

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS (SECOND REPORT)

Commonwealth Bank of Australia

CBA86QW:

Please provide a detailed brief as to how the Bank's risk management framework proactively addresses the risk factors which are not captured by the APRA Prudential Standard CPS220.

Answer:

Risk management is an inherent element of business management across Commonwealth Bank.

Commonwealth Bank has an integrated Group-wide Risk Management Framework with comprehensive coverage of all material risk types including both financial and non-financial. This framework is designed to be both proactive in risk identification and management, as well as responsive to incidents, and is subject to regular review.

The Risk Management Framework sets minimum standards for the management of all risks across the Commonwealth Bank, including meeting our obligations from regulation and legislation. In particular:

- APRA prudential standards, including the specific risk management standard (CPS220);
- ASIC frameworks regarding consumer protection; and
- Australian Transaction Reports and Analysis Centre (AUSTRAC) rules on financial crime.

We believe that all material risk factors are covered by CPS220, given the definition in paragraph 28 of CPS220 which states:

"An APRA-regulated institution's risk management framework must, at a minimum, address:

- a) credit risk;*
- b) market and investment risk;*
- c) liquidity risk;*
- d) insurance risk;*
- e) operational risk;*
- f) risks arising from its strategic objectives and business plans; and*
- g) other risks that, singly or in combination with different risks, may have a material impact on the institution."*

The Risk Management Framework is designed to set minimum standards to meet APRA, ASIC and AUSTRAC obligations and manage the above risks, and the various sub-components of these risk types. In particular, conduct risk, which relates to poor customer outcomes, is addressed as a key component of operational risk and compliance frameworks. The Commonwealth Bank Board provides APRA with an annual Risk Management Declaration attesting to the Risk Management Framework's appropriateness, adequacy and effectiveness.