

Royal Commission update – September 2021

This update is by exception and so where implementation of recommendations has been finalised and we have reported these previously, these are not reproduced in full. Relevant recommendation numbers are noted in brackets.

Banking

Mortgage broking

Following the release of the *ASIC Corporations and Credit (Reference Checking and Information Sharing Protocol Instrument)* in July 2021, Commonwealth Bank has begun implementing the reference checking and information sharing recommendation relating to mortgage brokers (1.6). We are establishing processes to implement this recommendation by 1 October 2021, when the Instrument takes effect.

In relation to the misconduct aspect of this recommendation (1.6), we have commenced work to implement this recommendation as part of the Breach Reporting reforms, which are due to commence on 1 October 2021.

Financial advice

We have undertaken a review of our business procedures with respect to the ongoing fee arrangements recommendation (2.1) following passage of the *Financial Sector Reform (Hayne Royal Commission Response No. 2) Bill 2020* on 25 February 2021. We are satisfied we no longer have any ongoing fee arrangements with customers, as covered by the legislation.

We have also fully implemented the disclosure of lack of independence recommendation (2.2) in relation to the provision of personal advice to retail clients by financial advisers.

Following the release of the *ASIC Corporations and Credit (Reference Checking and Information Sharing Protocol Instrument)*, referenced above, we have begun implementing the recommendation on reference checking and information sharing for financial advisers (2.7) which come into effect on 1 October 2021.

As part of our implementation of the Breach Reporting reforms noted above, we are working to implement the recommendations on reporting compliance concerns for financial advisers (2.8) and misconduct by financial advisers (2.9) by 1 October 2021 – when the legislation takes effect.

Superannuation

Colonial First State (CFS), part of the Commonwealth Bank Group, is on track to implement the recommendation that registrable superannuation entities (RSE) be prohibited from assuming any other obligations (3.1) by 30 June 2022 – the date by which APRA has granted CFS a compliance date exemption.

CFS has implemented system and process changes to support day one compliance obligations concerning the capture of member consent, and deduction of advice fees from MySuper (3.2) and choice (3.3) accounts. These changes were made effective 18 June 2021 and this was communicated to advisers from March 2021. Work is in progress to implement the annual adviser service fee renewal requirements ahead of the 1 July 2022 compliance date.

We continue to work to implement the recommendation against the hawking of superannuation products (3.4), ahead of the commencement of the new hawking regime on 5 October 2021. We note that on 21 July 2021, ASIC released CP 346 *The Hawking prohibition: update to RG38* with feedback sought by 18 August 2021, with an updated regulatory guide scheduled to be released in September 2021.

CFS is also on track to implement the recommendation on one default superannuation account (3.5), following the recent passage of the *Treasury Laws Amendment (Your Future, Your Super) Act 2021* by 1 November 2021 – when these changes take effect.

Insurance

The passage of the *Financial Sector Reform (Hayne Royal Commission) Response Bill 2020* on 10 December 2020 introduced a new hawking regime and a deferred sales model for add-on insurance.

The new hawking regime for financial products (4.1) and the deferred sales regime (4.3) commence on 5 October 2021. We participated in the recent consultation on the draft updated ASIC regulatory guide on the hawking regime, and look forward to receiving the final version, expected in September.

We are currently developing a technology solution to comply with the legislation for general insurance, noting that for the Deferred Sales Model for Add-On Insurance, Treasury has granted a 5 year exemption which covers the suite of general insurance products sold by Commonwealth Bank.

We are also ensuring that all other existing processes or procedures for in-scope products are addressed prior to the 5 October 2021 commencement date. For example, we have reviewed the various real-time and non-real time contact methods used in the Commonwealth Bank Group and sought legal advice to ensure that we are well-positioned to comply with the requirements of the new regime by the commencement date.

Commonwealth Insurance Limited (CIL), part of the Commonwealth Bank Group, has implemented the recommendation on the duty to take reasonable care not to make a misrepresentation to an insurer (4.5). CIL has reviewed disclosure materials, customer communications and internal processes in order to ensure it meets these requirements, which take effect on 5 October 2021.

Actions including the review of disclosure material, customer communication and internal processes were completed to ensure CIL meets the requirements of the Unfair Contracts Terms legislation (4.7), which applies to insurance products from 5 April 2021.

CIL is also acting to implement the recommendation removing the claims handling exemption from the definition of 'Financial Service' (4.8). We have submitted an application for an Australian Financial Services Licence variation with ASIC, and are in the process of completing a review of our customer communications, systems and processes to ensure we are in a position to meet the new requirements by 1 January 2022.

Commonwealth Bank has implemented the requirements of additional scrutiny for related party engagements (4.14) and the requirement that the status attributed in connection with a member is fair and reasonable (4.15) in advance of the release of updated APRA Standard SPS250 *Insurance in Superannuation*.

Culture and Governance

We continue to elevate the focus on operational and non-financial risk for every role in our organisation. We have actively contributed to industry consultation on revised draft CPS 511 Remuneration and Prudential Practice Guide CPG 511 *Remuneration*. We have already self-assessed against draft CPS 511's intent and objectives in anticipation of the release of the final version. Once these draft guidance materials are finalised we will be in a position to complete implementation of the recommendations in relation to remuneration (5.1, 5.2 and 5.3).

We have also completed work on recommendation 5.6 (Changing culture and governance).

The recommendations to extend the Banking Executive Accountability Regime (BEAR) to all APRA-regulated insurers (4.12 and 6.8) will be addressed as part of the introduction of the Financial Accountability Regime (FAR). We have been engaging in the development of the FAR, engaging in Treasury's exposure draft legislation consultation process on the FAR which opened on 16 July 2021.

Similarly, we have been engaging with Treasury in relation to the establishment of a Compensation Scheme of Last Resort (7.1). The Treasury consultation process ran from 21 July 2021 to 13 August 2021.

In relation to the self-reporting of contraventions (7.2), this is being implemented as part of the Breach Reporting reforms. We have established processes to implement this recommendation by 1 October 2021, when the legislation takes effect.