

Commonwealth Bank Group

Commonwealth Bank of Australia
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24 December 2015

Reply
GPO Box 2719
SYDNEY NSW 2001

Ms Toni Matulick
Secretary
Parliamentary Joint Committee on Corporations and Financial Services
Parliament House
Canberra
ACT 2600

Dear Ms Matulick,

Re: Questions on Notice from Commonwealth Bank received from Committee on 1 December 2015

Please find attached responses to the Committee's Questions on Notice received by Commonwealth Bank on 1 December 2015. Please find attached a copy of our responses to these questions. Where a response is marked as "in progress" we will provide further information as soon as practicable.

If you or members of the Committee would like to discuss our response do not hesitate to contact me on _____ or Euan Robertson on _____.

Yours sincerely,

David Cohen
Group Executive Group Corporate Affairs
Commonwealth Bank of Australia

1. For the matters raised in submissions and evidence by Mr Boman, Mr Cavasinni, Mr Eriksson, Mr Evanian, Mr Lavis, Mr O'Brien, Mr Power, and Mr & Ms Schaumberg please provide:

- a. the dates on which properties were valued by the bank;**
- b. copies of the instructions given to the valuers for each valuation;**
- c. what the valuations were;**
- d. copies of the valuation reports;**
- e. information on whether the valuers were registered certified property valuers;**
- f. copies of instructions to receivers;**
- g. final statements of account from the receivers;**
- h. any information where the bank challenged or sought to control the fees charged by receivers.**
- i. where investigative accountants were appointed:**
 - 1. The instructions to the investigative accountants,**
 - 2. Information on whether the investigative accountant and the receivers were both from the same firm or company;**
 - 3. The findings of the investigative accountant.**
- j. Information on whether there any had been any secondments of staff to or from the firms or companies of the lawyers, investigative accountants and receivers involved with those cases.**

In progress

2. Please provide complete documentation/files on Mr Lavis' loans and Mr Eriksson's loans.

Production of all documentation and files would involve a very large volume of records for each, amounting to multiple boxes of documents.

In the case of Mr Eriksson we estimate there are more than 1,000 emails in existence. For CEC (of which Mr Lavis was managing director) we estimate it is more than 5,000 given the banking relationship with CEC commenced in 2004.

Both contain significant amounts of correspondence with legal advisors and involve documents which are subject to legal professional privilege.

As discussed with the Committee Chair, in the interests of providing information to the Committee which is relevant and useful we will provide emails from the CEC and Eriksson files dealing with the initial period of the banking relationship and the period from shortly before financial difficulties arose onwards.

3. What are the incentive structures that apply:

a. for staff who set up loans

b. for staff who are in credit management departments who are involved with loans in financial distress, default or impairment.

In progress

4. What incentive structures applied since 30 June 2008, including any special arrangements that may have occurred at particular times, such as during the GFC or following acquisitions of other banks?

In progress

5. Please provide information on the extent to which receivers are seconded into banks to work with distressed, defaulted or impaired loans.

a. Please also set out the arrangements for managing conflicts of interest in the appointment of investigating accountants and receivers.

During times of peak workflow, experienced employees of accounting firms (though not partners) may be seconded to Commonwealth Bank and/ or Bankwest.

From a review of our records, we have identified approximately 40 secondees from firms who may undertake investigative accountant and receivership engagements who worked in Commonwealth Bank or Bankwest in the period between February 2010 and November 2015.

These secondees are not engaged as receivers or independent accountants, nor do they have the authority to make the decision to appoint either receivers or investigative accountants. These arrangements mean that:

- Any conflict of interest between the secondee and the bank is managed, because there is no opportunity for the secondee to favour their employing firm; and
- Any conflict of interest between the secondee and a customer is managed because the secondee does not have the ability to decide that a receiver or independent accountant is necessary, or in the event that a receivership or independent accountant is required, to determine which firm would undertake that work.

6. Are there any occasions where appropriate conflict of interest arrangements were not put in place? Please provide information on the number of occasions where appropriate conflict of interest arrangements have been breached and advise what consequences were applied to those responsible.

In progress

7. When valuations and revaluations are sought, does the bank use registered certified property valuers?

Yes.

In our original submission to the Parliamentary Joint Committee on page 10 we said valuers used by Commonwealth Bank must:

- be registered or licensed (in states where required);
- comply with the regulatory requirements governing licensing or registration;
- be a member of the Australian Property Institute (API), as a Certified Practising Valuer (CPV);
- comply with annual compulsory training requirements;
- comply with the Code of Ethics and Rules of Conduct of the API;
- be suitably experienced to undertake required valuations (generally a minimum of 5 years' experience in their field of expertise); and
- have suitable and current professional indemnity insurance cover.

We also said:

In a small proportion of cases, especially in remote areas where expert valuers are unavailable Commonwealth Bank has relied on internal bank valuations completed by accredited staff. In these cases, the valuation officer must comply with Commonwealth Bank policy and measures are in place to manage risk. Where a loan is determined to be troublesome or impaired, Commonwealth Bank policy does not permit the use of internal valuations.

8. Where the committee has received submissions relating to Commonwealth Bank matters could you advise the committee if the valuers used by the bank in those cases were registered certified valuers?

Yes.

9. Please respond to comments made by Mr Wijeyeratne on pages 15 and 16 of the transcript of 13 November 2015:

Mr Wijeyeratne’s comments are highly inaccurate.

- After the acquisition of Bankwest by Commonwealth Bank, the Commonwealth Bank Group, including Bankwest, was able to raise both capital and debt as needed.
- Rather than terminating customers, as Mr Wijeyeratne suggests, Bankwest grew loan balances and the number of commercial loan customers:

	At Acquisition	30 June 09	30 June 10
Loan balances (\$m)	58,783	61,500	67,573
Total commercial customers	25,719 (31 Jan 2009)	26,056	26,573

- The *Bank of Western Australia Act* contains no provision which refers to prudential regulation, regulatory capital nor Basel framework accreditation – certainly nothing to stop Bankwest from applying to become Basel II advanced accredited or raising capital.
- The differing Basel regulatory capital treatments had no impact on the management of individual customer accounts. There is no economic incentive for the Group to recognise losses on Bankwest loans under either the Basel I or Basel II capital regulations. Actually recognising losses means a permanent loss of capital for the bank.
- As we have said on a number of occasions, the best outcome for customers, the bank and the economy occurs when customers repay their debt according to the loan agreement. It is hard to imagine a circumstance where a bank would benefit more from complex manipulation of capital requirements rather than from allowing a customer who was able to service and repay a loan to do so.
- Mr Turner made the quoted statement at the Commonwealth Bank AGM in 2014 (not 2013). It is not obvious what point the quote is intended to illustrate. The quote was in response to a question about Commonwealth Financial Planning, not about Bankwest. Mr Turner did not suggest that the Group was in financial difficulty or had difficulty raising capital.