges they had encountered in recruiting candidates with the appropriate skillset and some of the steps they were taking to address those challenges.

We endorse the changes made to the operation of the BDGF.

The quality, clarity and consistency of reporting tabled at the BDGF also continued to improve with particular improvements in the visibility given to resourcing at the BU/SU level, facilitating enhanced discussions during BDGF meetings.

The Program should continue to monitor the effective operation of the BDGF as the Program increases its focus on ensuring the RAP is executed in a consistent and sustainable way across the Group. The BDGF should continue to act as the primary forum not only for sharing learnings and implementation risks and issues but also for monitoring and understanding progress in ensuring consistent and sustainable execution of the RAP across the Group. The Program should, in any event, also continue to look for other complementary ways to share this information.

Active engagement with and participation in the BDGF by BU/SU CCOs is critical to its effectiveness.

We have noted through this and the previous reporting period that an increasing number of CCOs have delegated attendance at these meetings. We urge CCOs to make every effort to attend each of these meetings – either in person or by phone or video link – and GEs to encourage CCO attendance. Their attendance will assist in ensuring the effectiveness and value of the Forum is maximised.

Other RAP operational fora and governance processes continued to mature and function effectively. The effectiveness of these fora has been assisted by action items raised in meetings being recorded and being followed up in subsequent meetings.

The Program also evidenced an ongoing commitment to continuous improvement, with discussions on potential improvements to the operation of governance fora generally taking place in review sessions at the end of each meeting. We encourage the Program to continue with this practice.

### 2.2.3. Program Design, Delivery and Management

CBA continued to employ and refine the approach to the design, delivery and management of the Program developed during previous reporting periods.

The Program also continued to address the challenges in the design, delivery and management of the Program identified in our Previous Reports.

#### ***Program Design***

The design of the Program evolved further during the Reporting Period. Approaches to evidencing sustainability of Embed Milestones and closing Recommendations were developed.

Revisions to the RAP as a result of the Foundational Review and RAP Review conducted in earlier Reporting Periods were incorporated into the RAP.

Dependencies between activities in the RAP continued to be identified, well understood and managed effectively.

#### Sustainability

During the Reporting Period, the Program reflected on the steps needed to ensure Program outcomes would be sustainable. These reflections informed discussions with us about how CBA would evidence Embed Milestones and Recommendation closure and led to an agreed approach about the content of Closure Packs.

It was agreed that Closure Packs for Embed Milestones will now be required to provide evidence that:

- The Closure Criteria have been met, as has been the case with both Design and Implement Milestones.
- The Target State for the Milestone has been achieved.
- A Sustainability Plan (**Sustainability Plan**) has been designed with a view to ensuring the Target State will be maintained on an ongoing basis. It is envisaged that the Plan will include a description of controls designed to ensure the Target State continues, measures to monitor the operation of those controls and escalate control weaknesses and failures and an outline of governance arrangements and accountability for the Plan.
- Steps to operationalise Sustainability Plans have been developed.

We urged the central RAP team to work to ensure that Plans are practical, simple and not over-engineered and that, as far as possible, they leverage existing mechanisms and processes. We will look to the Sustainability Plans to give us comfort that the changes made by the Program will continue on an ongoing basis.

The Plans are also being designed to assist APRA in its business-as-usual supervision after the Program ends.

Under the RAP, as designed, Recommendations are to be closed a number of months after all Milestones for the Recommendation are assessed as complete and effective. The operational elements on which a Recommendation is to be closed were not determined when the RAP was first approved.

During the Reporting Period, CBA further considered these operational elements and developed and finalised an approach to Recommendation closure. The approach will involve the provision of the following in Closure Packs to support Recommendation closure:



- Evidence that the Recommendation's Target State has continued since closure of Embed Milestones for that Recommendation.
- Evidence of the operation and effectiveness of the Sustainability Plan in maintaining the Target State.

Where aspects of Sustainability Plans for particular Recommendations overlap significantly and the Recommendations are due to be closed at similar times, CBA envisages grouping those Recommendations together into Sustainability Plans covering the grouped Recommendations. This is a practical and commendable approach which will assist us in assessing Recommendation closure efficiently.

Changes were made to Recommendation 35 Milestones to reflect this approach. In particular, Milestone 35.1a (previously Milestone 35.1), with a due date in March 2020, will require a template for Sustainability Plans to be developed and endorsed. Other changes will be made, in coming months, to later Recommendation 35 Milestones to further reflect the revised approach to Recommendation closure.

## Foundational and RAP Review

As noted in our Fifth Report, the Program finalised changes to the RAP associated with the Foundational Review, along with those stemming from a comprehensive review of the RAP earlier in 2019. These were incorporated into the RAP with effect from 4 October 2019.

The Foundational Review and RAP Review resulted in a number of changes and refinements to the RAP. As noted in section 2.1, these reviews led to the addition of 10 new Milestones and changes to the due dates for 18 existing Milestones.

Key outcomes of the reviews and their impact on the RAP are summarised below:

- The creation of Risk Stewards, at the EGM or 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 a number of new Milestones for Recommendation 9 (Milestones 9.1b, 9.4a and 9.5a).
- Prioritising 27 of 70 policy suites for delivery as minimum standards reflected in the creation of new Milestones for Recommendation 12b (Milestones 12b.2b and 12b.3b). The prioritised policy suites are those referenced in the *Inquiry Report*, explicitly committed to under Recommendation 12b, or assessed by CBA as necessary to support delivery of other Recommendations.
- Changes to risk profiling, including introducing risk profile consolidation and a value chain approach, baselining prioritised key risks (the process by which each BU/SU is to establish a consistent baseline understanding of their material risks and controls), and developing control libraries and control taxonomies. These changes are reflected in creation of new Milestones for Recommendation 12e (Milestones 12e.3b, 12e.3c, 12e.3d and 12e.4b).
- Uplifting the risk capability of all staff through Group-wide Operational Risk and Compliance (**OR&C**) training. This change is reflected in the addition of a new Recommendation 13 Milestone (Milestone 13.1b).
- Changes to clarify evidentiary requirements in relation to 20 Milestones that involve Board consideration or approval.

Further details on the specific changes made as a result of the reviews are noted in the relevant sections of Chapters 3 to 10.

Of particular importance are the extensive changes that have been made to Recommendation 12e Milestones dealing with risk profiling processes for certain Prioritised Risk Types. Changes to Recommendation 15 Milestones were also being considered late in the Reporting Period with a view to ensuring the process changes applied to the Prioritised Risk Types would also apply to conduct risk. An additional Milestone to give effect to this change is expected to be introduced into the RAP early in the next reporting period.

Given the extensive changes to the RAP finalised and introduced during the Reporting Period, a separate RAP Review was not conducted during this Reporting Period. We understand that CBA intends to recommence regular RAP Reviews during the next reporting period.

The Program produced a new version of the RAP on a monthly basis through the Reporting Period. Each version included revisions endorsed in the previous month. This process, as described in our Fifth Report, worked well as a method of keeping the RAP up-to-date and ensuring that the latest version of the RAP is used by those involved in the Program.

### RAP Dependencies

The Program continued to ensure it has a sound understanding of dependencies between RAP activities.

The PDMF continued to play a pivotal role in the Program. During the Reporting Period, the PDMF continued to actively discuss upcoming Milestone-specific dependencies using relevant, accurate and detailed reporting. The Implementation Plan, Dependency Register and Commitments Register, as discussed in our Previous Reports, also continued to be used to manage Milestone dependencies.

The PDMF continued to ensure a focus on the role that training, technology and assurance plays in enabling Milestone closure. This focus has allowed the Program to understand what are critical cross-Program dependencies, and to monitor, challenge and adjust the way in which these dependencies are being managed. Active challenge on technology dependencies, in particular, was evident during the PDMF's November meeting.

The Cross-Stream scrums we observed during the Reporting Period also evidenced a good understanding of and engagement with the Implementation Plan and of interdependencies. Participants in the scrums include Major Theme Leads, key Execution Leads and members of the central RAP team. CCOs and CROs started to attend scrums on a rotating basis during the Reporting Period.

## ***Program Delivery***

During the Reporting Period:

- The Drop Process continued as the vehicle for delivering the RAP across BU/SUs. It did so with good effect. The Process continued to benefit from ongoing enhancements and improvements responding, in large part, to feedback from BU/SUs, primarily delivered by CCOs.
- BU/SU CCOs continued to work toward ensuring they fulfilled their role as effective project managers and change agents.
- The Program progressed its plans to manage competing priorities and interdependencies.
- Steps were also taken to ensure the Program remains focused on consistent delivery of simple, sustainable and consistent outcomes across the Group.

## Drop Process

As described in our Previous Reports, the Drop Process matured throughout 2019 into an effective vehicle for delivering key 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 5 activities conducted in the previous reporting period. 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 the pilot Incident Management Standard and Procedure, Risk Capability Assessments, and the Line 2 Assurance Standard and procedures.
- Drop 6 activities were being implemented. The focus of Drop 6 is 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 version 5 of the Group Delivery Framework (**GDF**).
- Preparation was underway for Drop 7, to be launched in the next reporting period. The focus of Drop 7 is described as 'Baselining key risks, strengthening policies and procedures and driving adherence to 3LoA principles'. Drop 7 activities will include the continued realignment of OR&C activities, and financial crimes compliance and conduct risk baselining. Drop 7 also includes activities associated with other Critical Risk Priorities.
- Early thinking was undertaken about the content of Drops 8 to 10 to be conducted through 2020. Activities in these Drops are expected to fall into one of three groups: development and implementation of policies, standards and procedures, baselining, and improvements to activities already introduced under previous Drops. These Drops are also expected to include activities associated with other CBA Critical Risk Priorities.

During the Reporting Period, the Drop Process continued to be refined, including as described below:

- Following feedback from BU/SUs, the final briefing session which had been held before the Drop Implementation Phase was replaced with a session described as 'a showcase' held soon **after** the Drop launch. This change was introduced for the first time for Drop 6. The showcase is intended to address the questions that arise after BU/SUs begin to implement a Drop. The showcase consists of three

sessions: a session presented by certain BU/SUs on how they are rolling out aspects of Drops, a session where questions are answered by Subject Matter Experts (**SMEs**), and a session during which questions can be asked at booths set up for each scope item. CBA notes that the first showcase, held in October, was attended by a sizeable number of BU/SU representatives, many of whom made active use of the booths to better understand aspects of Drop content.

- From Drop 7, the central RAP team will be publishing a more comprehensive question and answer document on its dedicated Drops website, including all questions asked during the deep dive sessions and questions from the Drop showcase.
- A mid-point evidence check was introduced during the roll out of Drop 6. Instead of waiting until the Drop is fully implemented, preliminary evidence of implementation is now gathered as the Drop is conducted to check whether BU/SUs are on track. This process will continue into future Drops.
- An increased focus on simplification has been incorporated into designing the requirements for BU/SUs. Simplification expectations have been developed as a guide to the questions that should be asked as part of the production and implementation of Drop requirements. To support simplification, a discussion of 'what good looks like' will also be included as a forward agenda item for working groups in developing Drop content and in designing Drop supporting materials.

The Program continues to actively solicit, consider and action feedback from BU/SUs about the effective operation of the Drop Process.

An example was a session the central RAP team held with CCOs on how best to deliver Drops 8 to 10. In advance of this meeting, the proposed scope of Drop 8 to 10 activities was shared with CCOs.

During this session, several enhancements to the Drop Process were agreed, including changes to the approach for Drop content working groups, which will be implemented for use in the Pre-Drop phase of Drop 8. CCOs also highlighted the need for clarity on the content of each Drop to be shared as early as possible to facilitate successful implementation.

The session also considered our comments in the Fifth Report about the Program reviewing the timing and sequencing of future Drops given the risks associated with the level of change during calendar year 2020 and available resourcing. The general consensus was that the sequencing proposed for Drops 8 to 10, discussed at the meeting, was reasonable, logical and achievable and did not necessitate either a pause or descope of Drops, particularly if the following measures, agreed at that meeting, were taken:

- measures to enhance the effectiveness of working groups developing Drop content, including improved planning and consolidation of working groups;
- continuing to provide as much detailed information to BU/SUs as early as practicably possible;
- focusing on simplification in both the design of BU/SU requirements and in reviewing related governance activities;
- providing clarity on the outcomes sought through 2020 and how Drop activities will deliver those outcomes.

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We urge the Program to ensure the measures proposed at the meeting with CCOs are progressed and their effectiveness in delivering the intended outcomes and managing the risks identified in our Fifth Report continues to be monitored.

While wholesale changes to the Drop Process do not appear to be required, we urge the Program to continue to monitor and assess the need for incremental changes to ensure the Drop Process is well placed to deliver consistent and sustained implementation of the RAP. This is particularly so given the Drop Process will also be used in 2020 as the vehicle for delivering activities required for other non-RAP Critical Risk Priorities.

The Program should also continue to look for opportunities through the Drop Process to promote the sharing and cross-pollination of ideas between BU/SUs. This sharing and cross-pollination was evident during the Drop 6 showcase. The Program should consider, for instance, whether it would be helpful for BU/SU CCOs to also share their experiences and plans for implementation during the Drop preparation phase.

We also note plans for updates to the Drops Process to be tabled on a regular basis at the Program Delivery Leadership Team to ensure adequate ongoing oversight of the Drop Process. In future Reporting Periods, we will monitor and report on whether these updates are in fact being provided.

### Chief Controls Officers

As noted in our Fifth Report, BU/SU CCOs will play a pivotal role in the Program delivering the enhanced NFR management framework contemplated by the RAP on a consistent and sustainable basis.

As also noted in our Fifth Report, CCOs must act both as project managers, managing the delivery of the Program at the BU/SU level, and as change agents, working to ensure not only that the hearts and minds of staff are captured but also that process changes are applied as intended on an ongoing basis.

We observed BU/SU CCOs working to fulfil these roles during the Reporting Period. In particular we observed:

- BU/SU CCOs displaying an in-depth understanding of the risks to timely and sustainable delivery of the Program, including a more thorough understanding of long-term resourcing needs over Drops 8 to 10.
- Continuing improvement in the quality of status reporting and resource estimates provided by CCOs.
- Through deep dives during the Reporting Period, active and constructive engagement between GEs and their CCOs.
- Continued sharing of learnings and best practice between BU/SU CCOs.
- Feedback continuing to be provided to the central RAP team through a variety of touchpoints.
- Continuing use of the 'test and learn' approaches used to date.

During the Reporting Period, a CCO action plan to address the focus areas identified in our Fifth Report was developed.

We will monitor progress in implementing the CCO action plan. We will focus, in particular, on the steps CCOs are taking to monitor and attest to the consistent implementation of the RAP as designed across all business lines in their BU/SU. We will also observe whether and how they are displaying an appropriate level of 'chronic unease' as they challenge the progress and effectiveness of the Program in embedding new NFR management processes and, with it, a sound risk management culture in their BU/SU.

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During the Reporting Period the Group CCO was appointed.

Responsibilities of the Group CCO include leading the CCO Leadership Team, designing and implementing the capability to be scaled across BU/SUs to manage the control environment, and working with BU/SU CCOS to ensure consistent and sustained improvement in CBA's risk profile and the efficacy of its 3LoA model.

The Group CCO has a vital role to play in supporting the work of the CCOs, particularly in clarifying the role and responsibilities of CCOs with respect to the Program. He will be assisted in doing this by the Program's work in further formalising the mandate and responsibilities of CCOs, which is being done in the context of Milestone 9.1b (the Closure Pack for which was delivered towards the end of the Reporting Period).

The Group CCO should also continue to work to reinforce to CCOs the criticality of their role as change agents and support them in delivering on that role. He should also work to ensure the insights and experiences of individual CCOs are shared.

### Managing Competing Priorities and Program Interdependencies

BU/SUs continued to use a range of measures to monitor and address prioritisation challenges, including 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 formalising these processes should continue.

We will continue to monitor the way competing priorities are being managed at the BU/SU level.

During the Reporting Period, the Group Executive Program Delivery began implementing the foundational elements of the Group's approach to monitoring and managing competing priorities and interdependencies as described in our Fifth Report.

We understand regular meetings of GEs to make decisions about prioritisation within the program portfolio by reviewing resourcing and funding contentions also continued during the Reporting Period.

We will continue to monitor how the new approach to managing competing priorities and interdependencies is progressing and its effects on Program delivery.

### Simplicity, Sustainability and Consistency

The Program progressed a number of initiatives designed to ensure simple and sustainable outcomes are delivered consistently across the Group.

The Fifth Report noted the important role simplicity would play in driving sustainable outcomes. The importance of driving simplicity was reinforced in messaging by GE and by the Chief Executive Officer (**CEO**) at the BBLO forum in October. As noted earlier, the central RAP Team working with CCOs also took steps to ensure working groups focus on simplification and simplicity in designing the content of future Drops. We endorse these measures and will, in future Reporting Periods, monitor whether and how simplicity is being applied.

We will also continue to focus on simplicity in assessing upcoming Milestones, particularly the new 12e Milestones dealing with risk profiling. These Milestones go to the core of new NFR management processes. Ensuring these processes are not over-engineered will be critical to ensuring Program outcomes are sustained beyond the life of the Program.

As noted earlier, the Reporting Period also saw significant progress in work on the design and approach to sustainability in the RAP, including in the approach to closure of Embed Milestones and Recommendations.

The central RAP team also continued to focus on consistency through measures to drive consistency in status reporting, approaches to implementation and prioritisation mechanisms. The central RAP team worked, for instance, to develop approaches to 'better practice' reporting sharing its insights with CCOs, CROs and Project Management Officers with a view to driving consistency. Use continues to be made of fora, such as the BDGF, to highlight and underscore the importance of sharing solutions and driving consistent implementation of those solutions. As noted, the newly appointed Group CCO has also indicated a key early priority will be working with CCOs to drive consistent delivery of the RAP.

### ***Program Management***

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

- The central RAP team continued its commitment to meeting the timeframes set out in the RAP and, more generally, to responding to our questions in a timely way.
- Status reporting continued to be appropriately detailed and of a high quality.
- Program-related communications remained vibrant and engaging.
- The Program's approach to forecasting and monitoring resourcing needs continued to mature.
- Work on data accuracy and accessibility was being leveraged.

Opportunities to further improve program management nevertheless remain.

### **Central RAP Team**

During the Reporting Period, the central RAP team continued to demonstrate its commitment to meeting the timeframes set out in the RAP.

However, there were some Closure Packs which were delivered either without all information we saw as relevant or information which was not sufficiently clear. There were also instances of slow responses to our information requests, delaying our assessments.

An example, noted in section 2.1, was the assessment of Milestone 12a.6, an Embed Milestone, the Closure Pack for which was delivered in May. Assessment of this Milestone has yet to be finalised, in part because of deficiencies in the evidence provided to us in the Closure Pack and delays in addressing our concerns. Of particular concern is the fact that procedure documents to support this Milestone (provided to us late in the Reporting Period) were incomplete and remained in draft.

Issues with completeness and clarity were also evident in Closure Packs delivered in December.

In the interest of ensuring the assessment and closure process is as efficient as possible, the central RAP team should work with the Program, Execution and Stream Leads toward ensuring Closure Packs are complete when submitted to us and address all relevant aspects of Closure Criteria, Milestone Descriptions and Target States.

The team should also reflect on ensuring the processes developed through 2019 to enhance the efficiency of the assessment process operate as designed. Steps should be taken to ensure pre-briefings and post-



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submission briefings are effective and of value, particularly through ensuring action items agreed at those meetings are documented with delivery closely monitored.

The central RAP team continued to make good use of escalation pathways to escalate Program-related risks and issues.

The central RAP team also strengthened its approach to briefing new GEs about the Program. An induction pack was developed and briefings were planned and – in some cases – conducted for three new GEs who were onboarded during the Reporting Period.

The restructure of the central RAP Team described in our Fifth Report appears to be working well. Making one EGM accountable for all elements of program delivery, in particular, has led to a better understanding and more efficient management of program interdependencies and an improved focus on identifying and addressing issues as they arise.

### Status Reporting

Status reporting about the Program continued to be appropriately detailed and of improved quality during the Reporting Period.

Status reports provided to the RGF and BDGF continue to provide a clear overview of progress and risks. Reports also now include, in many cases, detailed commentary on, and acceptance of reports by, BU/SU CROs. Reports are also now endorsed by GEs on a monthly basis.

While the quality of the status reporting remained high, it is important that the Program does not become complacent about amber assessments. When status is reported as amber, the Program should ensure that a rigorously challenged 'go-to-green' plan has been developed and is being both implemented and closely monitored. Meetings of the RGF have, in recent months, actively challenged Major Theme Leads around these plans. The RGF should continue to do so.

Over coming reporting periods, we will be looking for progress to be made on the go-to-green plans developed in response to aspects of the Program that are currently rated amber with a view to ensuring timeframes for the Program as set out in the RAP are and will be met.

### Communications

During the Reporting Period, communication about the Program across the Group remained vibrant and engaging. Program communication continued to be delivered to the high quality and at the frequency described in our Previous Reports.

We continued to be impressed by the variety of Program-related communications and the number of channels through which they are being disseminated. The Program's communication strategy is providing a foundation for ensuring the broad-based support for the Program as the RAP is being implemented and embedded at the BU/SU level.

Executive Leaders continued to communicate their ongoing and strong commitment to achieving the objectives of the Program during the Reporting Period. Their support for and commitment to the Program was communicated through GE reflection sessions, distributed through One.CBA. These sessions included references to the *Inquiry Report* and the actions being taken, through the RAP, to address its outcomes. The reflection sessions have reportedly been well received, with over 40,000 views by CBA staff.



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These GE communications were further supported by EGM- and GM-level communications discussing how the RAP is being implemented. BU/SU CCOs have also been interviewed about the Program with those interviews published on One.CBA. These interviews were designed to elevate the profile of the CCOs and underscore the importance of their role in delivering the Program.

During the Reporting Period, the Program also developed and circulated a short video setting out the foundational concepts of 3LoA. The video emphasised, in simple and memorable terms, the message that the vast majority of staff in CBA are in Line 1 and are therefore directly responsible for risk. We understand that team leaders have reportedly used this video to start conversations on risk management with branch staff.

A pipeline of Program-related communications has been developed for 2020.

Key initiatives include the following:

- Messaging about NFR will continue to be further developed, with stories about the implementation of new NFR processes discussed in 'risk cuppa' interviews with selected staff from across the Group. The interviews will be distributed on One.CBA during the next reporting period.
- A new on-demand video channel will start communicating RAP-related content in 2020.
- The Drop Process will continue to be supported, with the requirements of each Drop being communicated. It will continue to be important that these messages are refreshed regularly in order to avoid message fatigue. They should also emphasise the central role CCOs play as change agents.
- The results of the most recent culture survey will be considered and will inform future Program communications.

A key challenge for the Program in 2020 will be developing and communicating a simple, overarching description of what CBA will look like once the Program has been embedded. The need for this messaging was recognised in the Fifth Report action plan noted by the ELT in December. This will be particularly important during a period of intense activity where those responsible for implementing changes may lose focus and treat the exercise as being about 'getting over the line'.

The Program should continue to innovate the style and content of its communication, as it has done with evident commitment and success to date. These innovations will serve to maintain the momentum of the Program and 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 CBA's approach to Program-related communications.

We also welcome CBA's continued transparency in publicly reporting the progress of the Program, with the Fifth and Sixth Reports to be published in February 2020.

### Monitoring and Addressing Resourcing Needs

A number of concerns about monitoring and addressing resourcing needs set out in our Previous Reports have now been addressed, although scope for improvement remains.

The Program now regularly forecasts and monitors resourcing needs separately across the following three activities:

- 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.

Resource forecasts are also being provided by each BU/SU for each upcoming Drop. The forecasts now provide a clear and increasingly accurate sense of resourcing needs. They have provided a sound basis for the discussions we have observed in a number of fora about the criticality of resource deficiencies and gaps and how those gaps might be addressed.

The central RAP team is now providing oversight of BU/SU resourcing forecasts, and has challenged the accuracy of individual BU/SU estimates. The central RAP team has also used HR data to validate the level of current resourcing reported by BU/SUs. This oversight helps ensure that the data underlying resource forecasts are accurate and drive consistency in reporting between BU/SUs.

We also observed discussion between CCOs on a number of occasions about the approaches being taken to address identified resource gaps. 'Creative' recruiting has continued. There was evidence some BU/SUs are considering the use of external consultants given the challenges of recruiting permanent staff in a tight market. In the interests of ensuring the sustainability of Program outcomes, BU/SUs should exercise some caution in the use of external consultants for extended periods – particularly as the Program transitions to the embed phase.

The Program has taken steps to address our observation in the Fifth Report that further work is needed to develop an understanding of resourcing needs over the life of the Program. In particular, during the Reporting Period, the Program consulted with BU/SUs on Drops 8 to 10. Preliminary estimates were made of resourcing requirements for these Drops. BU/SUs will continue to refine these estimates as the content of these Drops becomes clearer. We understand that any changes will be tabled at the relevant BU/SU NFRC and other relevant fora before being presented to the ELT.

While significant progress has been made on monitoring, understanding and addressing capacity requirements, more work is needed on monitoring, understanding and addressing capability requirements.

While initiatives to assess resource capability are underway, we are yet to see how gaps are being quantified and married to information about capacity shortfalls. It is important that CBA ensures that it not only has sufficient resources, but that these resources are also able to successfully execute the Program.

The Program should therefore work towards integrating capability indicators and measures into its resourcing forecasts.

Despite the good work done to date on understanding capacity and capability gaps, those gaps remain significant risks to successful execution of the Program. While these risks continue to be discussed in various governance fora, and progress in recruiting has been made, challenges continue in filling roles responsible for risk profile consolidation and managing Risk in Change processes.

CBA must continue to identify and address capacity and capability gaps.

CBA should also continue to monitor those parts of the Program at greatest risk of change fatigue.

#### Monitoring and Addressing Systems, Data and Reporting Needs

The Enabling Systems, Data and Reporting work stream continues to be central to the successful delivery of the RAP and sustainability of Program outcomes.

Although not incorporated into particular RAP Milestones, an important driver of Program success will be the accuracy, reliability and completeness of data supporting the management of NFR.

During the Reporting Period, we received an update on the initiatives underway designed to ensure data are of the necessary quality to support RAP implementation.

Work on data-related initiatives underway for some years at CBA, is ongoing. There is a particular focus in this work on 100 critical data elements identified as needed to meet expectations set out in *BCBS 239: Principles for Effective Risk Data Aggregation and Risk Reporting*. An estimated quarter of these critical data elements inform the management of NFR.

The work on these data elements is being leveraged to support RAP implementation.

A 'data lake' centralising storage of data from various sources such as RiskinSite (CBA's OR&C management system) and FirstPoint (CBA's complaints management system) has also been built. The data lake will allow dashboards to be automatically generated and accessed using the most current data. The Board and management will, therefore, be in a position to explore the data behind the dashboard and deep dive into areas of interest. Centralised data storage will also, in time, enable CBA's data scientists to draw linkages across the many different available data sets.

CBA has also embarked on a process of improving data quality in three dimensions – data hygiene (e.g., fixing missed fields, incorrect syntax), policy adherence (checking that data reflects requirements under the relevant policies) and detection (testing whether residual risk data is justified based on the stated controls).

While good progress by the Enabling Systems, Data and Reporting work stream has been made, challenges remain. For instance, Drops 8 to 10 will require system updates that will impact on end-users. The Program should work to ensure that end-users understand and are able to effectively use these updates. To this end, the Program should continue with the test-and-learn approach it has employed in the past to examine how employees will react to and engage with system updates.

#### **2.2.4. Risk and Assurance Oversight**

Our Fourth and Fifth Reports noted the lack of Line 2 oversight of centrally-designed and implemented Milestones, and the lack of oversight of Milestones being implemented by Line 2.

During the previous reporting period, RAP Line 2 acknowledged these gaps and identified those Recommendations for which an appropriate level of assurance coverage of Line 2 activities may be lacking.

During the Reporting Period, Line 2 reviewed assurance activity across the RAP. The Group CRO considered the outcomes of the review and risk accepted any assurance gaps, including those we described in our Fourth and Fifth Reports.

RAP Line 2 also continued to make appropriate and constructive contributions in the governance meetings we attended and took early steps to ensure a consistent understanding of Line 2's role in relation to production, consumption, assurance and oversight in the context of the Program and more broadly.

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During the Reporting Period, we met with the CROs of several BU/SUs. We were impressed by the level of engagement with, and understanding of the Program and its challenges, displayed by BU/SU CROs.

We also observed CROs continuing to:

- approve and/or accept BU/SU status reporting;
- actively challenge Line 1 resourcing estimates and preparing and closely monitoring their own resourcing; and
- share learnings and best practice across the CRO community.

BU/SU CROs should continue to remain engaged with the Program, particularly in relation to providing challenge on the implementation of the Program in their BU/SUs with a view to supporting the timely and sustainable execution of the RAP.

We will continue to meet regularly with the RAP CRO and BU/SU CROs to discuss their findings and observations on Program progress.

During the Reporting Period, we finalised our assessment of Milestone 12d.2 (delivered to us in June 2019), which required the FY20 Line 2 Assurance Plan to be designed and approved by the EGM Compliance and EGM Operational Risk.

In finalising our assessment of the Milestone, as set out in section 6.2, we asked CBA to provide detail on how implementation of the Plan was being progressed. CBA advised us in December 2019 that progress during Q1 of FY20 had been very slow, necessitating a significant review of the original scope of the Plan and the procedures for developing the Line 2 Assurance Plans going forward. The outcomes of this review, which is to be incorporated into revised Recommendation 12d Milestones, will reflect on the root causes of the slow progress, how those root causes should be addressed and revisions which should be made to the FY20 Plan.

The Program, and particularly the RAP CRO, should closely monitor this review to ensure its outcomes are practical and achievable. Ensuring Line 2 assurance processes are well designed and appropriately resourced is critical to the success and sustainability of the Program. The Program should, in particular, work to ensure Line 2 assurance processes are not over-engineered and appropriately reflect Line 2's role and the value it can add to oversight of NFR management.

As in previous reporting periods, we continued to meet regularly with GA&A to discuss their observations on Program progress. These meetings have been a useful opportunity to not only test our views of Program developments against another independent view, but also to gather further detail of GA&A's involvement in the Program.

As the Program transitions to the embed phase, GA&A is well positioned to provide valuable insights into the implementation and embedding of key Program initiatives. We understand that several proposed audits will touch on Program-related activities, in the first half of 2020, including audits of the Line 2 assurance process, the Change Investment Process (**CIP**), previously the Investment Prioritisation Process (**IPP**), and implementation of 3LoA realignment plans.

As some of GA&A's audits may be conducted before relevant RAP changes have been fully embedded, the audits will provide useful feedback that can be used to assess the need for Program adjustments. The Program should give this feedback active consideration and act upon it where appropriate. We will consider the outcomes of GA&A's audits when assessing relevant Milestones.

## 2.3. Ongoing Challenges and the Road Ahead

Each of our Previous Reports has described progress in delivering what we now see as a sound basis for achieving the objectives and outcomes of a particularly ambitious Program.

With an increasing number of Embed Milestones being delivered in the first six months of 2020 the objectives and outcomes **should** start to be evident.

Whether these outcomes in fact become evident will, at the very least, depend on the Program ensuring the risks and challenges identified in our earlier Reports continue to be managed effectively. Chief among these will be ensuring changes are embedded, as designed, consistently and sustainably across the Group, while ensuring change risks are closely monitored and effectively managed.

We expect these challenges to be particularly evident in implementing and embedding key elements of the redesigned NFR framework across the Group; in particular they will impact new and updated policies and standards, and new approaches to risk profiling, monitoring risk appetite and Line 2 assurance.

These changes, once made, have the potential to equip CBA to manage NFR significantly more effectively than it has in the past. The opportunity to implement and embed them across the Group should not be lost.

Although good foundational work has been done in each of these areas to date, CBA should not underestimate the work needed to ensure measures (some of which are still being developed) are implemented as designed across the Group. We have challenged the Program on Milestones describing progress in making the changes proposed in these areas, with a view to ensuring CBA is best positioned to ensure the changes are implemented consistently, sustainably and as designed. As noted, CBA has responded positively and constructively to these challenges, in some cases by introducing new Milestones.

We will continue to focus our attention on these areas and continue to actively challenge the Program as it delivers key Milestones.

CBA must work to ensure that each of the elements identified in our Fifth Report as having contributed to Program success to date continues to be applied to meeting the ongoing challenges we have identified.

Four elements of the Program's success to date will be particularly critical to effectively addressing these challenges in coming months.

The **Board** must ensure it continues its active and genuine commitment to and engagement with the Program. We have little doubt, based on our discussions with the Chairman, that the evident commitment and engagement with the Program, supported by good flows of information to the Board, to date, will continue. Work, already in train, should continue to ensure the Board is provided with timely, relevant and easily navigable information about Program progress.

**Group Executives**, similarly, must ensure implementation of the Program continues to be given priority and progress in implementing and embedding the RAP is closely monitored and supported.

GEs should, in particular, continue to articulate and actively communicate, as they have done to date, the benefits of implementing and embedding the RAP to CBA and its customers and stakeholders in the longer term. They should continue to ensure sufficient resources are available to execute the RAP in their business. Based on our observations to date we think it likely that this will continue to be the case.

The **central RAP team** must continue to play a key role not only in driving the Program to completion within the ambitious timeframes envisaged by the RAP, but in working with BU/SU leaders to ensure it is implemented and embedded consistently and sustainably across the Group. The team must ensure it has heightened visibility of BU/SU activity and engagement with BU/SUs beyond its current engagement with BU/SU GEs, CCOs and CROs.

The team should continue to be resourced with employees with both risk and non-risk business experience and with standing across the Group, complemented by CBA employees with strong project management experience. The need for this project management experience is particularly important, given the challenge the Program faces in driving and monitoring the significant changes being made across the Group's many businesses.

The team should continue to place a high premium on simplicity and managing the risk of over-engineering and over-thinking the steps to be taken to support and drive embedding the Program across the Group.

Discipline should continue to be applied in monitoring and challenging status updates from BU/SUs, particularly in relation to resourcing.

The team should also:

- work to focus Major Theme Leads on 'go-to-green plans' and quickly escalating issues impeding Program progress;
- continue to manage competing priorities and interdependencies by exploiting synergies with CBA's Critical Risk Priority Programs; and
- work closely with and support newly appointed GEs, particularly in larger BU/SUs as they become familiar with the Program.

The **CCOs and their teams** must continue to mature into their roles as change agents and effective project managers delivering Program outcomes at the coal-face. As we noted in the Fifth Report, and above, CCO teams are the key contact point between BU/SUs and the Program.

CCOs should, therefore, continue to work closely with their BU/SUs through each Drop, clearly communicating not only the detail of changes being made but why the changes are being made and their benefit to CBA, its customers and stakeholders.

CCO teams should also continue to provide feedback to the central RAP team, not only on the design of Drops, but also issues that are being experienced in delivering the Drops. Early feedback to the central RAP team on how Drops are being designed and implemented will contribute to ensuring the changes remain practical, appropriate and sufficiently simple to support sustainability. CCOs should continue to display the chronic unease evident to date by continually challenging the progress and effectiveness of the Program in embedding a sound NFR management culture.

The Group CCO along with the BU/SU CCOs, in particular, will play an increasingly important role in ensuring the Program's success.

His position will allow him to provide the support CCOs have needed as the function matures. He will need to continue to underscore to CCOs what being a change agent entails, the need to continually provide constructive feedback to the central RAP team and the importance and value of sharing experiences across the Group. One of his key responsibilities in coming months will be driving on-the-ground consistency.



It is also important the Group CCO develops and socialises a clear vision statement for his role which contemplates these activities.

This section describes in more detail the key challenges we see the Program facing in coming months.

A key theme through these challenges is the importance of simplicity and practicality, both in what is being implemented and how it is to be implemented. Simplicity supports consistency. Simplicity supports sustainability. Simplicity assists in addressing other change risks. Simplicity, while not guaranteeing Program success, will certainly support the Program achieving its ambition.

Failure to drive and achieve simplicity will leave the door open to a dampening of the ambition which has served CBA well to date and to putting the outcomes the Program at risk.

The Board, Executive Leadership and key Program participants (including the central RAP team and CCOs) should, therefore, not shirk from placing a premium on and rewarding the application of simplicity through the rest of the Program.

Our Previous Reports have highlighted other challenges, under headings including challenges associated with resourcing, assurance, addressing competing priorities and the role of the CCOs. Our description of Program Developments in section 2.2 describes the good progress the Program has made in addressing these challenges and has identified further improvements needed in each area. We will continue to monitor progress in relation to these challenges.

## 2.3.1. Consistency

The difficulty faced by CBA in implementing the Program in a consistent way should not be underestimated.

We have observed several instances of differences in approach to implementation of the RAP at the BU/SU level.

Some of these differences reflect different levels of maturity in the management of NFR. Others reflect ongoing organisational change, which has impacted progress in delivering specific aspects of the RAP. Some of the business lines currently reporting to the Deputy CEO are an example. Others reflect genuine differences in BU/SUs' systems or processes driven by different business models.

Inconsistency, for other reasons, risks undermining the Program's success.

We see a number of ways in which this inconsistency risk can be addressed.

Ensuring **simplicity** in the design of measures being rolled out in each Drop is critically important. Complex and over-engineered processes are more likely to lend themselves to inconsistent implementation across the Group. The measures taken to date to drive simplicity should contribute to managing this risk. Senior leadership across the Group has a role to play in continuing to emphasise the importance of simplicity and its role in supporting consistency. The central RAP team has a key role to play in ensuring that the activities to be rolled out through the Drop Process remain both simple and well understood.

Clarity about the purpose and objectives of particular activities and how they link to **what CBA will look like once the Program ends** will also assist in driving consistency. We note the work proposed to be undertaken to develop a clear and simple message about the future state and will closely monitor both the content and roll out of that message in the next reporting period.

**Ideas and experiences across the Group on executing the RAP should continue to be shared.** The BDGF is a particularly important forum for BU/SUs to share experiences and should be used to drive a consistent approach across the Group. It is important that this forum continues to provide BU/SUs with an opportunity to learn from others' experience, which is complemented by good, constructive challenge that generates action.

The newly appointed Group CCO has a central role to play in ensuring the RAP is executed consistently across the Group. A key priority for him in coming months will be continuing to emphasise the importance and role of consistency in engagement with CCOs individually and in the CCO fora by monitoring and flagging instances of emerging inconsistency. The Group CCO should continue to work to ensure BU/SU-specific experiences are being shared among CCOs, and that these experiences are being drawn on to drive consistency in how the Group manages NFR.

The Program also faces challenges in delivering the RAP in a consistent way due to the different systems and processes in place in certain parts of the Group and in light of ongoing organisational change. The Program should work to ensure the RAP continues to be implemented as designed in all in-scope businesses.

### **2.3.2. Sustainability**

Ensuring that the Target State for each Recommendation continues to be met on an ongoing basis as part of business-as-usual processes remains critically important for the Program.

Our Fifth Report noted that achieving sustainable outcomes will depend on a number of factors. These factors, listed below, bear repetition and should remain a focus for the Program and BU/SUs in coming months.

In particular:

- new processes should be simple, practical and easily repeatable;
- the reasons for introducing new processes should be clearly communicated and tied to demonstrable and beneficial business outcomes;
- 'test and learn' approaches should be used to provide an opportunity to experience new processes in an environment supported by experts responsible for design of the process; and
- application of the new processes should be the subject of regular testing and inspection once implemented to ensure they are operating as designed.

Key among these factors is ensuring simplicity and practicality, and the clear communication of links to demonstrable and beneficial business outcomes (both of which are also relevant to ensuring consistency as set out above). Continuing the use of the 'test and learn' approaches we have seen to date and the use of the supportive environment provided through the Drop Process will also continue to be important.

The Sustainability Plans outlined in section 2.2.3 will be pivotal in giving us comfort that the changes made as a result of the Program will continue after the Program ends. In coming months we will continue to review and challenge Sustainability Plans to ensure they clearly describe controls and processes designed to ensure sustainable outcomes, with a particular focus on mechanisms to monitor the operation of those controls, to escalate control weaknesses or failures and ensuring accountability for the effective operation of the Plans. The design of Sustainability Plans should consider, in particular, 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 in our Fifth Report, we see two main change risks through the rest of the Program: the risk of change fatigue and the risk of over-implementation.

These risks continue and will intensify as the Program moves to implement fundamental elements of the Program.

#### Change Fatigue

Change fatigue remains a key risk for the Program. Change fatigue may put the sustainability of Program outcomes at risk if it causes staff to implement solutions that just get them 'over the line' rather than working to ensure they are sustained.

As outlined above, CBA will see a period of intense change over the next six months. CCOs will be called upon to do even more, and many CBA staff who have not previously been involved in executing the RAP will be drawn into the Program's ambit.

The increased pressure this period of change will place on certain choke points has the potential to result in change fatigue, which would threaten the timely and successful implementation of the Program. The Program should also not lose sight of the need to monitor and address the risk of change fatigue in its key teams – particularly the central RAP team which will carry a very heavy burden as the Program transitions into the embed phase.

During the Reporting Period we observed possible early symptoms of change fatigue in changes to the people performing a number of key roles, in particular those engaged in producing Program content and turnover in certain areas. While changes in personnel are not unexpected in such a broad and long program, the Program should work to ensure that these transitions do not impact key program outcomes.

The Program should, therefore, continue to closely monitor change fatigue risks and develop strategies and plans to reduce the chance of those risks crystallising.

#### Over-Implementation Risks

As set out in our Fifth Report, there is a risk that some staff tasked with delivering new and revised processes, and motivated by a genuine desire to get the processes right, may be inclined to 'gold plate' or over-engineer those processes.

CBA must therefore carefully balance the successful implementation and sustainability of the Program with the risk of over-implementation.

In some key areas there has been relatively slow progress, such as Milestones related to Recommendation 12b and 12e. CBA should reflect on whether the risk of over implementation is crystallising in these areas, and, if so, how this might be addressed.

In order to test the extent to which the risk of over-implementation is crystallising, we plan to engage more closely with those implementing the Program in BU/SUs in upcoming Reporting Periods via interviews and focus groups.

## 2.4. Focus Areas

**Table 2.1: Areas on which CBA Should Focus**

Focus Area	Actions
<p><b>Board and Executive Leadership Oversight and Sponsorship</b></p>	<ul style="list-style-type: none"> <li>(i) The Board should continue its active engagement with and genuine commitment to the successful implementation of the Program and to the sustainability of changes being made.</li> <li>(ii) Work should continue to ensure the Board is provided with timely, relevant and easily navigable information about Program progress.</li> <li>(iii) The Board and GEs should emphasise in their communications the importance of simplicity in supporting consistent and sustainable execution of the RAP.</li> <li>(iv) GEs should ensure implementation of the Program continues to be given priority, and that progress in implementing and embedding the RAP is closely monitored and supported.</li> <li>(v) GEs should continue to actively monitor the risks and competing priorities that have the potential to threaten the timely and sustainable execution of the RAP in their BU/SUs.</li> <li>(vi) GEs should closely monitor that the actions assigned to them under the ELT action plan are executed, in particular: <ul style="list-style-type: none"> <li>a) Communicating what sustainable outcomes look like, in terms of the longer-term benefits to CBA, its customers and stakeholders, how they are to be achieved, while recognising the challenges of delivering those outcomes in the timeframes contemplated by the RAP.</li> <li>b) Ensuring resource forecasts are developed for the life of the Program.</li> <li>c) Ensuring plans are in place to address change fatigue and staff wellbeing across their BU/SUs.</li> <li>d) Working to ensure the quality and completeness of RiskInSite data in their BU/SUs.</li> </ul> </li> <li>(vii) The central RAP team should work closely with and support newly appointed GEs in helping them to understand and discharge their accountabilities in relation to execution of the RAP in their BU/SUs.</li> </ul>
<p><b>Effective Project Management and Governance Disciplines</b></p>	<ul style="list-style-type: none"> <li>(i) The Program should continue to monitor the effective operation of the BDGF and work to ensure it is the primary forum for monitoring and understanding progress in ensuring consistent and sustainable execution of the RAP across the Group.</li> <li>(ii) The BDGF should continue to focus on sharing implementation experiences, risks and issues, complemented by constructive challenge that generates action.</li> <li>(iii) The Program should look for opportunities to share information and promote the cross-pollination of ideas between BU/SUs in all governance fora.</li> <li>(iv) The Program should continue to ensure action items raised in meetings are recorded and followed up in subsequent meetings.</li> </ul>

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<p><b>Managing Dependencies and Competing Priorities</b></p>	<ul style="list-style-type: none"> <li>(i) The Program, through the central RAP team, should continue to work to exploit synergies with Critical Risk Priority Programs in executing the RAP.</li> <li>(ii) Each BU/SU should continue to formalise processes to monitor and address prioritisation challenges.</li> </ul>
<p><b>Consistency, Simplicity, Practicality and Sustainability</b></p>	<ul style="list-style-type: none"> <li>(i) The Program should develop and communicate a simple, overarching description of what CBA will look like once the Program has been embedded to support consistent and sustainable execution of the RAP.</li> <li>(ii) The Program should continue to look for ways to share information on implementation experiences, risks and issues and so support consistent implementation.</li> <li>(iii) The Program should work to ensure that changes in personnel do not affect the consistency and sustainability of outcomes by actively working to manage key person risk.</li> <li>(iv) The central RAP team should continue to ensure it places a high premium on simplicity and managing the risk of over-implementation across all aspects of the Program, with a particular focus in coming Reporting Periods on the implementation of Recommendation 12e Milestones.</li> <li>(v) The central RAP team should ensure that Sustainability Plans are practical and simple, and that they, as far as possible, leverage existing mechanisms to demonstrate the Target State will be delivered on an ongoing basis.</li> </ul>
<p><b>Managing Change Risks</b></p>	<ul style="list-style-type: none"> <li>(i) The Program should work to ensure the monitoring of whether and where over-implementation risk is crystallising and how this might be addressed.</li> <li>(ii) The Program should also work to ensure change fatigue risks continue to be closely monitored and develop strategies and plans to reduce the chance of these risks crystallising.</li> </ul>
<p><b>Risk and Assurance Oversight</b></p>	<ul style="list-style-type: none"> <li>(i) The Program and RAP Line 2, in particular, should closely monitor the review of Line 2 Assurance Plans and the procedures for developing those Plans to ensure they remain practical and achievable.</li> <li>(ii) The Program should ensure active consideration is given to the findings of upcoming GA&amp;A reviews and any need they may identify for Program adjustments.</li> <li>(iii) BU/SU CROs should continue to provide challenge on the implementation of the Program in their BU/SUs with a view to supporting the timely and sustainable execution of the RAP.</li> </ul>
<p><b>Program Design, Delivery and Management</b></p>	<ul style="list-style-type: none"> <li>(i) The central RAP team should work to ensure it has heightened visibility of BU/SU activity beyond its current engagement with BU/SU GEs, CCOs and CROs.</li> <li>(ii) The Program should continue to place a high premium on simplicity and managing the risk of over-engineering or over-thinking the steps to be taken to support and drive embedding the Program across the Group.</li> <li>(iii) The central RAP team should work to ensure the RAP continues to be implemented as designed in all in-scope businesses with minimal tailoring.</li> <li>(iv) The central RAP team should continue to be resourced with employees with both risk and non-risk experience and standing across the Group complemented by CBA employees with strong project management experience.</li> </ul>

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	<ul style="list-style-type: none"> <li>(v) The central RAP team should work toward ensuring Closure Packs are complete and address all aspects of relevant Closure Criteria, Milestones and Target States.</li> <li>(vi) The central RAP team should work to ensure the efficiency and value of pre-briefings and post-submission briefings to Promontory, including by ensuring action items are agreed at those meetings, are documented with delivery closely monitored.</li> <li>(vii) Wherever BU/SU status reports record an amber status, the central RAP team should work toward ensuring a rigorously challenged 'go-to-green' plan has been developed and is being implemented and that issues impeding Program progress are escalated quickly.</li> <li>(viii) The Program should continue to innovate the style and content of its communication and win the hearts and minds of staff in order to ensure the Program receives buy-in at all levels of the organisation.</li> <li>(ix) The Program should work to ensure that end-users understand and are able to effectively use system updates by continuing with the test-and-learn approach it has employed in the past.</li> <li>(x) The Program should work to ensure refinements to the Drop Process agreed during the Reporting Period are progressed and their effectiveness monitored, with a particular focus on the following:             <ul style="list-style-type: none"> <li>a) The operation of working groups in developing and ensuring a simplification focus on Drop content.</li> <li>b) Providing information to BU/SUs as early as practicably possible.</li> <li>c) Ensuring clarity about the outcomes sought through 2020 and how Drop activities will deliver those outcomes.</li> </ul> </li> <li>(xi) The Program should continue to monitor and assess the need for incremental changes to ensure the Drop Process is well placed to deliver consistent and sustainable implementation of the RAP, including looking at opportunities to use the Drop Process as a mechanism for sharing and cross-pollination of ideas between BU/SUs.</li> </ul>
<b>Resourcing</b>	<ul style="list-style-type: none"> <li>(i) The Program should continue to pursue concrete action to identify and address capacity and capability gaps.</li> <li>(ii) The Program should work towards quantifying and marrying information about capability gaps into its forecasting of resourcing capacity.</li> <li>(iii) In the interests of ensuring sustainability of Program outcomes, BU/SUs should exercise some caution in the use of external consultants for extended periods, particularly as the Program transitions to the embed phase.</li> </ul>
<b>CCOs and the Group CCO</b>	<ul style="list-style-type: none"> <li>(i) CCOs and their teams should continue to ensure they clearly communicate to their BU/SUs not only the detail of changes being made but why the changes are being made and their benefit to CBA, its customers and stakeholders.</li> <li>(ii) CCOs and their teams should continue to provide feedback to the central RAP team on issues which are being experienced in delivering the Drops.</li> <li>(iii) CCOs and their teams should continue to display chronic unease by continually challenging the progress and effectiveness of the Program in embedding a sound NFR management culture in their BU/SUs.</li> </ul>

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	<ul style="list-style-type: none"><li>(iv) CCOs should work to ensure they attend every BDGF meeting.</li><li>(v) CCOs should work to ensure the RAP is being implemented consistently as designed across all business lines within their BU/SUs.</li><li>(vi) The Group CCO should continue, in his engagement with CCOs individually and in other fora, to emphasise the importance of consistency and monitor whether the RAP is being consistently implemented.</li><li>(vii) The Group CCO should continue to work to ensure that the insights and experiences of individual CCOs are shared, and that those experiences are being drawn on to drive consistency in the Group's NFR management.</li><li>(viii) The Group CCO should reinforce to CCOs the criticality of their role as change agents and support them in delivering on that role.</li><li>(ix) The Group CCO should work with CCOs to develop a clear vision statement for his role which contemplates guidance and support for the CCO network in relation to defining their roles and ensuring consistency.</li></ul>
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### 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 Closure Packs for three Board Governance Theme Milestones (Milestones 1.4, 2.2 and 5.2) to Promontory. The Closure Packs were submitted before relevant due dates set out in the RAP.
- Promontory assessed one Board Governance Theme Milestone (Milestone 3.4) as complete and effective. The Closure Pack for this Milestone was submitted in the Fifth Reporting Period.
- The Program was working on the four remaining Embed Milestones for this Theme.

At the Reporting Date, Promontory was assessing two Board Governance Theme Milestones (Milestones 2.2 and 5.2) and was yet to start its review of one other Milestone, the Closure Pack for which was submitted in late December (Milestone 1.4).

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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 13 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 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, People and Remuneration Committee ( <b>PRC</b> ) 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 internal audit process and whether BAC expectations on presentations by BU/SU accountable individual are being met	Mar-20 <sup>22</sup>	◐
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	◐

<sup>22</sup> The due date for Milestone 4.4 was moved from December 2019 to March 2020 during the Reporting Period.



## 3.2. Board Governance Theme Milestone Assessment Outcomes

### 3.2.1. 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 of risk issues.

#### a) Milestone 3.4

Milestone 3.4 (an Implement Milestone) requires joint meetings of the BAC, BRC, and PRC to be held twice a year to consider NFR related matters relevant to executive performance and remuneration, including audit outcomes, progress against risk themes and risk culture considerations<sup>23</sup>.

CBA has confirmed and provided evidence that:

- Committee Charters have been updated to provide for periodic joint meetings; and
- agendas have been created for the joint meetings of the BAC, BRC, and PRC to consider NFR related matters (including audit matters) relevant to executive performance and remuneration.

CBA also provided evidence of progress against those actions and issues highlighted in our Assessment of Milestones 3.1 and 3.2 in relation to documenting and tracking Joint Committee matters.

After reviewing the Closure Pack for this Milestone, Promontory interviewed relevant stakeholders about:

- discussions at these meetings, including topics discussed, the depth and detail of discussions and the robustness of challenge provided at these meetings; and
- how minutes of the Joint Committee meetings were recorded and processes for monitoring and closing issues and actions arising from the joint meetings.

Based on our assessment of the Milestone Closure Pack and the interviews we conducted, we concluded that meetings of the Joint Committee of the BAC, BRC, and PRC had been held to consider NFR related matters relevant to executive performance and remuneration processes (in line with their updated Charters).

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 test the effectiveness of mechanisms designed to track and monitor Joint Committee matters, and mechanisms designed to refer matters between Board Committees.

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<sup>23</sup> These are known as meetings of the Concurrent Committee.

## 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 Closure Packs for two Management Governance Theme Milestones (Milestones 7.5 and 14.4) to Promontory. The Closure Packs were submitted before relevant due dates set out in the RAP.
- The Program was working on the three remaining Embed Milestones for this Theme.

At the Reporting Date, Promontory was assessing two Management Governance Theme Milestones (Milestones 6.3 and 7.5) and was yet to start its review of one Management Governance Theme Milestone, the Closure Pack for which was submitted in late December (Milestone 14.4).

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 ( <b>KPIs</b> ) 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	Mar-20 <sup>24</sup>	◐

<sup>24</sup> The due date for Milestone 7.6 was moved from October 2019 to March 2020 during the Reporting Period.

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#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Progress
8	NFRC	8.1 Design	Establish the ELT NFRC with agenda, roles and responsibilities defined	Sep-18	●
		8.2 Implement	ELT NFRC meetings are operating in accordance with Charter	Feb-19	●
		8.3 Embed	Complete external assessment of ELT NFRC	Mar-20 <sup>25</sup>	◐
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	◐

<sup>25</sup> The due date for Milestone 8.3 was moved from October 2019 to March 2020 during the Reporting Period.

## 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.

As noted in section 2.1, the Program added three new Milestones (Milestones 9.1b, 9.4a and 9.5a) to this Theme during the Reporting Period following the Foundational Review conducted during 2019. These Milestones introduce the concept of Line 2 Risk Stewards, who will be tasked with Group-wide responsibilities in relation to a specific risk types. The Milestones contemplate defining the role and mandate of CCOs and Line 2 Risk Stewards (Milestone 9.1b), and appointing Risk Stewards for Financial Crimes Compliance, Privacy and Data Management (Milestone 9.4a). A review to confirm that the intent of the CCO and Line 2 Risk Steward roles are being achieved will also be conducted under the new Milestone 9.5a.

During the Reporting Period:

- The Program submitted Closure Packs for four Operating Model (3LoA) Theme Milestones (Milestones 9.1b, 9.3, 9.4a and 10.3) to Promontory. The Closure Packs were submitted before relevant due dates set out in the RAP.
- The Program was working on the one remaining Implement and one Embed Milestone for this Theme. Work had yet to start on one Embed Milestone for this Theme.

At the Reporting Date, Promontory was assessing two Operating Model (3LoA) Theme Milestones (Milestones 9.3 and 10.3) and was yet to start its review of two Operating Model (3LoA) Theme Milestones, the Closure Packs for which were submitted in late December (Milestone 9.1b and 9.4a).

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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 four of the 11 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	●
		9.1b Design	Define document and endorse roles and mandates of CCOs and Line 2 Risk Stewards	Dec-19	◐
		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	Oct-19	◐
		9.4 Implement	Realign Lines 1 and 2 OR&C activity	Mar-20	◐
		9.4a Implement	Line 2 Risk Stewards for Prioritised Risk Types are in place	Dec-19	◐
		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	◐
		9.5a Embed	Review to confirm whether the intent of the CCO and Line 2 Risk Steward roles are being achieved or should be adjusted	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 CROs by amending reporting lines and KPIs	Feb-19	●
		10.3 Embed	Complete Group CRO performance assessment of BU CROs	Oct-19	◐

## 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 **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.

As noted in section 2.1, the Program added four new Milestones (Milestones 12b.2b, 12b.3b, 12d.2b and 12d.2c) to this Theme during the Reporting Period. The new Recommendation 12b Milestones, and associated changes to existing Milestones made following the Foundational Review conducted during 2019, split the Prioritised Risk Types for which minimum standard will be defined into two waves. The new Recommendation 12d Milestones provide an opportunity to make changes to the design of Line 2 Assurance Plans, as described in section 6.2.1.

During the Reporting Period:

- The Program submitted Closure Packs for two Risk Appetite, Taxonomy and Standards Theme Milestones (Milestones 12b.2a and 12c.2) to Promontory. The Closure Packs were submitted before relevant due dates set out in the RAP.
- Promontory assessed one Risk Appetite, Taxonomy and Standards Theme Milestone (Milestone 12d.2<sup>26</sup>) as complete and effective. The Closure Pack for this Milestone was submitted in the Fourth Reporting Period.
- The Program was working on two Implement Milestones and three Embed Milestones for this Theme. Work had yet to start on one Implement Milestones and two Embed Milestones.

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

Taking into account Milestones assessed as complete and effective in previous reporting periods, as at the Reporting Date, a total of nine of the 20 Risk Appetite, Taxonomy and Standards Theme Milestones had been assessed as complete and effective.

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<sup>26</sup> We formally assessed this Milestone as complete and effective on 8 January. For the purposes of this Report we consider the Milestone to have been assessed as complete and effective in the Reporting Period.



**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/SUs	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/SU 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 types	Feb-20 <sup>27</sup>	◐

<sup>27</sup> The due date for Milestone 12a.7 was moved from December 2019 to February 2020 during the Reporting Period.

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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.2a <sup>28</sup> Implement	Define minimum standards for first wave of Prioritised Risk Types	Nov-19	
		12b.2b Implement	Define minimum standards for second wave of Prioritised Risk Types	Aug-20	
		12b.3a <sup>29</sup> Embed	Embed minimum standard for first wave of Prioritised Risk Types	Jun-20 <sup>30</sup>	
		12b.3b Embed	Embed minimum standard for second wave of Prioritised Risk Types	Feb-21	
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	Oct-20 <sup>31</sup>	

<sup>28</sup> Milestone 12b.2 was renamed to Milestone 12b.2a due to the addition of Milestone 12b.2b.

<sup>29</sup> Milestone 12b.3 was renamed to Milestone 12b.3a due to the addition of Milestone 12b.3b.

<sup>30</sup> The due date for Milestone 12b.3a (previously Milestone 12b.3) was moved from May to June 2020 during the Reporting Period.

<sup>31</sup> The due date for Milestone 12c.3 was moved from June to October 2020 during the Reporting Period.

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
12d	Line 2 assurance	12d.1 Design	Define the Line 2 Assurance/Monitoring Program for OR&C	Dec-18	●
		12d.2 Implement	Design Line 2 assurance plans and train Line 2 staff doing assurance activity	Jun-19	● <sup>32</sup>
		12d.2b Implement	Consider and apply changes to design of Line 2 Assurance Standard, Procedure, governance and Plans	Jun-20	◐
		12d.2c Implement	Roll out finalised FY21 Line 2 Assurance Program to BU/SU Line 2	Sep-20	○
		12d.3 Embed	FY21 Line 2 Assurance Programs are operational, Line 3 assesses the Programs and appropriate management action (as relevant) is agreed	Feb-21 <sup>33</sup>	○

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

### 6.2.1. Assessment of Recommendation 12d Milestone

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

#### a) Milestone 12d.2

Milestone 12d.2 (an Implement Milestone) requires the design and approval of both Group and BU/SU Line 2 Assurance Plans. The Milestone also requires all Line 2 staff doing assurance activity to be trained, including through piloting components of the new Line 2 Assurance Standard in the BU/SUs in FY19.

CBA has confirmed and provided evidence that:

- A Line 2 Assurance Procedure and supporting templates to implement the Line 2 Assurance Standard developed as part of Milestone 12d.1 have been developed and finalised.

<sup>32</sup> We formally assessed this Milestone as complete and effective on 8 January. For the purposes of this Report we consider the Milestone to have been assessed as complete and effective in the Reporting Period.

<sup>33</sup> The due date for Milestone 12d.3 was moved from August 2020 to February 2021 during the Reporting Period.

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- BU/SUs have developed FY20 Line 2 Assurance Plans in accordance with the requirements of the new Line 2 Assurance Standard.
- Group Line 2 has developed a consolidated FY20 Group Line 2 Assurance Plan in accordance with the requirements of the new Line 2 Assurance Standard.
- Line 2 has established a Line 2 Assurance Practises Working Group to oversee training and roll out of the Line 2 Assurance Standard.
- Line 2 has developed and commenced rolling out training on the new Line 2 Assurance Standard to relevant Line 2 staff.
- BU/SU Line 2 assurance teams conducted 14 pilot reviews in accordance with the requirements of the new Line 2 Assurance Standard.
- Group Line 2 conducted QA over the BU/SU pilot reviews.

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

- Whether Framework Maturity Assessments will be considered for inclusion in the FY20 Line 2 Assurance Plans and plans for training related to those assessments.
- How the Group-mandated operational risk and compliance reviews have been considered and incorporated into the BU/SU FY20 Line 2 Assurance Plans.
- The approach employed by Line 2 in the BU/SUs in estimating FTE required to complete the Line 2 Assurance Reviews set out in the FY20 Line 2 Assurance Plans.
- Incomplete mandatory fields across several Line 2 Assurance Plans and planned steps to address the gaps.
- Clarifying timelines for completing BU/SU Line 2 Assurance Plans not included in the initial Milestone 12d.2 Closure Pack.
- The FY20 Financial Crimes Assurance Plan and the process followed to develop the Plan.
- The steps planned and underway to address the deficiencies identified through CBA's Line 2 Assurance review pilot activity.
- The process envisaged for ensuring specific resourcing requirements and constraints relating to Line 2 Assurance activity are identified and are considered in the capacity uplift set out as part of Recommendation 9 and the capability uplift set out as part of Recommendation 13.
- The approach to Line 2 reliance on Line 1 testing activities.

In December 2019, CBA informed Promontory that the capacity required to execute the FY20 Line 2 Assurance reviews had been significantly underestimated in designing the FY20 Line 2 Assurance Plans. This resulted in a significant gap between the reviews that were planned to be completed during the first quarter of the FY20 review period (July to September 2019) and those that were in fact completed.

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To address the shortcomings identified in the execution of the FY20 Line 2 Assurance Plans to date, CBA has recognised the need to review the current Line 2 Assurance Standard and procedures and its plans for further assurance activity in FY20. There will also be consequential changes to the approach taken to develop the Line 2 Assurance Plans for FY21.

In order to better evidence the changes planned, CBA has made revisions to the remaining Milestones for Recommendation 12d. These changes include evidencing the adjustments to the Line 2 Assurance planning processes to address the issues noted above, providing the updated FY20 Line 2 Assurance Plans to Promontory for review, and providing samples of completed FY20 reviews in June 2020. Promontory endorsed these changes in December 2019.

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 the FY20 Line 2 Assurance Plans, obtained appropriate approvals, and trained relevant Line 2 staff on the new assurance requirements (including through piloting Line 2 assurance activity). We also understand that the updated FY20 Line 2 Assurance Plans to be delivered as part of the additional implement Milestone (12b.2b due in June 2020) will be designed to address the quality deficiencies observed by Promontory.

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 test the level and scope of reliance placed on Line 1 assurance activities and the extent to which Line 2 is conducting an objective and independent assessment of the control environment.

## 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.

As noted in section 2.1, the Program added four new Milestones (Milestones 12e.3b, 12e.3c, 12e.3d and 12e.4b) to this Theme during the Reporting Period following the Foundational Review conducted during 2019. These Milestones, and associated changes to existing Milestones, introduce the concepts of risk profile consolidation, value chain mapping, and the development of control libraries and control taxonomies (Milestone 12e.3b). They also prioritise Financial Crimes Compliance (Milestone 12e.3c), and Privacy and Data Management (Milestone 12e.3d) risks for baselining, and mandate the requirement to evidence an improvement in the effectiveness of the risk, obligations and control environment (Milestone 12e.4b).


During the Reporting Period:

- The Program submitted Closure Packs for three Accountability and Controls Delivery Theme Milestones (Milestones 12e.3a, 12f.2 and 16.2) to Promontory. The Closure Packs were submitted before relevant due dates set out in the RAP.
- The Program was working on the three remaining Implement Milestones and four Embed Milestones for this Theme.

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At the Reporting Date, Promontory was yet to start its review of three Accountability and Controls Delivery Theme Milestones, the Closure Packs for which were submitted in late December (Milestone 12e.3a, 12f.2 and 16.2).

Taking into account Milestones assessed as complete and effective in previous reporting periods, as at the Reporting Date, a total of three of the 14 Accountability and Controls Delivery Theme Milestones had been assessed as complete and effective.

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**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.3a <sup>34</sup> Implement	Commence Risk Profile Consolidation and Value Chain mapping	Dec-19 <sup>35</sup>	
		12e.3b Implement	Consolidate BU/SU Risk Profiles, update Risk Taxonomy for all risk types and provide guidance on baselining	Mar-20	
		12e.3c Implement	Complete updating BU/SU Risk Profiles via baselining for Financial Crimes Compliance	Jul-20	
		12e.3d Implement	Complete updating BU/SU Risk Profiles via Baselining for Privacy and Data Management	Dec-20	
		12e.4a <sup>36</sup> Embed	Evidence of an improvement in the effectiveness of Risk, obligations and Control environment for Financial Crimes Compliance	Sep-20 <sup>37</sup>	
		12e.4b Embed	Evidence of an improvement in the effectiveness of Risk, obligations and Control environment for Privacy and Data Management	Feb-21	

<sup>34</sup> Milestone 12e.3 was renamed to Milestone 12e.3a due to the addition of Milestones 12e.3b, 12e.3c and 12e.3d.

<sup>35</sup> The due date for Milestone 12e.3a (previously Milestone 12e.3) was moved from November to December 2019 during the Reporting Period.

<sup>36</sup> Milestone 12e.4 was renamed to Milestone 12e.4a due to the addition of Milestones 12e.4b.







<sup>37</sup> The due date for Milestone 12e.4a (previously Milestone 12e.4) was moved from June to September 2020 during the Reporting Period.



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#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
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	Jun-20 <sup>38</sup>	
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	Jun-20 <sup>39</sup>	

<sup>38</sup> The due date for Milestone 12f.3 was moved from March to June 2020 during the Reporting Period.

<sup>39</sup> The due date for Milestone 16.3 was moved from March to June 2020 during the Reporting Period.

## 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.

During the Reporting Period:

- The Program submitted Closure Packs for three Customer Outcomes Theme Milestones (Milestones 15.4, 17.2 and 18.2) to Promontory. The Closure Packs were submitted before relevant due dates set out in the RAP.
- The Program was working on the one remaining Implement Milestones and three Embed Milestone for this Theme. Work had yet to start on one Embed Milestone for this Theme.

At the Reporting Date, Promontory was assessing three Customer Outcomes Theme Milestones (Milestones 17.2 and 18.2) and was yet to start its review of one Customer Outcomes Theme Milestone, the Closure Pack for which was submitted in late December (Milestone 15.4).

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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 seven of the 15 Customer Outcomes Theme Milestones had been assessed as complete and effective.

**Table 8.1: Progress on Customer Outcomes Theme Milestones**

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Status
15	Conduct Risk Strategy	15.1 Design	Develop and CEO communicate 'Values expectations'	Aug-18	●
		15.2a Design	Develop the Code of Conduct, and accompanying roll out plan	Oct-18	●
		15.2b Design	Ensure the conduct components of Group RMA and RAS support improvement in conduct risk management	Dec-18	●
		15.3 Implement	Code of Conduct rolled out, including communication and training	Mar-19	●
		15.4 Implement	Implement Conduct Risk Strategy across the Group	Dec-19	◐
		15.5 Embed	Conduct Risk Strategy embedded across the Group	Dec-20	◑
17	Customer complaints	17.1 Design	Design the complaints reporting and define supporting data and system requirements	Dec-18	●
		17.2 Implement	Complaints reports tabled 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	Jun-20 <sup>40</sup>	◑

<sup>40</sup> The due date for Milestone 17.3 was moved from February to June 2020 during the Reporting Period.

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#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Status
18	Systemic issues	18.1 Design	Develop the criteria and plan to enhance systemic issues identification and reporting	Dec-18	●
		18.2 Implement	Systemic issues insights are tabled at ELT NFR, BRC and BU/SU Risk Committees	Oct-19	◐
		18.3 Embed	Regular reporting to ELT NFRC and BRC on systemic issues	Jun-20 <sup>41</sup>	◑
21	'Should we'	21.1 Design	Articulate how references to expect customer outcomes will be incorporated into key Group policies	Jun-19	●
		21.2 Implement	BU/SUs implement changes as a result of updates to key Group polices	Dec-20 <sup>42</sup>	◑
		21.3 Embed	Apply key Group policies related to Customer and Communities outcomes in governance forums	Feb-21 <sup>43</sup>	○

<sup>41</sup> The due date for Milestone 18.3 was moved from February to June 2020 during the Reporting Period.

<sup>42</sup> The due date for Milestone 21.2 was moved from June to December 2020 during the Reporting Period.

<sup>43</sup> The due date for Milestone 21.3 was moved from December 2020 to February 2021 during the Reporting Period.

## 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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As noted in section 2.1, the Program added five new Milestones (Milestones 13.1b, 27.2b, 28.2b, 29.2b and 30.2b) to this Theme during the Reporting Period following the Foundational Review conducted during 2019. The new Recommendation 13 Milestone contemplates uplifting the risk capability of staff through Group-wide OR&C training. The new Recommendation 27 to 30 Milestones provide for a refresh of the targeted cultural interventions contemplated by each Recommendation incorporating new insights from the initial roll out of those interventions.

During the Reporting Period:

- The Program submitted Closure Packs for five Culture, Capability and Consequences Theme Milestones (Milestones 22.2, 23.2, 24b.2, 24c.2 and 25c.3) to Promontory. The Closure Packs were submitted before relevant due dates set out in the RAP.
- Promontory assessed three Culture, Capability and Consequences Theme Milestones (Milestones 24a.3, 24c.2 and 25b.2) as complete and effective. The Closure Packs for these Milestones were submitted in the Fifth and Sixth Reporting Period.
- The Program was working on the one remaining Design Milestone, the ten remaining Implement Milestones and six Embed Milestones for this Theme. Work had yet to start on six Embed Milestones.

At the Reporting Date, Promontory was assessing two Culture, Capability and Consequences Theme Milestones (Milestones 22.2 and 25c.3) and was yet to start its review of two Culture, Capability and Consequences Theme Milestones, the Closure Packs for which were submitted in late December (Milestone 23.2 and 24b.2).

Taking into account Milestones assessed as complete and effective in previous reporting periods, as at the Reporting Date, a total of 21 of the 48 Culture, Capability and Consequences Theme Milestones had been assessed as complete and effective.

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**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	●
		13.1b Design	Design organisation-wide OR&C capability training plan	Mar-20	◐
		13.2 Implement	Risk capability uplift implemented	Jul-20 <sup>44</sup>	◐
		13.3 Embed	Refresh of risk capability plans presented to ELT NFRC	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	Nov-19 <sup>45</sup>	◐
		22.3 Embed	Accountability consequences are reflected in key individuals' performance reviews and the remunerations and consequences outcomes for FY20	Oct-20	◐
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 PRC exercises stronger governance on CEO and GE remuneration outcomes	Dec-20 <sup>46</sup>	◐

<sup>44</sup> The due date for Milestone 13.2 was moved from March to July 2020 during the Reporting Period.

<sup>45</sup> The due date for Milestone 22.2 was moved from October to November 2019 during the Reporting Period.

<sup>46</sup> The due date for Milestone 23.3 was moved from October to December 2020 during the Reporting Period.

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#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
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 PRC	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 PRC and referral of key matters to and sharing of information with PRC	Oct-19	●
		24c.3 Embed	Annual remuneration review and allocation of Short-Term Variable Remuneration (STVR) payments under the new STVR model	Dec-20	◐
25a	Board guidance on risk adjustments	25a.1 Design	Strengthen guidance to Management on the Board's expectations for risk adjustments to remuneration outcomes	Mar-19	●
		25a.2 Implement	Incorporate strengthened Board guidance into FY19 remuneration reviews	Aug-19	●
		25a.3 Embed	FY19 remunerations outcomes across all staff reflect Board guidance	Apr-20 <sup>47</sup>	◐

<sup>47</sup> The due date for Milestone 25a.3 was moved from December 2019 to April 2020 during the Reporting Period.



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#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
25b	Risk function support on risk adjustments	25b.1 Design	Design an enhanced approach for risk assessment that appropriately penalises or rewards risk and compliance outcomes	Mar-19	●
		25b.2 Implement	New process in place to strengthen the role of the risk function in FY19 remuneration reviews	Aug-19	●
		25b.3 Embed	FY19 remuneration outcomes across all staff analysed and reflect robust applications of the risk modifier	Apr-20 <sup>48</sup>	◐
25c	Communication of outcomes	25c.1 Design	Develop a communications mechanism and strategy to communicate the impact of both good and poor risk outcomes to CBA staff	Oct-18	●
		25c.2 Implement	Communicate good and poor FY18 risk outcomes with the organisation	Nov-18	●
		25c.3 Embed	FY19 risk and remuneration outcomes exhibit appropriate aggregation and anonymisation, and communications approach revised	Nov-19	◐
26	Remuneration framework review	26.1 Implement	Implement upside remuneration facility for positive risk assessment	Oct-18	●
		26.2 Design	Review the Group Remuneration Policy, informed by better global practices	Jun-19	●
		26.3 Implement	Reflect enhancements in FY19 remuneration outcomes	Jun-20	◐
		26.4 Embed	FY20 remuneration outcomes reviewed by PRC and shown through analysis to be consistent with the fully updated remuneration frameworks and policies	Nov-20	○

<sup>48</sup> The due date for Milestone 25b.3 was moved from December 2019 to April 2020 during the Reporting Period.

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#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
27	Culture of self-reflection	27.1 Design	Establish baselines and develop plans to uplift risk culture mindsets and behaviours with targeted initiatives on self-reflection	Mar-19	●
		27.2a <sup>49</sup> Implement	Implement targeted interventions on senior leader capability, leadership diagnostics and performance assessment	Mar-20	◐
		27.2b Implement	Refresh targeted interventions based on new insights	May-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	●
		28.2a <sup>50</sup> Implement	Implement targeted interventions and annual re-assessment of leader-led training and senior leader communications	Mar-20	◐
		28.2b Implement	Refresh targeted interventions based on new insights	May-20	◐
		28.3 Embed	Conduct annual risk culture reassessment and refresh of the targeted initiatives to cascade good risk management	Feb-21	○

<sup>49</sup> Milestone 27.2 was renamed to Milestone 27.2a due to the addition of Milestone 27.2b.

<sup>50</sup> Milestone 28.2 was renamed to Milestone 28.2a due to the addition of Milestone 28.2b.

#	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	●
		29.2a <sup>51</sup> Implement	Implement targeted interventions including Lines 1 and 2 engagement forums and career pathways	Mar-20	◐
		29.2b Implement	Refresh targeted interventions based on new insights	May-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	●
		30.2a <sup>52</sup> Implement	Implement targeted interventions including communications, recognition, values performance assessment and HR processes	Mar-20	◐
		30.2b Implement	Refresh targeted interventions based on new insights	May-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 24a Milestone

The Target State for Recommendation 24a is to support the effective oversight of the remuneration framework with a comprehensive CRO risk assessment of CEO and GEs’ risk behaviour and outcomes.

<sup>51</sup> Milestone 29.2 was renamed to Milestone 29.2a due to the addition of Milestone 29.2b.

<sup>52</sup> Milestone 30.2 was renamed to Milestone 30.2a due to the addition of Milestone 30.2b.

### **a) Milestone 24a.3**

Milestone 24a.3 (an Embed Milestone) requires that the Board Committees (i.e., the June 2019 Concurrent Meeting of BAC, BRC, and PRC, and the August 2019 BRC meeting) use the further enhanced CRO assessment in determining appropriate CEO and GE remuneration outcomes for FY19, based on their individual performance and risk outcomes. The CRO risk assessment is to continue to be refined based on Board Committee feedback and as better data and analytics become available.

This was the first Embed Milestone to be considered by Promontory.

Our approach to assessing this, and all subsequent, Embed Milestones is to consider whether:

- The Milestone's Closure Criteria has been satisfied.
- CBA has addressed matters raised in our assessment of prior Milestones for this Recommendation.
- There is evidence of the Recommendation's Target State being achieved.
- Whether practical and reasonable sustainability measures are in place or have been designed to support maintenance of the Target State on an ongoing basis.

CBA has confirmed and provided evidence that:

- enhancements have been made to the Executive Risk Scorecard, the CRO Assessment and the supporting processes since FY18, particularly in relation to the matters considered, the depth of the analysis, and the use of supporting data and metrics;
- CRO Assessments included comprehensive commentary on each executive's risk behaviours and outcomes, including a recommended risk assessment rating and STVR reduction;
- CRO Assessments were presented to the Board Concurrent Meeting on 4 February 2019 (FY19 interim review) and 12 June 2019 (FY19 annual review), with an updated CRO Assessment presented to the BRC on 2 August 2019; and
- the Board used the CRO Assessment to determine GE and CEO remuneration outcomes.

CBA also provided evidence of having addressed the actions and issues highlighted in our Final Assessment of Milestone 24a.1 in relation to:

- Developing more structured guidance on how the various risk factors and metrics that are reported to the BRC and PRC are weighted and synthesized into the CRO's rating and overall assessment.
- Ensuring that information is provided about the quality of remediation activities taken to respond to and mitigate Key Risk Matters.
- Ensuring the risk factors and metrics reported in the CRO assessment are accurate and reconcile with other information in the assessment.
- Including additional qualitative and quantitative information in the Scorecard or supporting appendices to the CRO assessment.

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CBA has also developed a Sustainability Plan for this Milestone providing detail on the following elements that support the CRO Assessment process: accountabilities and infrastructure; data inputs; controls; and reporting.

Due to the confidential nature of the material, Promontory reviewed a number of the attachments to the Closure Pack, and additional documents, onsite at CBA offices.

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

- the level of challenge provided by the Board Committees in relation to the CRO Assessment and the individual outcomes for FY19;
- whether CBA had addressed Promontory's suggestions for ongoing refinement noted in the Final Assessment of Milestone 24a.1;
- the level of feedback provided by the Board Committees on the CRO Assessment process;
- application of the process for the assessment of the Group CRO's performance;
- adjustments for collective accountability; and
- the Sustainability Plan, including in relation to the documentation of sustainability processes, monitoring ongoing compliance with the Target State, and allocation of accountability to a BEAR Accountable Executive.

We were also provided with a walkthrough of the DART Dashboard to improve our understanding of the sources of the data and metrics included in the Executive Risk Scorecard.

Following Promontory's review and subsequent discussions, CBA provided an updated Sustainability Plan and further evidence of supporting procedures, process maps and plans for controls. The enhanced Sustainability Plan describes:

- measures in relation to each element of the Target State;
- controls designed to support and ensure the processes continue on an ongoing basis;
- monitoring and testing of controls, and reporting and escalation when control deficiencies are identified; and
- clear accountability for the sustainability process.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that the Board Committees used the further enhanced CRO assessment in determining appropriate CEO and GE remuneration outcomes for FY19 and that the CRO Assessment will continue to be refined.

As such, we consider that:

- The Milestone's Description and Closure Criteria have been met;

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

The Milestone is, therefore, complete and effective.

In finalising our assessment, we foreshadowed that our assessment when closing this Recommendation will include consideration of the following:

- Whether controls have been comprehensively documented;
- Whether these controls have been included in a Controls Assurance Program; and
- Whether the Standard Operating Procedures have been comprehensively documented, finalised and applied.

### **9.2.2. Assessment of Recommendation 24c Milestone**

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

#### **a) Milestone 24c.2**

Milestone 24c.2 (an Implement Milestone) requires coordination between the BRC, BAC and PRC by referral of matters, and joint meetings, held twice a year, to consider NFR matters relevant to executive performance and remuneration. The PRC's oversight of the remuneration framework is to include:

- comprehensive assessment by Line 2 and 3 of issues that could affect executive remuneration;
- review of CEO and Group Executive risk ratings, with input from the BRC and BAC on appropriateness of executive risk ratings; and
- formal assessment of risk in the determination of the STVR pool.

The assessment of this Milestone was supported by assessments of Milestones in other related Recommendations (e.g., Recommendations 3 and 24a). Due to the confidential nature of the material, Promontory reviewed a number of the attachments to the Closure Pack onsite at CBA offices.

CBA has confirmed and provided evidence that:

- CBA has developed processes for the referral of key matters and sharing of information between the BAC, BRC and PRC.
- The Board Concurrent Committee (comprising the BAC, BRC, PRC and Nominations Committee) met in February and June 2019 to discuss, provide input into and challenge the risk assessment and remuneration outcomes for the CEO and each GE.

- Line 2 and Line 3 presented to the Concurrent Committee on issues that could affect executive remuneration.
- The Concurrent Committee considered and approved the indicative FY19 STVR Group Pool (and BU/SU allocations), with approval of the final pool by the Chair of the Board and PRC jointly.

CBA also provided evidence that the Concurrent Committee process for seeking input from the BRC and BAC on risk and remuneration outcomes was followed for FY19.

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

- the extent to which matters had been referred between the BAC, BRC and PRC; and
- in the formal assessment of risk in determining the STVR Pool, the risk, audit and financial matters considered by the Concurrent Committee.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that there was effective coordination between the BAC, BRC and PRC by way of the Concurrent Committee in the challenge and determination of executive risk and remuneration outcomes for FY19. The PRC received input from the BAC, BRC, Line 2 and Line 3. The Concurrent Committee also discussed a wide range of risk, audit and financial information to determine the level of risk adjustment to the Group STVR Pool for FY19.

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

### 9.2.3. Assessment of Recommendation 25b Milestone

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

#### a) Milestone 25b.2

Milestone 25b.2 (an Implement Milestone) requires new processes to strengthen the role of the risk function to improve the application of the risk modifier for FY19 remuneration reviews. This includes improved real time engagement and assessment of the proposed risk modifier ratings with constructive challenge on inconsistencies and outliers.

CBA has confirmed and provided evidence of the following:

- comprehensive guidance being provided to Group and BU/SU CROs to support effective challenge, and to BU/SU stakeholders (Line 1 and 2) to support the BU/SU Round Table moderation sessions;
- the Group CRO (for EGMs) and BU/SU CROs (for EGM level and below) assessing the application of the risk modifier and provided constructive challenge to risk and remuneration outcomes for FY19; and
- comprehensive quantitative data supporting the challenge, with data sourced from risk and people management systems.

Due to the confidential nature of the material, Promontory reviewed a number of the attachments to the Closure Pack, and other requested documents, onsite at CBA offices.

After reviewing the Closure Pack for this Milestone, Promontory interviewed the CRO of RBS about his experience in the BU CRO challenge process for RBS, including his access to data and the effectiveness of guidance and supporting processes. We were also provided with a walkthrough of the DART Dashboard to improve our understanding of the sources of the data and metrics included in the risk assessment process, and how the systems allow the CROs to interrogate the data at a more granular level.

Based on our assessment of the Milestone Closure Pack and the interviews we conducted, we concluded that the risk function provided appropriate challenge to the application of the risk modifier for the FY19 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 assessment of the Embed Milestone for this Recommendation will consider whether:

- plans for enhancement to the challenge process foreshadowed in the Closure Pack have addressed the potential areas of improvement noted in our Assessment of Milestone 25b.1;
- there are plans to improve access to required data sources and metrics; and
- results from the post-implementation review conducted are adequately reflected in updated guidance.



## 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.

As noted in section 2.1, the Program added one new Milestone (Milestones 35.1b) to this Theme during the Reporting Period to reflect developments in CBA's approach to sustainability. The new Milestone provides for the development of a Sustainability Plan template, as described in section 2.2.3. Revisions to Milestones 35.2 and 35.3 which deal with closure of all Implement and Embed Milestones, respectively, are expected to be made in coming Reporting Periods to reflect the use and testing of Sustainability Plans.

During the Reporting Period:

- The Program submitted Closure Packs for two Program Execution Theme Milestones (Milestones 20.2 and 32.2) to Promontory. The Closure Packs were submitted before relevant due dates set out in the RAP.
- Promontory assessed one Program Execution Theme Milestone (Milestone 11.2) as complete and effective. The Closure Pack for this Milestone was submitted in the Fifth Reporting Period.

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- The Program was working on the two remaining Design Milestones, two Implement Milestones and five Embed Milestones for this Theme. Work had yet to start on one Implement Milestone and three Embed Milestones.

At the Reporting Date, Promontory was assessing two Program Execution Theme Milestones (Milestones 20.2 and 32.2).

Taking into account Milestones assessed as complete and effective in previous reporting periods, as at the Reporting Date, a total of 11 of the 26 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	Apr-20 <sup>53</sup>	◐
		11.4 Embed	BU/SUs have demonstrated effectiveness of Risk in Change in core processes as evaluated by Line 2	Sep-20 <sup>54</sup>	○
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	◐

<sup>53</sup> The due date for Milestone 11.3 was moved from December 2019 to April 2020 during the Reporting Period.

<sup>54</sup> The due date for Milestone 11.4 was moved from July to September 2020 during the Reporting Period.

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#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
31	Skin in the game	31.1 Design	Define changes to the CBA GDF to require CBA delivery leads to have appropriate skills and experience, and with KPIs/objectives tied to successful program delivery	Sep-18	●
		31.2 Implement	Identify programs that require senior leaders to perform a lead role and update KPIs	Dec-18	●
		31.3 Embed	Performance Reviews of delivery leads reflect delivery KPI allocations	Nov-20	◐
32	Consequences	32.1 Design	Define changes to the GDF in relation to remuneration outcomes reflecting delivery requirements and accountabilities	Mar-19	●
		32.2 Implement	Update KPIs for relevant staff to reflect delivery requirements and standards	Nov-19	◐
		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	◐

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#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
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	Implement enhanced GDF including formalising Stage Gate review, Health Checks, required skillsets and Risk in Change process	Jul-20	
		34.3 Embed	Regularly consolidate a Program status view of all IPP endorsed Programs	Nov-20	
35	Embedding project framework	35.1a <sup>55</sup> Design	Deliver Sustainability Plan template, Recommendation closure approach and Recommendation Groupings	Mar-20 <sup>56</sup>	
		35.1b Design	All Design Milestones are assessed as effective	Mar-20	
		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 Change<sup>57</sup> across the Group, with Line 1 applying the methodology consistently, supported by effective review and challenge from Line 2.

#### a) Milestone 11.2

Milestone 11.2 (a Design Milestone) requires BU/SUs to submit plans to implement the revised Risk in Change methodology. These plans are to include a staged rollout of the revised methodology across key change

<sup>55</sup> Milestone 35.1 was renamed to Milestone 35.1a due to the addition of Milestone 35.1b.

<sup>56</sup> The due date for Milestone 35.1a (previously Milestone 35.1) was moved from December 2019 to March 2020 during the Reporting Period.

<sup>57</sup> 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).

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initiatives, training of key resources, sign off in key governance fora, and updating the FY20 Line 2 Assurance Program to focus on necessary approvals, advice and assurance over Line 1's performance.

CBA has confirmed and provided evidence that:

- Implementation plans have been developed by each BU/SU (with modified plans for NewCo and BankWest (due to BU-specific issues)). The plans provide for a staged rollout of the methodology, training on the methodology and tools, and governance processes.
- Plans have been endorsed by the BU/SU GE and NFRC (or equivalent) with ELT NFRC endorsement of the key elements of the plans.
- A Line 2 assurance approach has been developed in relation to the transitional period and ongoing monitoring.

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

- the extent of BU/SU tailoring of the implementation plans;
- the use of the implementation plans and processes for monitoring and reporting on progress against the milestones in the plans;
- the implementation plan for NewCo; and
- whether centrally-led activities (such as the communications and training approach and availability of the Risk in Change Application tool) have been delivered on schedule.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that BU/SUs have developed appropriate implementation plans that provide a clear pathway for embedding Risk in Change. These plans are being actively used by BU/SUs and the central project team to monitor implementation during the transitional period to 1 April 2020.

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



Promontory Australia, a division of IBM  
Level 3, 120 Sussex St | Sydney, NSW, 2000  
+61 2 9478 8888 | [promontory.com](http://promontory.com)