

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY ANNUAL REPORT 2016

11QW: Banking Executive Accountability Regime (BEAR)

Submitted subsequent to hearing.

Mr THISTLETHWAITE: The Treasury states that the BEAR is intended to: ... enhance the responsibility and accountability of ADIs and their directors and senior executives. The BEAR will provide greater clarity regarding their responsibilities and impose on them heightened expectations of behaviour in line with community expectations.

Where these expectations are not met, APRA will be empowered to more easily remove or disqualify individuals, ensure ADIs' remuneration policies result in financial consequences for individuals, and impose substantial fines on ADIs. ADIs will be required to register individuals with APRA before appointing them as senior executives and directors.

The expectation is that BEAR will allow the regulator to intervene in the banks when it believes their remuneration policies — such as bonuses or commissions — produce the wrong outcome.

Would the Commonwealth Bank's most recent scandal relating to their Intelligent Deposit Machines be something that could result in:

- a. The disqualification of individuals?
- b. A change in CBA's remuneration policies so that there are financial consequences for individuals?
- c. Or the imposition of substantial fines on CBA?

Answer:

APRA is not in a position to comment on the CBA matter at this time, as:

- the AUSTRAC actions in relation to CBA are before the Courts; and
- the legislation governing the BEAR framework is not yet finalised.

More generally, a systemic and continued breach of important legal requirements (including regulations of another financial regulator) might lead APRA to have significant prudential concerns about the governance and/or risk management of an entity. It is envisaged, in such a case, that the new BEAR powers provide for APRA to be able to take action against an entity and/or individuals, depending on the specific circumstances of the incident in question.