

Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry

Westpac Group implementation progress update – September 2021

Overview

Since our last update to the Committee, Westpac has completed implementation of changes in response to several recommendations which now have legislative effect and is progressing programs of work on a number of other recommendations which will become effective at later dates.

Of the Royal Commission's 76 recommendations, 46 recommendations presently apply to Westpac. So far:

- 20 have been implemented. This includes proactive implementation ahead of the legislative and regulatory agenda where appropriate.
- 18 are being implemented. Of these six will be completed soon to comply with obligations commencing in early October 2021. Some recommendations will still require legislative or regulatory action before implementation can be completed.
- 8 require legislative or regulatory action before implementation work can commence. We are undertaking preparatory work where possible, including through participation in Government consultation.

Since our April 2021 update to the Committee, legislation has been passed giving effect to Royal Commission Recommendation 3.5 from 1 November 2021. The stapling provisions included in that legislation do not require Westpac, as the product provider, to take any specific action. Therefore it is no longer included in the total of recommendations applicable to Westpac. However, Westpac is supporting employer groups in understanding their obligations as part of this change.

Updates on status against the full set of recommendations that presently apply to Westpac are included in the accompanying table.



ROYAL COMMISSION RECOMMENDATIONS APPLICABLE TO WESTPAC

The table below includes a status update against the 46 recommendations that presently apply to Westpac.

RECOMMENDATION	WESTPAC STATUS
BANKING	
<p>Recommendation 1.2: Mortgage broker best interests duty</p> <p>The law should be amended to provide that, when acting in connection with home lending, mortgage brokers must act in the best interests of the intending borrower. The obligation should be a civil penalty provision.</p>	<p>Legislation has been passed to introduce the Best Interests Duty. There are no mortgage brokers in the Westpac Group and Westpac has put in place processes and controls to ensure that representatives of the Westpac Group only sell proprietary products.</p>
<p>Recommendation 1.3: Mortgage broker remuneration</p> <p>The borrower, not the lender, should pay the mortgage broker a fee for acting in connection with home lending.</p> <p>Changes in brokers' remuneration should be made over a period of two or three years, by first prohibiting lenders from paying trail commission to mortgage brokers in respect of new loans, then prohibiting lenders from paying other commissions to mortgage brokers.</p>	<p>Legislation has been passed to change broker remuneration and Westpac has processes and controls to give effect to and monitor compliance with these changes</p>
<p>Recommendation 1.5: Mortgage brokers as financial advisers</p> <p>After a sufficient period of transition, mortgage brokers should be subject to and regulated by the law that applies to entities providing financial product advice to retail clients.</p>	<p>The Government stated in its Implementation Roadmap that this recommendation will be progressed following the review of financial advice reforms (recommendation 2.3), given that review may recommend changes to the regulation of financial advisers.</p> <p>Once the outcome of that review is known, Westpac will review and determine what action is required to comply.</p>
<p>Recommendation 1.6: Misconduct by mortgage brokers</p> <p>ACL holders should:</p> <ul style="list-style-type: none"> be bound by information-sharing and reporting obligations in respect of mortgage brokers similar to those referred to in Recommendations 2.7 and 2.8 for financial advisers; and take the same steps in response to detecting misconduct of a mortgage broker as those referred to in Recommendation 2.9 for financial advisers. 	<p>Legislation implementing this recommendation has now been passed with a commencement date of 1 October 2021 and ASIC has issued a Reference Checking and Information Sharing Protocol.</p> <p>Westpac has a program of work underway to implement any changes necessary to comply both with the legislation and the ASIC Protocol.</p>
<p>Recommendation 1.7: Removal of point-of-sale exemption</p> <p>The exemption of retail dealers from the operation of the NCCP Act should be abolished.</p>	<p>Draft legislation has not been released yet.</p> <p>Westpac recently announced the proposed sale of its auto finance business to a third party. It is anticipated that the sale will be completed before any proposed legislation comes into force and that no action will therefore need to be taken by Westpac.</p>

RECOMMENDATION	WESTPAC STATUS
<p>Recommendation 1.8: Amending the Banking Code</p> <p>The ABA should amend the Banking Code to provide that:</p> <ul style="list-style-type: none"> • banks will work with customers: <ul style="list-style-type: none"> ○ who live in remote areas; or ○ who are not adept in using English, to identify a suitable way for those customers to access and undertake their banking; • if a customer is having difficulty proving his or her identity, and tells the bank that he or she identifies as an Aboriginal or Torres Strait Islander person, the bank will follow AUSTRAC's guidance about the identification and verification of persons of Aboriginal or Torres Strait Islander heritage; • without prior express agreement with the customer, banks will not allow informal overdrafts on basic accounts; and • banks will not charge dishonour fees on basic accounts. 	<p>The revised Code took effect on 1 March 2020. Westpac implemented changes to comply with the recommendation, as reflected in the revised Code.</p>
<p>Recommendation 1.10: Definition of 'small business'</p> <p>The ABA should amend the definition of 'small business' in the Banking Code so that the Code applies to any business or group employing fewer than 100 full-time equivalent employees, where the loan applied for is less than \$5 million.</p>	<p>The ABA has completed an independent review of the definition of 'Small Business' and has notified ASIC that it intends to increase the monetary borrowing cap to \$5 million as part of its 2021 review of the Banking Code of Practice.</p> <p>Westpac will undertake a program of work to ensure that we are compliant with the expanded definition when it comes into force.</p>
<p>Recommendation 1.11: Farm debt mediation</p> <p>A national scheme of farm debt mediation should be enacted.</p>	<p>Westpac has long advocated for a nationally harmonised farm debt mediation scheme modelled on the Farm Debt Mediation Act 1994 (NSW), which it believes is the most robust scheme. This will ensure consistency and certainty for customers and the bank.</p> <p>Westpac will review the scheme once established and determine if any action is required by Westpac to comply with the scheme and this recommendation.</p>
<p>Recommendation 1.12: Valuations of land</p> <p>APRA should amend Prudential Standard APS 220 to:</p> <ul style="list-style-type: none"> • require that internal appraisals of the value of land taken or to be taken as security should be independent of loan origination, loan processing and loan decision processes; and • provide for valuation of agricultural land in a manner that will recognise, to the extent possible: <ul style="list-style-type: none"> ○ the likelihood of external events affecting its realisable value; and ○ the time that may be taken to realise the land at a reasonable price affecting its realisable value. 	<p>APRA issued a final draft of revised Prudential Standard APS 220 in December 2019. The revised Standard has a proposed effective date of 1 January 2022.</p> <p>A program of work is underway to implement changes required by APS 220 and in respect of the first limb of this recommendation Westpac has appointed external valuers to carry out all agricultural land valuations and removed the ability of a banker to complete a valuation.</p>
<p>Recommendation 1.13: Charging default interest</p> <p>The ABA should amend the Banking Code to provide that, while a declaration remains in force, banks will not charge default interest on loans secured by agricultural land in an area declared to be affected by drought or other natural disaster.</p>	<p>Westpac has already addressed this recommendation through implementing solutions to not apply default interest on business loans secured by agricultural land in the event of a drought or other natural disaster.</p>

RECOMMENDATION	WESTPAC STATUS
<p>Recommendation 1.14: Distressed agricultural loans</p> <p>When dealing with distressed agricultural loans, banks should:</p> <ul style="list-style-type: none"> • ensure that those loans are managed by experienced agricultural bankers; • offer farm debt mediation as soon as a loan is classified as distressed; • manage every distressed loan on the footing that working out will be the best outcome for bank and borrower, and enforcement the worst; • recognise that appointment of receivers or any other form of external administrator is a remedy of last resort; and • cease charging default interest when there is no realistic prospect of recovering the amount charged. 	<p>Westpac has updated its policies and procedures to address each aspect of this recommendation.</p> <p>Westpac has experienced agricultural bankers in place to manage distressed loans and additional processes, such as the use of ethical checklists to ensure that the appointment of receivers or other enforcement steps are only ever used as a last resort.</p>
<p>Recommendation 1.17: BEAR product responsibility</p> <p>After appropriate consultation, APRA should determine for the purposes of section 37BA(2)(b) of the Banking Act, a responsibility, within each ADI subject to the BEAR, for all steps in the design, delivery and maintenance of all products offered to customers by the ADI and any necessary remediation of customers in respect of any of those products.</p>	<p>On 16 July 2021 Treasury released exposure draft legislation to introduce the Financial Accountability Regime (FAR) which is intended to commence for ADIs from July 2022. The response to consultation (Australian Banking Association) made specific suggestions as to the product responsibility including removal or amendment.</p> <p>Westpac is currently reviewing the draft legislation to determine steps required to comply with the product responsibility.</p>

RECOMMENDATION
WESTPAC STATUS
FINANCIAL ADVICE
Recommendation 2.1: Annual renewal and payment

The law should be amended to provide that ongoing fee arrangements (whenever made):

- must be renewed annually by the client;
- must record in writing each year the services that the client will be entitled to receive and the total of the fees that are to be charged; and
- may neither permit nor require payment of fees from any account held for or on behalf of the client except on the client's express written authority to the entity that conducts that account given at, or immediately after, the latest renewal of the ongoing fee arrangement.

Although Westpac exited the provision of personal financial advice by salaried financial planners and authorised representatives on 30 September 2019, this recommendation applies to Westpac as it provides platform services and products to customers.

Legislation giving effect to this recommendation came into effect on 1 July 2021 for Ongoing Fee Arrangements entered into on or after that date and there are transitional provisions applying until 1 July 2022 in relation to OFAs in force immediately before 1 July 2021.

Westpac has implemented changes applicable to product providers to accept and process client consents in conjunction with the changes under recommendation 3.3 (see below).

Recommendation 2.2: Disclosure of lack of independence

The law should be amended to require that a financial adviser who would contravene section 923A of the Corporations Act by assuming or using any of the restricted words or expressions identified in section 923A(5) (including 'independent', 'impartial' and 'unbiased') must, before providing personal advice to a retail client, give to the client a written statement (in or to the effect of a form to be prescribed) explaining simply and concisely why the adviser is not independent, impartial and unbiased.

Legislation giving effect to this recommendation came into effect on 1 July 2021. Westpac has implemented all steps necessary to comply.

Recommendation 2.4: Grandfathered commissions

Grandfathering provisions for conflicted remuneration should be repealed as soon as is reasonably practicable.

Legislation came into effect on 1 January 2021 to end grandfathered commissions and requiring product manufacturers to pass through to their retail clients the benefits of any previously grandfathered conflicted commissions still in contracts after 1 January 2021. Westpac undertook a program of work to cease the payment of grandfathered commissions and will be complying with its obligations to pass through any applicable rebates to retail clients.

Recommendation 2.7: Reference checking and information sharing

All AFSL holders should be required, as a condition of their licence, to give effect to reference checking and information-sharing protocols for financial advisers, to the same effect as now provided by the ABA in its 'Financial Advice – Recruitment and Termination Reference Checking and Information Sharing Protocol'.

Westpac provides references consistent with the ABA reference checking protocol to any requesting licensee provided we have received adviser consent.

Legislation implementing this recommendation has now been passed with a commencement date of 1 October 2021 and ASIC has issued its Reference Checking and Information Sharing Protocol. Westpac is reviewing its practices against the legislation and ASIC Protocol.



RECOMMENDATION	WESTPAC STATUS
<p>Recommendation 2.8: Reporting compliance concerns</p> <p>All AFSL holders should be required, as a condition of their licence, to report 'serious compliance concerns' about individual financial advisers to ASIC on a quarterly basis.</p>	<p>Legislation implementing this recommendation has now been passed with a commencement date of 1 October 2021.</p> <p>Westpac currently has a well-developed process of reporting 'serious compliance concerns' about financial advisers to ASIC, as soon as possible (as opposed to on a quarterly basis).</p> <p>Westpac is reviewing the legislation and has a program of work underway to implement any changes to its existing reporting processes necessary to comply.</p>
<p>Recommendation 2.9: Misconduct by financial advisers</p> <p>All AFSL holders should be required, as a condition of their licence, to take the following steps when they detect that a financial adviser has engaged in misconduct in respect of financial advice given to a retail client (whether by giving inappropriate advice or otherwise):</p> <ul style="list-style-type: none"> • make whatever inquiries are reasonably necessary to determine the nature and full extent of the adviser's misconduct; and • where there is sufficient information to suggest that an adviser has engaged in misconduct, tell affected clients and remediate those clients promptly. 	<p>Legislation implementing this recommendation has now been passed with a commencement date of 1 October 2021. The new legislative provisions apply to conduct occurring on or after 1 October 2021.</p> <p>Westpac exited the provision of personal financial advice by salaried financial planners and authorised representatives on 30 September 2019. As these new legislative provisions do not apply retrospectively, no additional actions are required to be taken by Westpac in respect of these former financial advisers.</p> <p>However, Westpac already has well-developed processes in place to determine the nature and full extent of an adviser's misconduct, tell affected clients and remediate those clients promptly and will continue to use these processes in the event that any historical conduct issue should arise.</p>
<p>Recommendation 2.10: A new disciplinary system</p> <p>The law should be amended to establish a new disciplinary system for financial advisers that:</p> <ol style="list-style-type: none"> a) requires all financial advisers who provide personal financial advice to retail clients to be registered; b) provides for a single, central, disciplinary body; c) requires AFSL holders to report 'serious compliance concerns' to the disciplinary body; and d) allows clients and other stakeholders to report information about the conduct of financial advisers to the disciplinary body. 	<p>Legislation is currently before the Parliament to establish a single registration body and disciplinary system for financial advisers. The regime is to apply from 1 January 2022.</p> <p>On 30 September 2019, the exit of the provision of personal financial advice by Westpac Group salaried financial planners and authorised representatives was completed. Therefore this recommendation does not currently have any application to Westpac.</p>

RECOMMENDATION	WESTPAC STATUS
SUPERANNUATION	
<p>Recommendation 3.1: No other role or office</p> <p>The trustee of an RSE should be prohibited from assuming any obligations other than those arising from or in the course of its performance of the duties of a trustee of a superannuation fund.</p>	<p>Legislation giving effect to this recommendation commenced on 1 July 2021.</p> <p>Westpac has implemented changes to comply.</p>
<p>Recommendation 3.2: No deducting advice fees from MySuper accounts</p> <p>Deduction of any advice fee (other than for intra-fund advice) from a MySuper account should be prohibited.</p>	<p>Legislation prohibiting the deduction of ongoing advice fees from MySuper commenced on 1 July 2021 for fees payable under an arrangement entered into on or after that date, with a transitional period applying until 1 July 2022 in relation to any existing arrangements entered into before 1 July 2021.</p> <p>Westpac has implemented changes to changes to comply.</p>
<p>Recommendation 3.3: Limitations on deducting advice fees from choice accounts</p> <p>Deduction of any advice fee (other than for intra fund advice) from superannuation accounts other than MySuper accounts should be prohibited unless the requirements about annual renewal, prior written identification of service and provision of the client's express written authority set out in Recommendation 2.1 in connection with ongoing fee arrangements are met.</p>	<p>Legislation giving effect to this recommendation commenced on 1 July 2021 for fees payable under an arrangement entered into on or after that date, with a transitional period applying until 1 July 2022 in relation to any existing arrangements entered into before 1 July 2021.</p> <p>Westpac has undertaken a program of work to implement the necessary changes applicable to product providers to accept and process client consents in conjunction with the changes set out in recommendation 2.1.</p>
<p>Recommendation 3.4: No hawking</p> <p>Hawking of superannuation products should be prohibited. That is, the unsolicited offer or sale of superannuation should be prohibited except to those who are not retail clients and except for offers made under an eligible employee share scheme. The law should be amended to make clear that contact with a person during which one kind of product is offered is unsolicited unless the person attended the meeting, made or received the telephone call, or initiated the contact for the express purpose of inquiring about, discussing or entering into negotiations in relation to the offer of that kind of product.</p>	<p>Legislation giving effect to this recommendation has now been passed with an effective date of 5 October 2021.</p> <p>Westpac has a program of work underway to implement any necessary changes to comply.</p>
<p>Recommendation 3.6: No treating of employers</p> <p>Section 68A of the SIS Act should be amended to prohibit trustees of a regulated superannuation fund and associates of a trustee, doing any of the acts specified in section 68A(1)(a), (b) or (c) where the act may reasonably be understood by the recipient to have a substantial purpose of having the recipient nominate the fund as a default fund or having one or more employees of the recipient apply or agree to become members of the fund.</p> <p>The provision should be a civil penalty provision enforceable by ASIC.</p>	<p>Legislation has been passed to implement this recommendation by amending section 68A of the Superannuation Industry (Supervision) Act 1993.</p> <p>Westpac has implemented this recommendation and has processes and controls to monitor compliance with the expanded "no treating" obligations under s68A.</p>

RECOMMENDATION	WESTPAC STATUS
<p>Recommendation 3.9: Accountability regime</p> <p>Over time, provisions modelled on the BEAR should be extended to all RSE licensees, as referred to in Recommendation 6.8.</p>	<p>On 16 July 2021 Treasury released exposure draft legislation to introduce the Financial Accountability Regime (FAR) which is intended to commence for all RSE licensees from July 2023.</p> <p>Westpac’s current BEAR mapping processes extend to its RSE subsidiaries.</p> <p>Westpac is currently reviewing the draft legislation to determine any changes necessary to comply. The impact to Westpac’s RSE licensees will largely be contingent on divestment timing.</p>



RECOMMENDATION	WESTPAC STATUS
INSURANCE	
<p>Recommendation 4.1: No hawking of insurance</p> <p>Consistently with recommendation 3.4, which prohibits the hawking of superannuation products, hawking of insurance products should be prohibited.</p>	<p>Legislation giving effect to this recommendation has now been passed with an effective date of 5 October 2021.</p> <p>Westpac has a program of work underway to implement this legislation.</p>
<p>Recommendation 4.3: Deferred sales model for add-on insurance</p> <p>A Treasury-led working group should develop an industry-wide deferred sales model for the sale of any add-on insurance products (except policies of comprehensive motor insurance). The model should be implemented as soon as is reasonably practicable.</p>	<p>Legislation giving effect to this recommendation has now been passed with an effective date of 5 October 2021. On 17 July 2021 Treasury released exposure draft Regulations listing classes of products that will be exempt from the DSM regime.</p> <p>Westpac is currently reviewing the list of product exemptions and will apply the DSM regime to any products in scope.</p>
<p>Recommendation 4.5: Duty to take reasonable care not to make a misrepresentation to an insurer</p> <p>Part IV of the Insurance Contracts Act should be amended, for consumer insurance contracts, to replace the duty of disclosure with a duty to take reasonable care not to make a misrepresentation to an insurer (and to make any necessary consequential amendments to the remedial provisions contained in Division 3).</p>	<p>Legislation giving effect to this recommendation has now been passed with an effective date of 5 October 2021</p> <p>Westpac has a program of work underway to implement this legislation.</p>
<p>Recommendation 4.6: Avoidance of life insurance contacts</p> <p>Section 29(3) of the Insurance Contracts Act should be amended so that an insurer may only avoid a contract of life insurance on the basis of non-disclosure or misrepresentation if it can show that it would not have entered into a contract on any terms.</p>	<p>Legislation giving effect to this recommendation came into effect on 1 January 2021.</p> <p>Westpac has completed its program of work to meet the requirements of this legislation.</p>
<p>Recommendation 4.7: Application of unfair contract terms provisions to insurance contracts</p> <p>The unfair contract terms provisions now set out in the ASIC Act should apply to insurance contracts regulated by the Insurance Contracts Act. The provisions should be amended to provide a definition of the 'main subject matter' of an insurance contract as the terms of the contract that describe what is being insured.</p> <p>The duty of utmost good faith contained in section 13 of the Insurance Contracts Act should operate independently of the unfair contract terms provisions.</p>	<p>Legislation implementing this recommendation came into effect on 5 April 2021.</p> <p>Westpac has completed its program of work to implement all necessary changes to meet the requirements of the legislation.</p>
<p>Recommendation 4.8: Removal of claims handling exemption</p> <p>The handling and settlement of insurance claims, or potential insurance claims, should no longer be excluded from the definition of 'financial service'.</p>	<p>Legislation giving effect to this recommendation has been passed with full compliance from 1 January 2022.</p> <p>Westpac has a program of work underway to implement this legislation.</p>

RECOMMENDATION	WESTPAC STATUS
<p>Recommendation 4.11: Co-operation with AFCA</p> <p>Section 912A of the Corporations Act should be amended to require that AFSL holders take reasonable steps to co-operate with AFCA in its resolution of particular disputes, including, in particular, by making available to AFCA all relevant documents and records relating to issues in dispute.</p>	<p>Westpac has principles and processes in place to engage with AFCA co-operatively, including being open and co-operative in providing relevant documents related to issues in dispute.</p>
<p>Recommendation 4.12: Accountability regime</p> <p>Over time, provisions modelled on the BEAR should be extended to all APRA-regulated insurers, as referred to in Recommendation 6.8.</p>	<p>On 16 July 2021 Treasury released exposure draft legislation to introduce the Financial Accountability Regime (FAR) which is intended to commence for all insurers from mid 2023.</p> <p>Westpac's current BEAR mapping processes extend to its insurance business subsidiaries.</p> <p>Westpac is currently reviewing the draft legislation to determine any changes necessary to comply and is participating in the consultation process.</p>
<p>Recommendation 4.13: Universal terms review</p> <p>Treasury, in consultation with industry, should determine the practicability, and likely pricing effects, of legislating universal key definitions, terms and exclusions for default MySuper group life policies.</p>	<p>Westpac is awaiting further updates from Treasury following its 2019 consultation. Westpac will review any proposed changes arising out of the Treasury review and determine if any actions are required to comply with any changes.</p>
<p>Recommendation 4.14: Additional scrutiny for related party engagements</p> <p>APRA should amend Prudential Standard SPS 250 to require RSE licensees that engage a related party to provide group life insurance, or who enter into a contract, arrangement or understanding with a life insurer by which the insurer is given a priority or privilege in connection with the provision of life insurance, to obtain and provide to APRA within a fixed time, independent certification that the arrangements and policies entered into are in the best interests of members and otherwise satisfy legal and regulatory requirements.</p>	<p>APRA issued a further consultation draft of SPS 250 in January 2021 for review. This draft indicates a commencement date of 1 January 2022. The final version of the Standard has not yet been released.</p> <p>Westpac will review the final SPS 250 once released and determine any actions to comply with the Prudential Standard and this recommendation.</p>
<p>Recommendation 4.15: Status attribution to be fair and reasonable</p> <p>APRA should amend Prudential Standard SPS 250 to require RSE licensees to be satisfied that the rules by which a particular status is attributed to a member in connection with insurance are fair and reasonable.</p>	<p>As stated above for RC 4.14, the final version of SPS 250 has not yet been released.</p> <p>Westpac will review the final SPS 250 once released and take any actions required to ensure its existing practices comply with the Prudential Standard and this recommendation.</p>

RECOMMENDATION

WESTPAC STATUS

CULTURE, GOVERNANCE AND REMUNERATION

Recommendation 5.1: Supervision of remuneration – principles, standards and guidance

In conducting prudential supervision of remuneration systems, and revising its prudential standards and guidance about remuneration APRA should give effect to the principles, standards and guidance set out in the Financial Stability Board’s publications concerning sound compensation principles and practices. Recommendations 5.2 and 5.3 explain and amplify aspects of this Recommendation.

The industry is awaiting the release of the final version of the APRA Prudential Standards CPS 511 Remuneration which is intended to strengthen remuneration practices across all APRA-regulated entities. It is anticipated to come into effect from 1 January 2023. In April 2021 APRA also released for consultation a draft prudential practice guide (CPG 511) on remuneration with submissions having closed on 23 July 2021.

Westpac will review the final CPS 511 and CPG 511 to determine whether any changes are necessary to comply with the Prudential Standard and this recommendation.

Recommendation 5.2: Supervision of remuneration – aims

In conducting prudential supervision of the design and implementation of remuneration systems, and revising its prudential standards and guidance about remuneration, APRA should have, as one of its aims, the sound management by APRA-regulated institutions of not only financial risk but also misconduct, compliance and other non-financial risks.

Refer to 5.1.

Recommendation 5.3: Revised prudential standards and guidance

In revising its prudential standards and guidance about the design and implementation of remuneration systems, APRA should:

- require APRA-regulated institutions to design their remuneration systems to encourage sound management of non-financial risks, and to reduce the risk of misconduct;
- require the board of an APRA-regulated institution (whether through its remuneration committee or otherwise) to make regular assessments of the effectiveness of the remuneration system in encouraging sound management of non-financial risks, and reducing the risk of misconduct;
- set limits on the use of financial metrics in connection with long-term variable remuneration;
- require APRA-regulated institutions to provide for the entity, in appropriate circumstances, to claw back remuneration that has vested; and
- encourage APRA-regulated institutions to improve the quality of information being provided to boards and their committees about risk management performance and remuneration decisions.

Refer to 5.1.

RECOMMENDATION	WESTPAC STATUS
<p>Recommendation 5.4: Remuneration of frontline staff</p> <p>All financial services entities should review at least once each year the design and implementation of their remuneration systems for front line staff to ensure that the design and implementation of those systems focus on not only what staff do, but also how they do it.</p>	<p>Westpac conducts an annual review of the design and implementation of remuneration arrangements for our front-line roles (as defined by the Sedgwick Review). We have established governance committees to support the review and approval of front-line performance and reward frameworks and have a structured framework to annually test and understand the effectiveness of our remuneration arrangements.</p> <p>Key changes over the last few years have focused on continuing to support our service culture and strategy and ensure continued compliance with the Sedgwick recommendations.</p>
<p>Recommendation 5.5: The Sedgwick Review</p> <p>Banks should implement fully the recommendations of the Sedgwick Review.</p>	<p>Westpac has been compliant with the Sedgwick recommendations relating to its employees since 1 October 2018. Westpac has implemented all Sedgwick Recommendations relating to third-party arrangements effective from 1 January 2019 (excluding Recommendation 18 relating to mortgage broker remuneration given the Government's policy reform in this area).</p> <p>The 2021 Sedgwick Review confirmed that Westpac is compliant with the Sedgwick recommendations.</p>
<p>Recommendation 5.6: Changing culture and governance</p> <p>All financial services entities should, as often as reasonably possible, take proper steps to:</p> <ul style="list-style-type: none"> • Assess the entity's culture and its governance; • Identify any problems with that culture and governance; • Deal with those problems; and • Determine whether the changes it has made have been effective. 	<p>Westpac has frameworks and programs in place which encompass regular assessments of risk culture, organisational culture and governance.</p> <p>In addition to the regular assessments, other more detailed reviews are undertaken to determine the effectiveness of our existing programs. In 2020, following the culture governance and accountability reassessment, Westpac launched a comprehensive Group-wide transformation program, CORE – Customer Outcomes and Risk Excellence – to manage our response and strengthen the management of non-financial risk.</p> <p>This includes a dedicated stream of work to ensure Westpac has a strong culture where Executives set the tone from the top by role-modelling values and consistent behaviours and practices demonstrating sound risk management. This work is supported by our Culture Reset program. We monitor and track our progress, on a quarterly basis, using our Culture Measurement tool, Voice+ which provides a holistic measurement of our risk culture, performance culture and key behaviours.</p>

RECOMMENDATION

WESTPAC STATUS

REGULATORS

Recommendation 6.7: Statutory amendments

The obligations in sections 37C and 37CA of the Banking Act should be amended to make clear that an ADI and accountable person must deal with APRA and ASIC (as the case may be) in an open, constructive and co-operative way. Practical amendments should be made to provisions such as section 37K and section 37G(1) so as to facilitate joint administration.

Westpac's approach to dealing with regulators and its documented strategy in how we deal with regulators is to act in open, co-operative and constructive way.

The Government published for consultation a proposal paper to extend the executive accountability regime on 22 January 2020. The consultation closed on 14 February 2020 and Westpac made a submission.

Westpac understands that the Government intends to consult on implementation timeframes as part of its consultation on the exposure draft legislation.

Westpac will review any exposure draft legislation once released and determine any further actions required to comply.

Recommendation 6.8: Extending the BEAR

Over time, provisions modelled on the BEAR should be extended to APRA-regulated financial services institutions. APRA and ASIC should jointly administer those new provisions

On 16 July 2021 Treasury released exposure draft legislation to introduce the Financial Accountability Regime (FAR) which is intended to commence for all insurers from mid 2023.

Westpac's current BEAR mapping processes extend to its insurance business subsidiaries.

Westpac is currently reviewing the draft legislation with a view to considering any changes necessary to comply. The impact to Westpac' insurance licensees will largely be contingent on divestment timing.

OTHER IMPORTANT STEPS

Recommendation 7.1: Compensation scheme of last resort

The three principal recommendations to establish a compensation scheme of last resort made by the panel appointed by government to review external dispute and complaints arrangements made in its supplementary final report should be carried into effect.

On 16 July 2021 the Government released for public consultation exposure draft legislation that would establish the Compensation Scheme of Last Resort with effect from 1 January 2022.

Westpac is reviewing the draft legislation and participating in the consultation process.

Recommendation 7.2: Implementation of recommendations

The recommendations of the ASIC Enforcement Review Taskforce made in December 2017 that relate to self reporting of contraventions by financial services and credit licensees should be carried into effect.

Legislation implementing this recommendation has now been passed with a commencement date of 1 October 2021.

Westpac has a program of work underway to implement any changes necessary to comply.

