Independent Review of the Commonwealth Bank of Australia's Remedial Action Plan

Progress in Addressing Prudential Inquiry Recommendations

Prepared by Promontory Australasia (Sydney) Pty Ltd, an IBM Company

Second Report

20 December 2018

*Promontory Australasia (Sydney), an IBM Company (**Promontory or we**) has been engaged as the Independent Reviewer of Commonwealth Bank of Australia's (**CBA's**) Remedial Action Plan (**RAP**) to address the Recommendations of the Australian Prudential Regulation Authority's (**APRA**) Prudential Inquiry into CBA.*

*In accordance with the terms of the Enforceable Undertaking (**EU**) agreed between APRA and CBA on 30 April 2018, Promontory's independent review role requires us to report on a quarterly basis:*

- *The status of CBA's compliance with certain requirements of the EU; and*

- *Items in the RAP that CBA considers are nearing completion.*

*This is Promontory's second report (**Second Report**) in relation to execution of the RAP. The Report provides an update on actions CBA has taken to execute the RAP in the period from 1 September 2018 to 30 November 2018. It also provides an update on CBA's program management of the RAP.*

A representative of CBA has reviewed a draft version of this Report for the purposes of identifying possible factual errors. Promontory is responsible for final judgement on all views and information in this Report.

This Report is provided solely for the purposes described above. Promontory's independent review role may not incorporate all matters that might be pertinent or necessary to a third party's evaluation of the RAP or any information contained in this Report. No third party beneficiary rights are granted or intended. Any use of this Report by a third party is made at the third party's own risk.

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Contents

Definitions

3LoA	3 Lines of Accountability
APRA	Australian Prudential Regulation Authority
BAC	Board Audit Committee
BEAR	Banking Executive Accountability Regime
BRC	Board Risk Committee
BROP	Better Risk Outcomes Program
BU	Business Unit
BU/SUs	Business Units and Support Units
CBA	Commonwealth Bank of Australia
CEO	Chief Executive Officer
CRO	Chief Risk Officer
EGM	Executive General Manager
ELT	Executive Leadership Team
EU	Enforceable Undertaking
First Report	Promontory's Second Report dated 30 September
FTE	Full-time Equivalent
GA&A	Group Audit and Assurance
GDF	Group Delivery Framework
Inquiry Report	The *Prudential Inquiry into the Commonwealth Bank of Australia (CBA) Final Report*
IPP	Investment Prioritisation Process
KPI	Key Performance Indicator
NFR	Non-Financial Risk
NFRC	Non-Financial Risk Committee
OR&CR	Operational Risk and Compliance Risk
Program	Better Risk Outcomes Program
Promontory	Promontory Australasia (Sydney) Pty Ltd, an IBM Company
RAP	Remedial Action Plan
RAS	Risk Appetite Statement
RemCo	Board Remuneration Committee

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Reporting Date	30 November 2018
Reporting Period	1 September 2018 to 30 November 2018
RMA	Risk Management Approach
RMI	Risk Management Implementation
Second Report	Promontory's Second Report
SME	Subject Matter Expert
SU	Support Unit
Theme	A shared theme of a series of Recommendations

Executive Summary

This is the second report (**Second Report or Report**) required of Promontory as Independent Reviewer under paragraph 13 of the Enforceable Undertaking (**EU**) given by the Commonwealth Bank of Australia (**CBA**) to the Australian Prudential Regulation Authority (**APRA**) on 30 May 2018. It follows our First Report[1] dated 30 September 2018 (**First Report**).

The Second Report sets out our observations on CBA's activities on the Remedial Action Plan (**RAP**), (as required by paragraph 12 of the EU), between 1 September 2018 to 30 November 2018 (**the Reporting Period**). The status of implementation of RAP Milestones is reported as at 30 November 2018 (**the Reporting Date**).

The Program was on-track at the Reporting Date, with all 154 Milestones either delivered to Promontory or on schedule to be delivered by the due dates set out in the RAP[2].

The Program continues to make good progress in design activity. By the Reporting Date:

- Work had **started or been completed on 50 (of 54) Design Milestones**.

- CBA had **submitted Milestone Closure Packs** to Promontory evidencing completion of work on **19 Design Milestones**, 12 of which were received during the Reporting Period.

- Based on a review of Closure Packs, other documents and interviews with key stakeholders, Promontory had **assessed 15 Design Milestones as complete and effective**, 14 of which were assessed during the Reporting Period. We had not completed our assessment of **four Design Milestones**.

Implementation activity was also well progressed. By the Reporting Date:

- Work had **started or been completed on 33 (of 54) Implement Milestones**.

- CBA had **submitted Milestone Closure Packs** to Promontory evidencing completion of work on **five Implement Milestones**, three of which were received during the Reporting Period.

- Based on a review of Closure Packs, other documents and interviews with key stakeholders, Promontory had **assessed three Implement Milestones as complete and effective**, all three of which were assessed during the Reporting Period. We had not completed our assessment of **two Implement Milestones**.

At the Reporting Date, the Embed Phase had not yet started. Work had, therefore, not begun on any Embed Milestones.

Program Progress by Theme is set out in Table 1.

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[1] Promontory's First Report is available here.

[2] Milestones are considered to **not** be on-track where either the Closure Pack has not been delivered to us by the due date for that Milestone set out in the RAP, or, in relation to Milestones where Closure Packs are not yet due for delivery, the Program at the Reporting Date has identified issues which require escalation and intervention by Management to progress back to schedule.

Table 1: Milestone Progress by Theme as at the Reporting Date (by number of Milestones)

Theme	Work Not Started	Work In Progress	Closure Pack Submitted to Promontory		Milestone Assessed as Complete and Effective[3]	Total[4]
			Assessment Not Started	Assessment Underway		
Board Governance	8	8	0	2	2	**20**
Management Governance	7	7	0	0	5	**19**
Operating Model (3LoA)	4	3	0	0	1	**8**
Risk Appetite, Taxonomy and Standards	5	7	1	0	3	**16**
Accountability and Controls Delivery	3	7	0	0	0	**10**
Customer Outcomes	5	8	0	0	2	**15**
Culture, Capability and Consequences	27	11	1	0	4	**43**
Program Execution	12	8	1	1	1	**23**
TOTAL	**71**	**59**	**3**	**3**	**18**	**154**

CBA's commitment to addressing the *Prudential Inquiry into the Commonwealth Bank of Australia (CBA) Final Report* (**the *Inquiry Report***) Recommendations in a timely and comprehensive way remains strong.

Program management continues to mature, building on the governance and project management frameworks described in our First Report.

The Program displayed agility during the Reporting Period. The central BROP team evidenced a willingness to reflect on the experience of the first six months of the Program and adapt the Program as needed. Some activities were discontinued and others refined and improved. A particular improvement was the way in which the Program was identifying, assessing and responding to delivery risks. At the Reporting Date, the Program was also engaged in a review of the timing and sequencing of Milestone delivery under the RAP. Revisions to the RAP are expected to be shared with APRA in the first quarter of 2019.

Changes were also made to Program assurance. As the Program moves to implementation, we expect CBA to carefully monitor the impact of these changes to ensure the Board and Management have the necessary confidence the Program is being implemented as designed, and is effective.

The foundations for rolling out the Program across the organisation were also put in place. Project Management Offices and Line 1 Control Offices were being rolled out in Business Units and Support Units (**BU/SUs**) across the Group.

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[3] This includes one Milestone assessed as complete and effective before the Reporting Period. The assessment of this Milestone was described in our First Report.

[4] Due to the transfer of Milestones between Themes and revision to one Milestone, the total number of Milestones for certain Themes differs from those reported in Promontory's First Report.

As the Program moves from a heavy design focus to an implementation focus, the challenges it faces will change, grow and intensify. The Program will be addressing some of the more difficult and complex Milestones in the RAP in coming months. As designs are implemented, the Program will also start to have a direct impact on CBA's many businesses.

The importance of maintaining momentum and ensuring execution is effective, as noted in our First Report, will, therefore, continue.

The Board and Management will continue to have an important role to play, particularly in ensuring momentum is maintained. They should continue to communicate their commitment to the Program and its outcomes in a way that engages staff and 'captures their hearts and minds'.

Ensuring the resources needed to deliver Program outcomes has emerged as, and will continue to be, a particular challenge in a tight market for risk and compliance resources. The Program will need to ensure it has enough of the right resources to effectively implement the changes it has designed. The Program will also need to ensure the systems and technology improvements required to support the implementation of the RAP are fit for purpose and capable of supporting, on an ongoing basis, the changes being made to governance, culture and accountability.

The Program, to its credit, has recognised these challenges and is monitoring and addressing them as key project risks. We urge the Board and Management to continue to be vigilant in ensuring the challenges that the Program faces are being addressed in an effective way.

1.   Introduction

1.1.   Background

APRA announced a Prudential Inquiry into CBA on 28 August 2017 to examine whether governance, culture and accountability practices at CBA contributed to a series of incidents that led to adverse publicity and regulatory scrutiny.

In its final report, published on 30 April 2018, the Inquiry identified a series of shortcomings and made 35 Recommendations to address those shortcomings.

In conjunction with the release of the *Inquiry Report*, APRA accepted an EU offered by CBA. The EU required CBA to develop the RAP to address the Inquiry's Recommendations.

CBA engaged Promontory as the Independent Reviewer required under the EU. APRA confirmed the appointment on 29 June 2018.

As Independent Reviewer, Promontory is required to report to APRA on a quarterly basis about the status of compliance with the EU and the Milestones[5] in the RAP that CBA considers are nearing completion. Our reports describe these matters as at the last date of the month before the report is delivered.

Promontory delivered the First Report as required by the EU on 30 September 2018 covering the period from the start of the Program to 31 August 2018.

This is our Second Report. This Report covers the period 1 September 2018 to 30 November 2018.

The status of Milestones is reported as at 30 November 2018.

Further detail about the background to our engagement is set out in Chapter 1 of the First Report.

1.2.   The Remedial Action Plan

As described in Chapter 2 of the First Report, the RAP organises the *Inquiry Report's* 35 Recommendations into the following eight thematic groups (**Themes**):

- Board Governance;

- Management Governance;

- Operating Model (3LoA);

- Risk Appetite, Taxonomy and Standards;

- Accountability and Controls Delivery;

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[5] The actions CBA intends to take to address the Inquiry's Recommendations.

- Customer Outcomes;

- Culture, Capability and Consequences; and

- Program Execution.

Actions to address each Recommendation are organised into Design, Implement and Embed Milestones[6].

The Better Risk Outcomes Program (**BROP** or **Program)** is the program of work CBA has developed to deliver the RAP. It comprises nine work streams corresponding to the eight Themes noted above and an additional work stream (Enabling Systems and Data) with responsibility for managing and overseeing technology, analytics and data support across each of the Themes[7]. The Program is managed by a central team (the central BROP team) supported by a network of Execution Leads and staff across CBA.

As described in our First Report, once CBA considers it has completed a Milestone, the central BROP team delivers a Closure Pack to Promontory that includes relevant artefacts evidencing Milestone completion.

The number of Milestones due for delivery to Promontory by the Reporting Date for each future report is set out by Theme in Table 1.1 below.

The Reporting Date for the Third Report will be 31 March 2019, with the report to be submitted to APRA on 30 April 2019. Subsequent reports will be submitted every three months after that date.

Table 1.1: Number of Milestones Scheduled to be Delivered by Reporting Date and Theme

Reporting Date	Number of Milestones Scheduled To Be Delivered								
	Board Governance	Management Governance	Operating Model (3LoA)	Risk Appetite, Taxonomy & Standards	Accountability and Controls Delivery	Customer Outcomes	Culture, Capability & Consequence	Program Execution	Total
August 2018	0	0	0	2	0	1	2	0	5
November 2018	4	5	1	2	0	1	3	3	19
March 2019	7	7	3	4	4	4	10	7	46
June 2019	1	2	0	4	0	3	1	1	12
September 2019	2	1	1	0	0	2	6	2	14

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[6] Design Milestones define a Group-wide approach to address each Recommendation. Implement Milestones generally relate to the roll-out or launch of that approach. Embed Milestones are when the operational effectiveness of the approach is demonstrated on a sustainable basis.

[7] No Milestones have been assigned to this work stream.

Reporting Date	Number of Milestones Scheduled To Be Delivered								
	Board Governance	*Management Governance*	*Operating Model (3LoA)*	*Risk Appetite, Taxonomy & Standards*	*Accountability and Controls Delivery*	*Customer Outcomes*	*Culture, Capability & Consequence*	*Program Execution*	**Total**
December 2019	3	3	1	2	3	2	5	3	22
March 2020	0	1	1	0	2	0	5	0	9
June 2020	0	0	0	2	1	1	1	1	6
September 2020	0	0	0	0	0	0	1	3	4
December 2020	3	0	1	0	0	1	3	2	10
March 2021	0	0	0	0	0	0	6	1	7
TOTAL	**20**	**19**	**8**	**16**	**10**	**15**	**43**	**23**	**154**

Most Design Milestones are scheduled to be delivered by March 2019. Most Implement Milestones are scheduled to be delivered during 2019. Most Embed Milestones are scheduled to be delivered from the end of 2019 onwards.

Further information on the RAP and CBA's approach to executing the RAP is set out in Chapter 2 and 3 of the First Report.

1.3. Promontory's Independent Reviewer Activities

Our activities and approach during the Reporting Period continued as described in Chapter 4 of the First Report.

We continued to monitor CBA's progress in executing the RAP by reviewing Program status reports to understand project delivery risks and issues. We also attended weekly project management meetings with representatives of the central BROP team and BROP Governance Forums in September, October and November. We received briefings on the proposed approach to key Milestones and Recommendations. We also held a 'Lessons Learnt' session with members of the central BROP team to discuss experiences and improvements in our engagement with the Program.

Following the release of our First Report, we also met with CBA's Executive Leadership Team (**ELT**) to discuss our findings and to highlight the key challenges and risks the Program faces as it progresses. Promontory representatives also attended, as observers, a senior leadership offsite on CBA's 'Better Bank' strategy and initiatives to improve culture and conduct in response to the *Inquiry Report* findings (**the Better Bank Leaders' Offsite**).

We continued to meet with CBA and APRA representatives on a monthly basis to discuss the status of compliance with the EU and major risks and issues we were identifying through our monitoring and assessment work.

During the Reporting Period, we continued to assess whether Milestones had been completed in line with the Closure Criteria for each Milestone and whether activity to close the Milestone had provided a sound basis for achieving the Target State for the Recommendation to which the Milestone relates.

The assessments involved reviews of the Closure Packs and interviews with staff engaged in preparing the Closure Packs.

In a number of cases, we actively challenged whether the actions described in the Closure Packs provided a sound basis for achieving the Target State.

In some cases, following the challenge, the Program made design changes. In others, our assessment that a Milestone was complete and effective was made on the understanding that related aspects of the assessment would be reviewed at the implementation stage associated with the Recommendation.

This Report sets out our observations and findings in relation to our monitoring and assessment activity during the Reporting Period, including the outcomes of our challenge, by Theme.

We summarise the Program's progress in completing each Milestone at the Reporting Date using the Reporting Scale set out in Table 1.2.

Table 1.2: Reporting Scale

Indicator	Description of Progress
○	Work to deliver Milestones has not commenced
◔	Work to deliver Milestones has commenced but not yet been completed
◑	Work to deliver Milestones has been completed by CBA but Promontory's assessment has not commenced
◕	Promontory's assessment has commenced but not yet been completed
●	Milestones have been completed and assessed by Promontory as effective

Further information on Promontory's approach is set out in Chapter 4 of the First Report.

1.4. Report Structure

The remainder of this Report is structured as follows:

- **Chapter 2** summarises Program progress as at the Reporting Date, key developments in the Program during the Reporting Period, our observations on how the Program is being managed and the challenges the Program faces.

- **Chapters 3 to 10** report Milestone progress for each Program Theme and describe the outcomes of the Milestones assessment we completed during the Reporting Period.

2. Program Management

At the Reporting Date, the Program remained on-track.

CBA's commitment to addressing the *Inquiry Report* Recommendations in a timely and comprehensive way, described in the First Report, remained strong. Management of the Program continued to mature, building on the foundations described in the First Report.

The challenges we identified in the First Report remain. Other challenges have emerged. They require ongoing focus by both the Board and Management.

This chapter provides a high-level overview of CBA's progress in implementing the RAP. The chapter then comments on how the Program is being managed, specifically noting:

- Key developments in Program management during the Reporting Period;

- Whether and how the Program displays the characteristics of successful remediation programs as identified in Chapter 10 of the *Inquiry Report*; and

- Ongoing challenges and risks the Program faces.

We then flag a number of areas for focus as the Program progresses.

2.1. Program Progress

Overall, the Program remains on-track for Milestones to be completed by the due dates set out in the RAP.

Program activity increased and intensified during the Reporting Period.

During the Reporting Period:

- The Program delivered Closure Packs for 15 Milestones (12 being Design Milestones and three Implement Milestones). Closure Packs for all 15 Milestones were delivered before the due dates set out in the RAP.

- Promontory assessed 17 Milestones (14 being Design Milestones and three Implement Milestones) as complete and effective[8]. Promontory was assessing three Milestones at the Reporting Date.

The Program had started work on 31 other Design Milestones and 28 other Implement Milestones. The Program is on-track to deliver these Milestones by their due dates.

At the Reporting Date, work had yet to start on four Design Milestones and 21 Implement Milestones. The Embed Phase had, also, not yet started. Work had, therefore, not begun on any Embed Milestones.

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[8] The number of Milestones assessed during the Reporting Period is higher than the number of Closure Packs received as we completed our assessment of some Milestones for which the Closure Pack was submitted during the previous Reporting Period.

Of the 17 Milestones we assessed as complete and effective during the Reporting Period:

- Five were Management Governance Theme Milestones (Milestones 7.1, 7.2, 8.1, 14.1 and 14.2)[9];

- Three were Risk Appetite, Taxonomy and Standards Theme Milestones (Milestones 12a.1, 12a.2 and 12a.3)[10];

- Three were Culture, Capability and Consequences Theme Milestones (Milestones 24a.2, 25c.1 and 26.1)[11]:

- Two were Board Governance Theme Milestones (Milestones 3.1 and 3.2)[12];

- Two were Customer Outcomes Theme Milestones (Milestones 15.1 and 15.2a)[13];

- One was an Operating Model (3LoA) Theme Milestone (Milestone 9.1)[14]; and

- One was a Program Execution Theme Milestone (Milestone 31.1)[15].

2.2.   Key Program Developments

The Reporting Period saw changes of varying significance in how the Program is being managed.

The **Program activities** described in Section 3.1 of our First Report continued, with some changes.

Changes were made in the leadership, staffing and responsibilities of some work streams. Staffing changes sought to ensure central BROP team members were positioned in the Program where their experience and expertise could best be used. Responsibility for some Milestones was moved between work streams.

In an effort to streamline and improve Program efficiency, the external quality review report, which had been part of the Milestone Closure Packs, was dispensed with from October.

The Reporting Period also saw activity intensifying in BU/SUs.

Project Management Offices were established to manage the delivery of the Program in BU/SUs.

BU/SU Line 1 Control Offices were established with Chief Control Officers[16] appointed to lead those offices.

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[9] See discussion in Section 4.2 below.

[10] See discussion in Section 6.2 below.

[11] See discussion in Section 9.2 below.

[12] See discussion in Section 3.2 below.

[13] See discussion in Section 8.2 below.

[14] See discussion in Section 5.2 below.

[15] See discussion in Section 10.2 below.

[16] Chief Control Officers are responsible for improving non-financial risk (**NFR**) Line 1 risk management practices, monitoring risk reduction and major risk projects, and ensuring consistent and effective deployment of NFR management practices throughout Line 1.

A BU/SU Project Management Office Forum was established to 'problem solve, resolve blockers and ensure consistency in communication' across the organisation. A Chief Control Officer Leadership team was also established and will meet regularly. The purpose of the team will be to ensure transparency about how issues are being managed across BU/SUs and to communicate information from the BU/SUs to the Executive Leadership Team Non-Financial Risk Committee (**ELT NFRC**).

Governance arrangements also continued as described in Section 3.2 of our First Report.

The BROP Governance Forum, the Design Council, the Group Executive Leads Forum and the Cross Stream Dependencies Forum continued to meet, each continuing to play a key role in Program delivery and oversight.

At its weekly meetings during the Reporting Period, the Design Council reviewed, in some depth and detail, 25 Milestones, nine of which were the subject of more than one session.

Weekly meetings of the Group Executive Leads Forum were refined to ensure focus on material impacts of the Program on BU/SUs.

Both the ELT and the Board also continued to receive detailed regular reports on Program progress. The December report to the Board, for instance, flagged both progress and project risks. A program of presentations to the Board about the Program by Group Executives was also initiated, with a presentation by the Group Executive for Business and Private Banking made at the October Board meeting.

Program assurance activities described in Section 3.2 of our First Report changed during the Reporting Period.

The central BROP team Chief Risk Office (performing Line 2 functions for the Program) continued to provide assurance reports for inclusion in Closure Packs for Milestones based on reviews conducted once the Closure Packs were finalised.

Feedback from stakeholders pointed to the Line 2 challenge being more usefully provided through the Milestone delivery process rather than at (or after) Milestone delivery.

A Line 3 Group Audit and Assurance (**GA&A**) Review of the Milestone Closure Process in October (**GA&A Review**) also flagged concerns about Line 2's capacity to continue its activities during periods in which a large number of Milestones are to be delivered. Despite recruiting further staff to the Line 2 team, resourcing gaps were being filled by staff from an external firm. The GA&A Review also noted the lack of a formal closure process for matters raised in the Line 2 Review.

Changes to Line 2's role were, as a result, introduced in November. Line 2 is now undertaking its review and challenge of artefacts at an earlier stage and tailoring review for each Milestone. Its engagement is expected to be more intense, therefore, in the more complex Milestones, and less intense in the simpler Milestones.

Line 2 also conducted a review of the design and implementation of the BROP governance model between August and October. The objectives of the review were to assess whether the Program has been 'set up for success' and to identify any emerging or potential risks 'for management awareness'. The Report was completed in late October and published in early December. The Report noted the governance model was evolving with a number of changes made based on lessons learned to date. It made a number of observations which Management has been addressing.

GA&A continued to attend BROP Governance Forum and Design Council meetings. In addition, GA&A conducted the GA&A Review noted above and reported its findings to Management in November. In addition to

the findings on Line 2 noted above, the GA&A Review highlighted opportunities for improvement in identifying dependencies and changes in Milestone timing.

GA&A will not conduct further audits of the BROP Program for the remainder of this financial year (ending 30 June 2019). This change is in response to a request from the Board Audit Committee (**BAC**) with a view to streamlining assurance processes. GA&A staff will continue to monitor Program progress by attending the BROP Governance Forum and Design Council meetings.

We comment further on these developments in Section 2.3.6 below.

2.3.   Observations on Program Management

Our First Report set out Promontory's assessment of whether and how the Program was displaying the seven characteristics of a successful remediation program, drawn from Chapter 10 of the *Inquiry Report*.

We observed that a solid foundation for these characteristics was being laid.

The Program continued to display these characteristics during the Reporting Period. There are some opportunities for improvement.

Our observations on these matters are set out in this section.

2.3.1. Board and Executive Committee Oversight

The *Inquiry Report* noted that effective Board and Executive Committee oversight would contribute to adequate engagement by relevant parties to foster a sense of urgency and help maintain focus and momentum.

Our First Report noted the active participation of both the Board and the ELT in the design of the RAP and in monitoring its execution.

The Board and ELT continued to engage in and actively monitor Program progress in executing the RAP through the Reporting Period.

As noted in Section 2.2, both the Board and the ELT continued to receive regular reporting on Program progress. A Forward Agenda of presentations to the Board about the Program by Group Executives about progress in their businesses has also been launched.

During the Reporting Period, the Board also provided feedback to the ELT on the need for actions taken under the RAP to be sustainable and of high quality. We consider these messages appropriate.

Promontory presented on its First Report to the ELT in mid-October. Our presentation outlined the findings of the First Report and flagged the key challenges and risks we identified in that Report. The presentation was followed by an active and engaged discussion about understanding and responding to these challenges.

2.3.2. First Line Executive Sponsorship

The *Inquiry Report* noted the importance to Program success of first-line executive (in CBA's case Group Executive) sponsorship. Sponsorship would contribute to turning planned changes from ideas into day-to-day practices.

Our First Report noted this sponsorship had been evident through the design and early execution of the Program.

Group Executives continued to demonstrate ongoing commitment to the Program through a number of channels through the Reporting Period.

The Chief Executive Officer (**CEO**) and other Group Executives outlined progress against the RAP and the importance of managing risks (particularly non-financial risks) in regular communications to their businesses. The launch of the Group's new Code of Conduct was also the subject of extensive communication.

Communication content was co-ordinated by the central BROP team.

Regular communication should continue. Every effort should be made to ensure the communications are vibrant, engaging and tailored to address the risk of audience fatigue.

2.3.3. Secondment from Business Lines

The *Inquiry Report* noted the benefits of sourcing remediation program team members from business lines. Benefits include improving links with businesses, particularly as remediation measures are implemented and embedded, and, more generally, delivering practical and credible solutions.

The First Report noted the central BROP team and Execution Leads had been drawn primarily from business lines.

This continued to be the case through the Reporting Period.

The benefits of drawing the team from business lines also continued to be evident. Milestone Closure Packs reflected the insights and experiences of the central BROP team and Execution Leads drawn from businesses. The effective working relationships built between BU/SUs and the central BROP team members also contributed to the speed with which issues identified by the Program have been addressed.

2.3.4. Effective Project Management Disciplines

The *Inquiry Report* noted that clear project objectives, detailed project planning, comprehensive resourcing planning, clear accountability and committed multi-year budgets together contribute to programs being delivered on time and with the right outcomes.

Our First Report noted many of these features were in place.

Project management disciplines continued to mature through the Reporting Period.

We observed particular improvements in the way the Program was monitoring, assessing and managing program delivery risks.

A process, aligned to CBA's Group Delivery Framework (**GDF**), to assess and monitor residual risks associated with 15 project delivery risks, has been developed and rolled out across the Program[17].

The rigour and consistency with which the process is being applied increased through the Reporting Period. This was supported by assistance and guidance from the central BROP team. Scope remains, however, to continue to improve consistency in how the process is being applied.

Both the central BROP team and the BROP Governance Forum continued to play a key role in closely monitoring and actioning delivery risks identified by the Program. High-rated risks, in particular, were escalated and addressed in a prompt way. We observed instances, for example, where issues rated as 'Red' (or very high) had been escalated, discussed and remediated within a short space of time, with the risk rating returned either to 'Amber' or 'Green'.

During the Reporting Period, we noted the willingness of the central BROP team to reflect on Program experiences to date and to adapt and make timely adjustments as needed. This agility was reflected in a review of the sequencing and timing of Milestones in the RAP which the Program commenced in the Reporting Period (**RAP Review**). Proposals about revising the RAP based on this review are expected to be shared with APRA in the first quarter of 2019.

The willingness to adapt and adjust was also evident in the use of the formal change process in place during the Reporting Period. The process provides for changes to the RAP being made after review and discussion with Promontory and the BROP Governance Forum. The process envisages APRA being notified of changes. The process was applied twice during the Reporting Period, leading to the separation of Milestone 15.2 into two Milestones, and an adjustment to the Closure Criteria for Milestone 12e.1.

Our First Report noted that comprehensive resource planning and committed multi-year budgets had yet to be finalised.

The Program has made some progress in this regard. Finalising plans and budgets for any complex, multi-year project is, however, challenging. Additional work is still needed to ensure plans and budgets continue to be updated on an ongoing basis in a rigorous, objective and transparent manner through the life of the Program. The Program is addressing the need for this further work.

While project management disciplines have matured, scope for improvement remains.

A particular concern is the need for the Program to understand, in some detail, interdependencies between Milestones and their impact on the closure of Milestones by due dates set out in the RAP. For instance, the due dates for closing some Milestones depends on action being taken in relation to other Milestones which are due to be closed at a later date. This risks delaying assessment of Milestones.

The GA&A Review also found that there was no clear 'source of truth' on Milestone dependencies at a delivery level, risking inappropriate sequencing of Milestone delivery[18].

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[17] The GDF has been designed to improve the way in which the Group manages large-scale projects and is a critical component of the Program Execution Theme under the RAP.

[18] GA&A found that some Milestones were scheduled for closure before Milestones that they are dependent on, and that of four different analyses of Milestone dependencies that have been undertaken, none provided a consistent or complete view of dependencies.

We understand from discussions with the central BROP team that this concern is being addressed by the RAP Review.

2.3.5. Sufficient Focus during Peak Periods

The *Inquiry Report* noted the importance of sequencing initiatives and sourcing skills to avoid bottlenecks and ensuring adequate attention.

The First Report noted the central BROP team had recognised, and was addressing, the challenge posed by a large number of Milestones being delivered at the end of the last quarter of 2018 and the first quarter of 2019.

The GA&A Review also noted the need for management action to address peak demand for Milestone reviews in December 2018 and March 2019. This included addressing resourcing concerns (particularly in Line 2) and the fact that the RAP did not allow for 'contingency time to remediate a Milestone if a material exception or issue is raised by any... stage gates in the closure process'.

The Program has taken steps to address these concerns.

During the Reporting Period, the Program reviewed forward planning to ensure meetings of the forums considering Milestones and necessary approvals are scheduled well ahead of delivery dates. This has helped some Milestone Closure Packs due in December to be delivered ahead of schedule.

The central BROP team has also streamlined some elements of its closure process for Milestones, with no apparent negative impact on the quality of Closure Packs. These changes include dispensing with the external quality review and changes to the role of Line 2 (as noted above).

We also understand that the RAP Review is considering whether and how Milestones should be further adjusted to spread out the due dates for delivery of Milestone Closure Packs and to provide for greater flexibility in addressing the 'contingency time' identified in the GA&A Review.

2.3.6. Assurance

The *Inquiry Report* noted the value of independent assessment of both the health of Program management and the likelihood of achieving Program objectives within proposed timeframes. Conducting such assessments gives Management the ability to take remedial action and correct the course of the Program at an early stage.

The First Report described the role of both Line 2 and Line 3.

As noted in Section 2.2, changes have been made to the role of both Lines 2 and 3 during the Reporting Period.

The changes to Lines 2's role in the Closure Pack process should benefit the Program. Under the previous approach, there was little time to incorporate Line 2's feedback before a Milestone was finalised. The new approach should enable Line 2's feedback to be incorporated before Milestones are submitted for independent review. There is scope, however, to develop more formal processes for tracking and closing issues identified by Line 2, as set out in the recent GA&A Report.

As noted, we understand that during FY19 the role of Line 3 will be limited to observer status in key governance forums. Audits are not proposed during a period which will see the Program move from activity focused primarily on the design of standards and processes to implementation of those standards and processes across BU/SUs.

The one review undertaken by GA&A to date highlights the value and benefit of targeted reviews to ensure processes are operating as designed.

We would expect such reviews to give both the Board and Management confidence that standards and processes designed centrally are being implemented across the institution as intended.

Although Promontory will make those assessments as required by the EU in relation to Implement and Embed Milestones, it is, in our view, appropriate, that Line 3 provide the Board and Management with assurance, at the very least, in relation to those Milestones with significant cross-organisational impact.

2.3.7. The Role of Culture

The *Inquiry Report* noted the major role culture plays in embedding better risk outcomes and how structural initiatives go hand-in-hand with necessary culture changes.

The First Report noted that commitment to sustainable cultural change had been evident in the early stages of the Program.

The Program has continued to recognise the pivotal role culture plays in embedding better risk outcomes and behaviours. The role of sustainable culture change was recognised in our discussions with the ELT in October as a key to the Program's success. The CEO has emphasised it in both internal and public fora.

The 'Better Bank Leaders Offsite' we observed in October was concrete evidence of the active commitment to sustainable cultural change. The offsite, attended by approximately 400 of the Bank's leaders, focused on embedding both the culture CBA is trying to build and a commitment to addressing issues raised in the *Inquiry Report*. The offsite involved a range of activities and discussion, including group sessions intended to explore applying the 'should we' question in real-life situations. Since the offsite, the 'should we' questions, and the updated Code of Conduct, have been rolled out more broadly across the organisation.

The BROP Governance Forum, Design Council and Group Executive Lead meetings we have attended displayed many of the features of the culture the Program is seeking to embed, including constructive challenge, diversity of thought and a sense of collective accountability. This augurs well for the Program in designing and guiding the culture change journey.

2.4. Ongoing Challenges

Our First Report noted that the sheer size of CBA, the extent to which existing processes and sub-cultures have been embedded, and the complexity of the Program are likely, together, to pose ongoing execution challenges.

We noted two particular challenges we suggested the Board and Management continue to monitor – maintaining momentum and ensuring effective execution. These challenges remain.

Further challenges emerged during the Reporting Period, including ensuring the sustainability of operational enhancements introduced by the Program, the appropriateness of systems and technology solutions, and Program resourcing.

We discuss these challenges in this section and will continue to discuss them in future Reports. We note these challenges are common to many of the large-scale, enterprise-wide projects we have observed in other institutions both in Australia and other jurisdictions.

2.4.1. Maintaining Momentum

Our First Report noted the risk that, over time, the Program could be seen as a 'business as usual' process increasingly divorced from addressing the events that led to the APRA Prudential Inquiry.

The requisite momentum was maintained through the Reporting Period. Nonetheless, the need to recognise and address this risk remains a challenge.

As the Program is rolled out across the organisation and as the Milestones grow in complexity (as they will), this challenge will intensify. In working with BU/SUs, the Program must ensure it maintains a firm and unflinching focus on Target State outcomes and benefits and not allow the Program to be side-tracked, unduly, by process.

Both the Board and the ELT have an important role to play in this regard in supporting the Program.

They should continue to regularly communicate their commitment to achieving the Program's outcomes and its benefits. Communication should continue to be cascaded, as it has been to date, throughout the organisation.

Board and ELT communication should continue to be vibrant and engaging, to address the risk of audience fatigue noted earlier.

The Board and ELT should also continue to remain vigilant and engaged in monitoring and actively challenging the work of the Program to ensure momentum is not lost.

2.4.2. Ensuring Effective Execution

The *Inquiry Report* described CBA's poor track record and approach to project execution in risk remediation programs.

Our First Report noted that, although there had been a clear commitment to moving on from the practices which contributed to this observation, a concerted effort was needed from those involved in the Program to ensure that these weakness do not re-emerge.

While these weaknesses are not evident, we reiterate the need to remain vigilant in ensuring they do not re-emerge.

As the Program evolves and focus increasingly turns to implementing and embedding centrally-developed designs, standards and processes across the organisation, execution and delivery risks will increase. The close monitoring and effective escalation of delivery risks to relevant governance forums for discussion and resolution during the Reporting Period is heartening evidence that this challenge is both well understood and being addressed.

Our First Report also noted it would be prudent for CBA to continue to challenge itself about whether the Program is being executed in the most effective and efficient way. It is encouraging to see that CBA is willing to make adjustments, including its efforts to refine RAP Milestones, to adjust the Closure Pack process and undertake the RAP Review to facilitate the effective execution of the RAP.

2.4.3. Ensuring Sustainability

The Program offers CBA the opportunity to design governance, culture and accountability frameworks which are built and implemented to last. The Program should not be seen as a set of short-term initiatives designed only to respond to the *Inquiry Report* findings and Recommendations at a point in time.

Both the Board and the ELT have recognised and communicated the importance of sustainability and building frameworks to last.

In reviewing Closure Packs during the Reporting Period, we have also challenged the Program to work toward ensuring the standards and processes which are being developed are sustainable. Our concern has been for the Program to focus on strategic, longer-term outcomes rather than short-term tactical 'fixes'. We will continue to make challenges on this basis as we assess all future Milestones.

Sustainability will require staff across the organisation – including those across Line 1 and Line 2 – to fully understand the outcomes required by the RAP, provide feedback on risks as they arise, and focus on outcomes over process. It will also require an increased focus on the 'voice of risk' and the 'voice of the customer' – to live the expectations of CBA's new Code of Conduct and Values.

Both the Board and the ELT should, in future communications about the Program, continue to emphasise the critical importance of ensuring the changes being made are built to last.

2.4.4. Ensuring Systems and Technology Improvements are Fit for Purpose

Our First Report noted the importance of ensuring systems and technology can deliver the information necessary to support implementing and embedding Recommendations on an ongoing and sustainable basis.

We noted the Program had recognised that implementation of many of the *Inquiry Report*'s Recommendations are likely to involve systems and technology support.

A work stream had been created to address the need for this support.

The work stream has highlighted the challenge of ensuring technology solutions to support implementation of the RAP are fit for purpose. The work stream has observed that user experience with, and workflow management of, some systems could be improved.

Steps being taken to address this challenge include:

- Upgrading the main system used to support CBA's OR&CR management (RiskInSite);

- Developing detailed 'target state' technology architecture for the relevant risk systems that will address the RAP, taking into account business requirements; and

- Seeking the input of Line 1 business teams to understand issues in relation to system user experience that may inhibit the effective use of risk technology solutions.

We urge the Program to continue to actively manage this challenge.

The Program should also continue to ensure that hardware and software systems required to deliver Milestones are appropriately supported and, in turn, provide the necessary support to deliver sustainable outcomes.

2.4.5. Ensuring Adequate Resourcing

As the Program is rolled out to BU/SUs, ensuring adequate resourcing will be a significant challenge.

The Program has recognised this challenge. It has identified resourcing capacity and capability as a key risk to a number of Program Themes and across the Program as a whole. GA&A has also identified 'access to high-quality risk and compliance professionals' to be the greatest risk to the effective delivery of the Program.

In the current financial year, the Program estimates it will require 388 'Full-Time Equivalents' (**FTEs**) across BU/SUs, in addition to the 45 FTEs in the central BROP team. The Program envisages 324 of these FTEs being reassigned from other areas, with 64 new hires. This level of resourcing requirements will continue through to FY21. The challenge of filling these roles on an ongoing basis in a particularly tight market for risk and compliance specialists cannot be underestimated.

We understand steps are being taken to address this challenge and mitigate the risks it poses. These steps include:

- Developing detailed plans and processes to assess both resource 'capacity' and 'capability' gaps – particularly in the non-financial risk area – across each BU/SU as part of work being completed to address Milestones for Recommendations 9 and 13;

- Ongoing monitoring and forecasting of resourcing needs for the central BROP team and the wider Group to deliver the RAP, managed by the Finance function. These estimates are calculated with input from various managers across the BU/SUs and are overseen by the central BROP team and BROP Governance Forum.

Resourcing is an issue which will continue to require close attention through 2019. While delivery of any specific Milestones does not at this time appear to be threatened, we will continue to monitor CBA's success in addressing resourcing challenges in future reports.

2.5.   Focus Areas

This section summarises the areas and actions identified in this chapter on which CBA and the Program should focus moving forward. They are summarised in Table 2.1.

Table 2.1: Areas for CBA to Focus on

#	Areas for Focus	Actions
1	**Board and Executive Committee oversight and sponsorship**	(i) The Board and ELT should continue to regularly communicate their ongoing commitment to achieving the Program's outcomes and its benefits. (ii) The Board and ELT should continue to emphasise the critical importance of ensuring the changes being made are built to last. (iii) Every effort should be made to ensure the communications are vibrant, engaging and tailored to address the risk of audience fatigue.
2	**Effective project management disciplines**	(i) In working with BU/SUs, the Program must ensure it maintains a firm and unflinching focus on Target State outcomes and benefits and not allow the Program to be side-tracked, unduly, by process.

#	Areas for Focus	Actions
		(ii) The Program should continue to strengthen and finalise comprehensive, multi-year resource and budget plans. In particular, plans and budgets should continue to be updated on an ongoing basis in a rigorous, objective and transparent manner through the life of the Program.
		(iii) In conducting the RAP Review, the Program should understand, in further detail, the interdependencies between Milestones and their impact on the closure of Milestones by due dates set out in the RAP. This includes addressing GA&A's finding that there was no clear 'source of truth' on Milestone dependencies at a delivery level, and the associated risk of inappropriate sequencing of Milestone delivery.
3	**Dealing with peak periods**	(i) In conducting the RAP Review, the Program should consider whether and how Milestones should be further adjusted to spread out the due dates for delivery of Milestone Closure Packs (particularly during peak periods).
4	**Assurance**	(i) The BROP Chief Risk Officer (**CRO**) should develop more formal processes for tracking and closing issues identified by Line 2, as set out in the recent GA&A Report.
		(ii) The Board should review the role of Line 3's assurance of the Program beyond the FY19 cycle. We expect that assurance around the operation of the Program be provided by Line 3, at the very least, in relation to those Milestones with significant cross-organisational impact.
5	**Sustainability**	(i) The Program should continue to focus on strategic, longer-term outcomes rather than short-term tactical 'fixes', in delivery of Milestones.
6	**Systems and technology**	(i) The Program should continue to actively manage challenges associated with the delivery of technology solutions that are fit for purpose and secure the necessary support to deliver sustainable outcomes.
		(ii) The Program should continue to engage with Line 1 functions to better understand their user experience needs and concerns, and use their input in solution design.
		(iii) The Program should continue to identify the upgrades and investments needed to address any systems limitations associated with RAP delivery.
7	**Resourcing**	(i) The Program should continue to closely monitor and address the risks and challenges associated with identifying and securing the appropriate resources needed to support delivery of the RAP.
		(ii) The Program should establish clear and rigorous processes to update estimates of resource requirements as RAP delivery progresses from Design to Implement and Embed Phases.

3. Board Governance Theme Milestones

The Board Governance Theme deals with the *Inquiry Report* Recommendations on Board governance.

The *Inquiry Report* found the degree of attention and priority afforded to the governance and management of non-financial risks at CBA had not been to the standard expected of a systemically important bank.

Significant shortcomings in governance of non-financial risk were identified. The Board and its Committees had not demonstrated sufficient rigour and urgency in holding Management to account. There were significant gaps in reporting and metrics provided to the Board and its Committees, and heavy reliance on the authority of key individuals. Gaps in communication between Committees, overconfidence in the effectiveness of the Board and its Committees, and immature oversight of risk culture, were also observed. The *Inquiry Report* noted the new tone being set by the day-to-day actions of the refreshed Board and its Committees under the new Chair, if maintained, would help to address many of the governance issues raised by the Inquiry.

The *Inquiry Report* recommended CBA make improvements to Board practices and processes, non-financial risk information provided to the Board and its Committees, and the way Board Committees co-ordinate. It emphasised the need for the Board to promote a clear tone at the top.

CBA's response through the RAP is to make changes that will strengthen Board practices and co-ordination.

In particular, the RAP envisages the Board engaging with senior leaders and staff throughout the organisation in a more structured manner. It also envisages addressing gaps against global better practice for Boards and Committees, improving co-ordination between Board Committees, clarifying the delineation of roles and responsibilities between the Committees relating to oversight of non-financial risk issues, improving Board Audit Committee protocols, and improving the quality and consistency of non-financial risk reporting.

3.1. Status of Board Governance Theme Milestones

Milestones for the Board Governance Theme Recommendations are on-track for completion by the due dates set out in the RAP.

Progress in the Board Governance Theme is set out in Table 3.1, and is discussed in more detail below.

During the Reporting Period:

- The Program submitted Closure Packs for four Board Governance Theme Milestones (Milestones 3.1, 3.2, 4.1 and 4.2) to Promontory. Closure Packs for Milestones 3.1 and 3.2 were submitted before the due dates set out in the RAP. We note Closure Packs for Milestones 4.1 and 4.2, due for delivery at the end of December, were submitted during November.

- Promontory completed its assessment of two Board Governance Theme Milestones (Milestones 3.1 and 3.2).

- The Program was working on two other Design and six other Implement Milestones for this Theme. Work had yet to start on three Implement Milestones. As the Embed Phase had not yet started, work had not begun on any of the five Embed Milestones for this Theme.

At the Reporting Date, Promontory was assessing two Board Governance Theme Milestones (Milestones 4.1 and 4.2).

Table 3.1: Progress on Board Governance Milestones

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Progress
1	Board visibility	1.1 Implement	Increase Board engagement with senior management	Dec-18	◕
		1.2 Implement	Establish Board agenda item on NFR issues and quality of information	Mar-19	◔
		1.3 Implement	Amend ELT agenda to include discussion of Board information	Mar-19	◔
		1.4 Embed	Undertake an annual review on Board and Board Committees' performance	Dec-19	○
2	Board better practice	2.1 Design	Compare the processes and practices of the Board to global better practice	Mar-19	◔
		2.2 Implement	Change processes and practices in line with Board approved recommendations	Oct-19	○
		2.3 Implement	Update Board Corporate Governance Guidelines to require periodic review of practices	Dec-18	◔
		2.4 Embed	Assess whether the Board, BAC and Board Risk Committee (**BRC**) are aligned with better practice identified in Milestone 2.1	Dec-20	○
3	Board co-ordination	3.1 Design	Amend the BAC Charter to provide for referral of relevant matters to the BRC	Oct-18	●
		3.2 Design	Review Board Committee Charters to consider appropriate cross-referral of matters	Oct-18	●
		3.3 Implement	Amend Board Committee agendas to include information sharing and issues referral	Mar-19	◔
		3.4 Implement	Establish Board Committee joint meeting to consider NFR matters related to executive performance and remuneration	Aug-19	◔

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Progress
		3.5 Embed	Assess the effectiveness of co-ordination between the BRC, Board Remuneration Committee (**RemCo**) and BAC	Dec-20	○
4	Audit Committee	4.1 Design	BAC Committee to set expectations on when BU/SU must present on material issues	Dec-18	◑
		4.2 Design	Review, update and document the end-to-end internal audit practices in relation to issue management	Dec-18	◑
		4.3 Implement	Amend internal audit process to include BU/SU issue owners appearing before BAC	Jun-19	○
		4.4 Embed	BAC to arrange review of quality of internal audit process and whether BAC expectations on presentations by BU/SU accountable individual are being met	Dec-19	○
5	Board information	5.1 Design	Design Board reporting in relation to non-financial risk	Feb-19	◔
		5.2 Implement	Commence revised operational risk, compliance and regulatory risk reporting to the Board and BRC	Sep-19	○
		5.3 Embed	Assess whether the Board and BRC received adequate NFR information	Dec-20	○

3.2. Board Governance Theme Milestone Assessment Outcomes

3.2.1. Assessment of Recommendation 3 Milestones

The Target State for Recommendation 3 is to have clear accountabilities, and effective and timely information flows between Board Committees to support issue oversight and resolution.

a) Milestones 3.1 and Milestone 3.2

Milestone 3.1 (a Design Milestone) requires the BAC Charter to be amended to provide for the referral of relevant matters to the BRC and the update to be approved.

Milestone 3.2 (a Design Milestone) requires a review of the BAC, BRC and RemCo Charters to consider appropriate referral of matters between Committees and to amend the Charters if required.

The Board Committee Charters have been amended to provide for the following:

- Referral of certain matters between the BAC and BRC, including significant internal control matters affecting the Group's risk profile;

- Input of certain matters from both the BAC and the BRC to the RemCo;

- Joint meetings of all three Committees to consider risk, financial and reputation-related matters relevant to executive performance and remuneration;

- Consideration by the BRC of matters referred by the BAC; and

- Receipt by the RemCo of input from the BAC and BRC.

The Board has reviewed and approved these updates.

After reviewing Closure Packs for these Milestones, Promontory interviewed relevant stakeholders about:

- Processes for referral of information between Committees;

- Opportunities and processes for urgent referrals; and

- Processes for following-up on information referred between Committees.

Based on our assessment of the Milestone Closure Packs, the additional information we received and the interviews we conducted, we concluded that the Program has designed appropriate processes for referring matters between Board Committees, with clear accountabilities, and has made appropriate updates to Board Committee Charters.

As such, we consider the Milestones to provide a sound basis for achieving the Target State and that they are, therefore, complete and effective.

In finalising our assessment, we foreshadowed that our assessments of the Implement and Embed Milestones for this Recommendation will test the effectiveness of measures designed to refer matters between Board Committees.

4. Management Governance Theme Milestones

The Management Governance Theme deals with the *Inquiry Report* Recommendations on senior leadership oversight, the stature of the compliance function and regulatory engagement.

The *Inquiry Report* found that the Executive Committee had not been an effective vehicle for addressing Group-wide risks and issues. The Committee had no mandate to oversee the risk profile of the Group. Its dynamics did not encourage a sense of collective accountability for Group risk outcomes or constructive challenge of Committee members. CBA's compliance function had not been given sufficient recognition, stature and authority. In dealing with regulators, CBA was also seen to be defensive, reactive, perfunctory and slow to respond.

The *Inquiry Report* recommended that the Executive Committee embed collective accountability for management of the Group, mitigate the impact of risks that span Business Units (**BUs**), elevate the stature of the compliance function, and establish an Executive-level Committee for oversight of non-financial risks (including emerging risks). It also recommended that CBA strengthen its dialogue and engagement with regulators and take a more pre-emptive approach to investment decisions in risk management.

CBA's response through the RAP is to elevate the stature of non-financial risk, making it a top priority for the ELT. It envisages establishing a new committee at the Executive level to oversee non-financial risk with the Head of Compliance as a member. Changes are also to be made to strengthen individual responsibility and accountability, improve governance, and encourage leaders to take a pre-emptive approach to risk management.

The RAP envisages measures to strengthen collective accountability and encourage greater challenge in the ELT. It also envisages refreshing CBA's regulatory engagement principles.

4.1. Status of Management Governance Theme Milestones

Milestones for the Management Governance Theme Recommendations are on-track for completion by the due dates set out in the RAP.

During the Reporting Period, Milestones associated with Recommendation 14 were moved by the Program from the Operating Model (3LoA) Theme to the Management Governance Theme and Milestones associated with Recommendation 20 were moved from the Management Governance Theme to the Program Execution Theme.

Progress in the Management Governance Theme is set out in Table 4.1, and is discussed in more detail below.

During the Reporting Period:

- The Program submitted a Closure Pack for one Management Governance Theme Milestone (Milestone 7.2) to Promontory. The Closure Pack was submitted before the due date set out in the RAP.

- Promontory completed its assessment of five Management Governance Theme Milestones (Milestones 7.1, 7.2, 8.1, 14.1 and 14.2), including four Milestones for which the Closure Packs were submitted before the Reporting Period (Milestone 7.1, 8.1, 14.1 and 14.2). Closure Packs were in all cases submitted before the due dates set out in the RAP.

- The Program was working on two other Design and five other Implement Milestones for this Theme. Work had yet to start on one Implement Milestone. As the Embed Phase had not yet started, work had not begun on any of the six Embed Milestones for this Theme.

At the Reporting Date, Promontory was not assessing any Management Governance Theme Milestones.

Table 4.1: Progress on Management Governance Theme Milestones

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Progress
6	Collective accountability	6.1 Design	Develop Group Strategy scorecard that reflects shared accountabilities	Dec-18	◔
		6.2 Implement	Board approves changes to Group Executive scorecards/Key Performance Indicators (**KPIs**) to include shared priorities and accountability for RAP	Feb-19	◔
		6.3 Embed	Interim and annual performance assessment of Group Executives completed, based on revised KPI structure with Group Strategy scorecard as key input	Sep-19	○
7	Executive Committee	7.1 Design	Establish the ELT NFR Committee to consider risks that span the Group	Sep-18	●
		7.2 Design	Develop and communicate CEO expectations in relation to behaviours and interactions of the ELT	Oct-18	●
		7.3 Implement	ELT operating according to CEO's expectations	Mar-19	◔
		7.4 Implement	ELT NFR meetings are operating in accordance with Charter	Feb-19	◔
		7.5 Embed	Engage external part to conduct a review of the behaviours and interactions of the ELT	Oct-19	○
		7.6 Embed	Complete external assessment of ELT NFR Committee	Oct-19	○
8	NFR Committee	8.1 Design	Establish the ELT NFR Committee with agenda, roles and responsibilities defined	Sep-18	●

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Progress
		8.2 Implement	ELT NFR meetings are operating in accordance with Charter	Feb-19	◕
		8.3 Embed	Complete external assessment of ELT NFR Committee	Oct-19	○
14	Head of Compliance	14.1 Design	Include the Executive General Manager (**EGM**) Compliance as a member of the ELT NFR Committee and include regular time for discussion of compliance matters	Sep-18	●
		14.2 Implement	Provide EGM Compliance with access to Board and BRC and removal/appointment protocols	Sep-18	●
		14.3 Implement	EGM Compliance attends ELT NFR meetings	Feb-19	◕
		14.4 Embed	EGM Compliance attends Board and BRC meetings as required	Jun-19	○
19	Regulator engagement	19.1 Design	Define regulatory engagement target operating model	Dec-18	◔
		19.2 Implement	Target operating model for regulatory engagement in place	Jun-19	○
		19.3 Embed	Demonstrate uplift in regulatory engagement through key interactions	Mar-20	○

4.2.   Management Governance Theme Milestone Assessment Outcomes

4.2.1. Assessment of Recommendation 7 and Recommendation 8 Milestones

Recommendations 7 and 8 together address the operation of Executive-level Committees.

The Target State for Recommendation 7 is the ELT exhibiting a range of characteristics, including operating with collective accountability and exhibiting a culture of constructive challenge.

The Target State for Recommendation 8 is the establishment of an NFRC at the Executive level that is effective in raising the visibility and stature of non-financial risk and improving related decision-making.

a)   Milestones 7.1 and Milestone 8.1

Milestone 7.1 (a Design Milestone) requires the CEO to establish an ELT NFRC with a Forward Agenda that will include regular BU/SU risk profile deep dives. Milestone 8.1 (a Design Milestone) sets out the same requirements and provides more detail on elements required in the Committee Charter and Forward Agenda.

The CEO has established the ELT NFRC, with a Charter and a Forward Agenda.

The Charter describes the role, composition, powers and responsibilities of the NFRC and how it meets. Its role includes considering how to manage non-financial risks that span BUs and effectively balancing the voice of the Support Units (**SUs**) with BUs.

The Forward Agenda includes regular BU/SU non-financial risk profile deep dives where each unit has the opportunity to raise, discuss and address both new and emerging areas of concern. It provides time for discussion of a prescribed range of non-financial risk matters.

We assessed Milestone 7.1 and Milestone 8.1 together.

After reviewing the Closure Packs for these Milestones, Promontory requested and received further information and interviewed relevant stakeholders about:

- Membership of the NFRC, and particularly the reasons for the Charter, as drafted, not including the EGM Financial Crime and the Chief Information Security and Trust Officer as standing members of the Committee.

- How the role of the NFRC as an advisory, rather than decision-making body, reconciles with the objective of improving decision-making and consistency in governing non-financial risk.

- How the Committee, through its Forward Agenda, intends to ensure continued focus on prescribed non-financial risk matters, including compliance matters.

- Interactions between the ELT and the NFRC.

After Promontory's review, CBA amended the Charter to:

- Add the EGM Financial Crime and Chief Information Security and Trust Officer as standing members of the NFRC.

- Clarify the quorum requirements for NFRC meetings.

- Clarify that the NFRC is responsible for making specific recommendations and agreeing common action in relation to matters that are presented.

- Clarify that, as part of the NFRC's annual performance review, the Forward Agenda and time allocated to discussing compliance matters will be reviewed.

- Adopt the same language from the recently updated ELT Charter in relation to expected behaviours of the NFRC.

- Incorporate oversight of Operational Risk and Compliance Risk (**OR&CR**) resources and the application of Three Lines of Accountability (**3LoA**) in relation to non-financial risk, as part of the NFRC responsibilities.

Based on our assessment of the Milestone Closure Packs, the additional information we received and the interviews we conducted, we concluded that the NFRC Charter and Forward Agenda address the membership and non-financial risk visibility, stature and decision-making objectives set out in the Target State.

As such, we consider the Milestones to provide a sound basis for achieving the Target State and that they are, therefore, complete and effective.

Promontory noted that the Charter's wording in relation to the voice of SUs was also amended. In finalising our assessment, we foreshadowed that our assessments of the Implement and Embed Milestones for these Recommendations will consider whether and how SUs voice their concerns, and whether the Committee effectively balances the voice of SUs and BUs. We also foreshadowed considering the topics discussed and attendance at NFRC meetings in our assessments of the Implement and Embed Milestones for these Recommendations.

b)   Milestone 7.2

Milestone 7.2 (a Design Milestone) requires that:

(i)   the CEO develop and communicate his expectations in relation to behaviours and interactions of the ELT;

(ii) the ELT Charter be revised to reflect these expectations; and

(iii) the ELT Forward Agenda be changed to allow adequate time for external perspectives, challenge and self-reflection.

The CEO has communicated his expectations of the ELT to senior leadership in line with the Target State. These expectations include:

- Operating with a sense of collective accountability;

- Dealing with difficult and challenging problems;

- Members having an understanding of the business beyond their individual roles;

- Exhibiting a culture of constructive challenge;

- Encouraging diversity of thinking; and

- Providing support functions with an equal voice in deliberations.

The ELT Charter has been updated to reflect these expectations. The ELT Forward Agenda has been amended to include external perspectives, challenge sessions and time for self-reflection.

After reviewing the Closure Pack for this Milestone, Promontory requested and received further information on the sessions in the ELT Forward Agenda designed to bring in external perspectives and provide an opportunity for self-reflection. Promontory also queried whether the CEO's communications had sufficiently emphasised the

importance of the support functions – in particular the Risk and Compliance functions – having an equal voice in ELT deliberations.

Based on our assessment of the Milestone Closure Pack and the additional information we received, we concluded that CBA has designed processes, adopted ELT Charter revisions and developed ELT Forward Agenda revisions that will assist the ELT in exhibiting the characteristics described above.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

4.2.2. Assessment of Recommendation 14 Milestones

The Target State for Recommendation 14 is compliance matters receiving an increased level of consideration at the Board and ELT level and better compliance risk management outcomes being promoted.

a)   Milestone 14.1

Milestone 14.1 (a Design Milestone) requires that the EGM Compliance is included as a member of the NFRC and that the Forward Agenda for NFRC meetings includes regular time for discussion of compliance matters.

The EGM Compliance has been included as a member of the NFRC, with the Charter clarifying the role of the EGM Compliance at the NFRC. The NFRC's Forward Agenda has also been amended to include adequate time for the EGM Compliance to discuss and provide challenge regarding compliance matters.

Promontory assessed Milestone 14.1 in conjunction with the assessment of Milestones 7.1 and 8.1.

After reviewing the Closure Pack for this Milestone, Promontory requested and received further information and interviewed relevant stakeholders about how the NFRC will ensure the Forward Agenda will allocate adequate time for discussion of compliance matters on an ongoing basis. Promontory also queried whether the nature and depth of NFRC responsibilities provides a sufficient basis for ensuring that compliance matters receive an increased level of consideration at the Executive level.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that the NFRC Charter provides a basis for: (i) adequate time for discussion of compliance matters; (ii) improved visibility and stature of compliance risks; and (iii) a central view of, and improving decision-making in relation to, the management of compliance risks.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

b)   Milestone 14.2

Milestone 14.2 (an Implement Milestone) requires that the EGM Compliance has access to the Board and BRC and that the BRC approve the appointment and removal of the EGM Compliance.

The BRC Charter has been updated to: (i) give the EGM Compliance 'unfettered' access to the BRC (as well as bi-annual meetings); and (ii) require the BRC to approve the appointment and removal of the EGM Compliance, on the recommendation of Management.

Based on our assessment of the Milestone Closure Pack, we concluded that the updated BRC Charter provides for compliance matters receiving increased consideration by the Board and for BRC approval of the appointment or removal of the EGM Compliance.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

5.   Operating Model (3LoA) Theme Milestones

The Operating Model (3LoA) Theme deals with the *Inquiry Report* Recommendations on aspects of the operating model for non-financial risk, in particular the three lines of defence model (described at CBA as 3LoA) and related issues.

The *Inquiry Report* found that CBA had not implemented the three lines of defence model effectively despite numerous attempts. The *Inquiry Report* also noted that BU CROs retained reporting lines to relevant Group Executives. It said CBA needed to ensure that this reporting line did not impede their independence.

The *Inquiry Report* recommended that CBA ensure its 3LoA principles are effectively embedded and subject to strict governance principles with BUs taking primary ownership of risk management. It also recommended that BU CROs have the necessary independence to provide effective challenge to the business.

CBA's response through the RAP is to generate a consistent understanding, ownership and governance of risks across the bank by adhering to 3LoA principles.

The RAP envisages establishing clear requirements on the roles of each line of defence, and strengthening the ability of Line 2 to provide challenge and assurance.

5.1.   Status of Operating Model (3LoA) Theme Milestones

Milestones for the Operating Model (3LoA) Theme Recommendations are on-track for completion by the due dates set out in the RAP.

During the Reporting Period, Milestones associated with Recommendations 12d and 14 were moved by the Program from the Operating Model (3LoA) Theme to the Risk Appetite, Taxonomy and Standards Theme and the Management Governance Theme, respectively.

Progress in the Operating Model (3LoA) Theme is set out in Table 5.1, and is discussed in more detail below.

During the Reporting Period:

- The Program submitted a Closure Pack for one Operating Model (3LoA) Theme Milestone (Milestone 9.1) to Promontory. The Closure Pack was submitted before the due date set out in the RAP.

- Promontory completed its assessment of the Milestone submitted.

- The Program was working on two other Design and one other Implement Milestone for this Theme. Work had yet to start on one Design Milestone and one Implement Milestone. As the Embed Phase had not yet started, work had not begun on either of the two Embed Milestones for this Theme.

At the Reporting Date, Promontory was not assessing any Operating Model (3LoA) Theme Milestones.

Table 5.1: Progress on Operating Model (3LoA) Theme Milestones

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
9	3LoA	9.1 Design	Develop approach and tools to align OR&CR activities with the 3LoA Principles	Sep-18	●
		9.2 Design	Develop plans to align BU/SU OR&CR activities to the 3LoA Principles	Mar-19	◔
		9.3 Design	Endorse plan to align to the 3LoA Principles of all risk types other than OR&CR	Sep-19	○
		9.4 Implement	Realign Lines 1 and 2 OR&CR activity	Mar-20	○
		9.5 Embed	Complete Line 3 assessment of Lines 1 and 2 to ensure the operate in accordance with the 3LoA Activities for OR&CR	Dec-20	○
10	CRO independence	10.1 Design	Clarify engagement protocol between BU CROs and BUs to maintain connectivity without compromising independence	Dec-18	◔
		10.2 Implement	Reinforce independence of BU CRO by amending reporting lines and KPIs	Feb-19	◔
		10.3 Embed	Complete Group CRO performance review of BU CROs	Oct-19	○

5.2. Operating Model (3LoA) Theme Milestone Assessment Outcomes

5.2.1. Assessment of Recommendation 9 Milestone

The Target State for Recommendation 9 is to have consistent adherence to CBA's 3LoA Principles across BU/SUs.

a) Milestone 9.1

Milestone 9.1 (a Design Milestone) requires the development and ELT approval of documents supporting the application of 3LoA across the organisation.

The Program has developed a number of documents and tools to address the changes contemplated by this Milestone. The documents describe the following:

- Principles for applying 3LoA.

- Activities to be undertaken by Lines 1 and 2 in relation to OR&CR.

- Organisational structure requirements.

- Tools to assist BU/SUs in implementing the requirements, including assessing the level of capacity and capability uplift required.

The ELT has approved these documents.

After reviewing the Closure Pack for this Milestone, Promontory requested and received further information and interviewed relevant stakeholders about the measures to ensure consistency in application of the 3LoA Principles and how capability assessments are to be conducted.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that the Principles, documents and tools developed by the Program provide a basis for supporting application of an improved 3LoA framework.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

In finalising our assessment, we foreshadowed that our assessments of the further Milestones for this Recommendation will assess any approved deviations from the framework, the design of the Line 2 operating model, and the processes to monitor consistency of application. In relation to capability, we will assess the capability framework and associated tools as part of our assessment of Recommendation 13.

6. Risk Appetite, Taxonomy and Standards Theme Milestones

The Risk Appetite, Taxonomy and Standards Theme deals with *Inquiry Report* Recommendations on aspects of non-financial risk management. These aspects include setting Risk Appetite Statement (**RAS**) limits, setting minimum standards for non-financial risk management, assurance of BU/SU risk profiles, and identifying and managing emerging risks.

The *Inquiry Report* found that CBA's management of operational and compliance risks had been inadequate. It concluded operational and compliance risk metrics in the Group RAS were under-represented relative to metrics for financial risks and that policies and frameworks for managing operational and compliance risks had been inconsistently implemented. It noted that operational risk and compliance functions had been reactive and had a heavy procedural bias that fostered a 'form over substance' approach to compliance risk management. The quality of Line 2 assurance across BUs had been variable.

The *Inquiry Report* recommended that CBA strengthen its management of operational and compliance risk. In doing so, it recommended that CBA develop granular metrics for limits relating to non-financial risks in the Group RAS, create and embed minimum standards for management of non-financial risks in policies across the Group, heighten Executive-level focus on emerging non-financial risks, and enhance the ability of Line 2 to fulfil its assurance responsibilities.

CBA's response through the RAP is to build employees' understanding of risk appetite, policies and procedures so that CBA can more proactively identify gaps and manage risks. Changes envisaged include standardising risk management tools across the bank, developing more common risk management language, and developing and monitoring more granular risk metrics to support the bank's risk appetite settings.

The RAP envisages defining and embedding a more robust framework for overseeing and monitoring non-financial risk consistently across the Group.

6.1. Status of Risk Appetite, Taxonomy and Standards Theme Milestones

Milestones for the Risk Appetite, Taxonomy and Standards Theme Recommendations are on-track for completion by the due dates set out in the RAP.

During the Reporting Period, Milestones associated with Recommendation 12d were moved by the Program from the Operating Model (3LoA) Theme to the Risk Appetite, Taxonomy and Standards Theme. Milestones associated with Recommendation 11 were moved from the Risk Appetite, Taxonomy and Standards Theme to the Program Execution Theme.

Progress in the Risk Appetite, Taxonomy and Standards Theme is set out in Table 6.1, and is discussed in more detail below.

During the Reporting Period:

- The Program submitted Closure Packs for two Risk Appetite, Taxonomy and Standards Theme Milestones (Milestones 12a.3 and 12a.4) to Promontory. Closure Packs were, in both cases, submitted before the due dates set out in the RAP.

- Promontory completed its assessment of three Risk Appetite, Taxonomy and Standards Theme Milestones (Milestones 12a.1, 12a.2 and 12a.3), including two Milestones for which the Closure Packs were submitted before the Reporting Period (Milestones 12a.1 and 12a.2).

- The Program was working on three other Design and four other Implement Milestones for this Theme. As the Embed Phase had not yet started, work had not begun on any of the five Embed Milestones for this Theme.

At the Reporting Date, Promontory had not started its review of one Risk Appetite, Taxonomy and Standards Theme Milestone (Milestone 12a.4).

Table 6.1: Progress on Risk Appetite, Taxonomy and Standards Theme Milestones

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
12a	RAS limits	12a.1 Design	Board to define the OR&CR types that are required to have granular metrics in Group RAS	Aug-18	●
		12a.2 Design	Define the high-level process, timeline and design principles for developing, cascading and monitoring Group-level granular metrics	Aug-18	●
		12a.3 Design	Design granular metrics for inclusion in Group RAS and cascading into the BU/SU	Oct-18	●
		12a.4 Implement	Update Group RAS to incorporate granular metrics for OR&CR types	Nov-18	◑
		12a.5 Implement	Cascade Group RAS metrics, triggers and limits into BU/SUs RASs	Mar-19	◔
		12a.6 Embed	Hold enhanced discussion at ELT NFR Committee and BRC on risk profile versus risk appetite	May-19	○
		12a.7 Embed	BU/SU RASs include metrics for locally material OR&CR	Dec-19	○
12b	NFR minimum standards	12b.1 Design	Define criteria for minimum standards in relation to non-financial risk	Dec-18	◔

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
		12b.2 Implement	Define minimum standards for prioritised risk types	May-19	
		12b.3 Embed	Embed minimum standard for risk wave of prioritised risk types with reporting to ELT NFR Committee and BRC on progress and non-compliance	Nov-19	
12c	Emerging risks	12c.1 Design	Dedicate time to consider emerging risks at the ELT NFR Committee	Dec-18	
		12c.2 Implement	Discuss emerging risks at ELT NFR	May-19	
		12c.3 Embed	ELT NFR Committee holds high quality discussion on emerging risks and receives effective reporting on risks from BU/SU forums	Jun-20	
12d	Line 2 assurance	12d.1 Design	Define the Line 2 Assurance/Monitoring Program for OR&CR	Dec-18	
		12d.2 Implement	Commence Line 2 Assurance/Monitoring Program for OR&CR	Jun-19	
		12d.3 Embed	Complete Line 3 assessment of Line 2 Assurance/Monitoring Program	Apr-20	

6.2. Risk Appetite, Taxonomy and Standards Theme Milestone Assessment Outcomes

6.2.1. Assessment of Recommendation 12a Milestones

The Target State for Recommendation 12a is for CBA to have a Group RAS which contains granular limits and triggers for OR&CR types, to: (i) clarify the Board's appetite for OR&CR; (ii) provide for effective monitoring; and (iii) enable the Group to make pre-emptive risk decisions.

a) Milestone 12a.1

Milestone 12a.1 (a Design Milestone) requires the Board to agree on the OR&CR types that require granular metrics in the Group RAS.

CBA has used a risk-based approach to identify and prioritise 10 'Level 1' risk types from its OR&CR Taxonomy. The approach has included considering residual risk assessments and whether the risk type has been identified as an 'area of focus' in the process of preparing its annual Risk Management Declaration to APRA under Prudential Standard CPS 220. The BRC reviewed and approved these 10 risk types, and requested that the process for prioritising risk types be subject to annual review.

After reviewing the Closure Pack for this Milestone, Promontory requested and received further information and interviewed relevant stakeholders about how Level 1 risk types were prioritised and the reasons for not prioritising 'Levels 2 and 3' OR&CR types.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that CBA has taken appropriate steps to prioritise the risk types for which the Group RAS will include granular metrics.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

b)   Milestone 12a.2

Milestone 12a.2 (a Design Milestone) requires CBA to establish a high-level process, timeline and design principles for: (i) developing and cascading Group-level granular OR&CR metrics; (ii) updating BU/SU RASs; and (iii) establishing BU/SU monitoring.

The Program has developed a process and timeline outlining the key steps and responsible parties for developing and cascading OR&CR Group RAS metrics. The Program has also developed 'design principles' to provide guidance to the subject matter experts (**SMEs**) responsible for designing the OR&CR metrics, including limits and triggers, for inclusion in the Group RAS. The high-level process, timeline and design principles have been provided to the NFRC.

After reviewing the Closure Pack for this Milestone, Promontory requested and received further information and interviewed relevant stakeholders about:

- The factors taken into account in developing the process, timeline and design principles;

- The planned approach to cascading Group-level RAS metrics to BU/SU RASs, including clarifying responsible parties; and

- The planned approach to establishing BU/SU monitoring.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded the Program has designed an appropriate process for updating the Group RAS with granular OR&CR metrics, cascading those updates to BU/SUs, and establishing BU/SU monitoring.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and it is, therefore, complete and effective.

c)   Milestone 12a.3

Milestone 12a.3 (a Design Milestone) requires CBA to design granular metrics for inclusion in the Group RAS, and determine which of the metrics will be cascaded to BU/SUs.

The Program identified SMEs responsible for developing metrics for each of the 10 prioritised Level 1 risk types approved by the Board as part of Milestone 12a.1. These SMEs have developed proposed OR&CR metrics for inclusion in the Group RAS. These proposed metrics have been tabled for discussion at the BRC and NFRC.

After reviewing the Closure Pack for this Milestone, Promontory requested and received further information and interviewed relevant stakeholders about:

- The process for selecting the 'most significant or most material aspects' of the prioritised Level 1 risk types;

- How development of the granular metrics had applied the design principles developed as part of Milestone 12a.2;

- The approach taken to setting 'early warning' and 'intervention' levels that support the delivery of the Target State (previously referred to as 'triggers' and 'limits'); and

- Metrics that CBA does not propose to cascade to the BU/SUs, or metrics that will be cascaded with some variance from Group-wide metrics.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that CBA has taken appropriate steps to design granular OR&CR metrics for inclusion in the Group RAS, which can be cascaded to the BU/SUs.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

7. Accountability and Controls Delivery Theme Milestones

The Accountability and Controls Delivery Theme deals with *Inquiry Report* Recommendations on the Group's control environment, the conduct of root cause analysis, and the resolution of significant and outstanding issues.

The *Inquiry Report* found shortcomings in CBA's handling of issues escalated from staff, customers and regulators. CBA had difficulty identifying broad systemic issues in its business and resolving identified issues as a result of organisational complacency, low senior-level oversight, and weak project execution capabilities. In addition, the *Inquiry Report* noted significant scope for improvement in CBA's control environment.

The *Inquiry Report* recommended that the CBA Board and Executive Committee improve their processes for monitoring issues and end tolerance for untimely and ineffective resolution of significant, outstanding matters of concern. It also recommended that CBA ensure its control environment is robust, reflecting effective control design and testing and root causes of issues are addressed in a timely and effective manner.

CBA's response through the RAP centres on improving the processes used to manage risk, and the environment in which that risk is managed.

In particular, the RAP envisages refreshing CBA's risk profiles so they are comprehensive and consistent, assessing current risk controls and improving them where necessary. It also envisages enhancing root cause analysis and implementing a number of measures to ensure timely and effective resolution of outstanding issues.

7.1. Status of Accountability and Controls Delivery Theme Milestones

Milestones for the Accountability and Controls Delivery Theme Recommendations are on-track for completion by the due dates set out in the RAP.

Progress in the Accountability and Controls Delivery Theme is set out in Table 7.1, and is discussed in more detail below.

During the Reporting Period:

- No Closure Packs were either submitted or assessed by Promontory in relation to this Theme.

- The Program was working on three other Design and four other Implement Milestones for this Theme. As the Embed Phase had not yet started, work had not begun on any of the three Embed Milestones for this Theme.

At the Reporting Date, Promontory was not assessing any Accountability and Controls Delivery Theme Milestones.

Table 7.1: Progress on Accountability and Controls Delivery Theme Milestones

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
12e	Control environment	12e.1 Design	Develop the approach to operationalise the Group OR&CR frameworks to uplift the control environment through the Risk Management Implementation (**RMI**) program	Dec-18	
		12e.2 Implement	Establish an initial baseline understanding of material risks and controls for each BU/SU	Mar-19	
		12e.3 Implement	Complete prioritised risk and control reviews for each BU/SU	Nov-19	
		12e.4 Embed	Evidence of uplift in risk and control environment provided by each BU and Group standards fully operationalised	Jun-20	
12f	Root causes	12f.1 Design	Define root cause analysis as part of the Issues Management standard	Dec-18	
		12f.2 Implement	Implement root cause analysis as part of Issues Management standard	Dec-19	
		12f.3 Embed	Root cause analysis completed for all Issues prescribed in the Issues Management standard	Mar-20	
16	Issue management	16.1 Design	Design the Issues management standard	Dec-18	
		16.2 Implement	Roll out updated Issues Management standard to each BU/SU	Dec-19	
		16.3 Embed	BU/SUs manage all issues in line with Issues Management standard	Mar-20	

8. Customer Outcomes Theme Milestones

The Customer Outcomes Theme deals with *Inquiry Report* Recommendations on conduct risk, customer complaints reporting, identifying systemic issues, and championing the 'should we' question.

The *Inquiry Report* found that CBA had, in the past, applied a narrow definition of conduct risk which focused primarily on risk arising through the design and distribution of CBA's products. The Report also found that CBA had difficulty identifying broad, systemic issues in its businesses, including linking sources of risk data across the institution and analysis of customer complaints. The CBA Board did not receive any metrics or analysis on customer complaints and reporting to the Executive Committee did not emphasise severe customer complaints. The Report found that there were examples of decisions being made in which financial objectives were implicitly prioritised over the 'customer voice'.

The *Inquiry Report* recommended that CBA review its conduct risk profile in BUs, incorporate the findings into its Conduct Risk Strategy and ensure that conduct risk is fully considered in decision-making processes. The Report also recommended that CBA report on customer complaints to the Board and Executive Committee, and prioritise investment in the identification of systemic issues from customer complaints. The Report recommended that leadership champion the 'should we' question.

CBA's response through the RAP is to put in place changes that will make dealing with CBA simpler and fairer for customers, particularly when things have gone wrong.

In particular, the RAP envisages changes being made to improve the way customer complaints are reported, and identifying systemic issues and fixing them. It also envisages embedding the 'should we' question as part of key decision-making processes and actions so there is a clearer focus on ensuring good customer outcomes across the organisation.

8.1. Status of Customer Outcomes Theme Milestones

Milestones for the Customer Outcomes Theme Recommendations are on-track for completion by the due dates set out in the RAP.

During the Reporting Period, Milestones associated with Recommendation 15 were moved by the Program from the Culture, Capability and Consequences Theme to the Customer Outcomes Theme.

The Program made amendments to the RAP in relation to Recommendation 15. Milestone 15.2 was divided into 15.2a, which now focuses on the Code of Conduct, and 15.2b, which now focuses on the conduct components of the Group Risk Management Approach (**RMA**) and the Group RAS. This change was shared with APRA and Promontory.

Progress in the Customer Outcomes Theme is set out in Table 8.1, and is discussed in more detail below.

During the Reporting Period:

- The Program submitted a Closure Pack for one Customer Outcomes Theme Milestone (Milestone 15.2a) to Promontory. This Closure Pack was submitted before the due date set out in the RAP.

- Promontory completed its assessment of two Customer Outcomes Theme Milestones (Milestones 15.1 and 15.2a), including one Milestone for which the Closure Pack was submitted before the Reporting Period (Milestones 15.1).

- The Program was working on four other Design and four other Implement Milestones for this Theme. Work had yet to start on one Implement Milestone. As the Embed Phase had not yet started, work had not begun on any of the four Embed Milestones for this Theme.

At the Reporting Date, Promontory was not assessing any Customer Outcomes Theme Milestones.

Table 8.1: Progress on Customer Outcomes Theme Milestones

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Status
15	Conduct risk strategy	15.1 Design	Develop and CEO communicate 'Values expectations'	Aug-18	●
		15.2a Design	Develop the Code of Conduct, and accompanying roll-out plan	Oct-18	●
		15.2b Design	Ensure the conduct components of Group RMA and RAS support improvement in conduct risk management	Dec-18	◔
		15.3 Implement	Roll out conduct strategy, including communication and training	Mar-19	◔
		15.4 Implement	Implement conduct risk strategy across the Group	Dec-19	◔
		15.5 Embed	Conduct risk strategy embedded across the Group	Dec-20	○
17	Customer complaints	17.1 Design	Design the complaints reporting standard and define supporting data and system requirements	Dec-18	◔
		17.2 Implement	Review complaints reports at ELT NFR, BRC and BU/SU Risk Committees	Jun-19	◔
		17.3 Embed	Regular complaints reporting to applicable forums that demonstrates BU/SUs are responding to complaints in a timely manner and addressing underlying issues	Sep-19	○

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Status
18	Systemic issues	18.1 Design	Develop the criteria and plan to enhance systemic issues identification and reporting	Dec-18	◔
		18.2 Implement	Review systemic issues reports at ELT NFR, BRC and BU/SU Risk Committees	Jun-19	◔
		18.3 Embed	Regular reporting to ELT NFR Committee and BRC on Systemic Issues	Sep-19	○
21	'Should we'	21.1 Design	Develop customer outcomes standards to apply cross the product lifecycle and extend product governance forums	Jun-19	◔
		21.2 Implement	Implement customer standards, governance forums and actions plans across major products in each BU/SU	Dec-19	○
		21.3 Embed	Apply customer outcomes standards proactively in governance forums	Jun-20	○

8.2. Customer Outcomes Milestone Theme Assessment Outcomes

8.2.1. Assessment of Recommendation 15 Milestones

The Target State for Recommendation 15 is to have consideration of conduct embedded across CBA in key decision-making processes, risk profile reviews and employee lifecycle management, with links in place between the Group RMA, the Code of Conduct and the Group RAS.

a) Milestone 15.1

Milestone 15.1 (a Design Milestone) requires 'Values Expectations' to be developed and communicated to CBA staff by the CEO. The Values Expectations should include a high-level expectation that all staff ask 'should we', and not just 'can we'.

CBA has developed updated Values Expectations which the CEO has communicated through multiple channels to all staff. Sessions with senior leadership have been held to discuss the new Values Expectations. Strategies for communicating and embedding the Values Expectations across the organisation have been developed.

After reviewing the Closure Pack for this Milestone, Promontory requested and received further information and interviewed relevant stakeholders about:

- Whether CBA had considered better practice when developing the Values Expectations;

- The emphasis given to the 'should we' question;

- The involvement of the Board and the ELT in developing, reviewing and approving the Values Expectations; and

- Plans to monitor conversations on Values Expectations led by senior leaders.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that CBA has developed and communicated appropriate Values Expectations.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

b)   Milestone 15.2a

Milestone 15.2a (a Design Milestone) requires that a detailed Code of Conduct (including certain prescribed elements), accompanied by a roll-out plan, be developed and approved by the ELT and Board.

CBA has developed a new Code of Conduct. The Code includes a description of its purpose and how it is to be used, CBA's Value Expectations, a principles-based description of the 'should we' test, key group policies, and expected outcomes and additional expectations for leaders. A communication and implementation plan to roll-out the Code has also been developed.

After reviewing the Closure Pack for this Milestone, Promontory requested and received further information and interviewed relevant stakeholders about implementation of the Code. We also requested information on the Code of Conduct in place in one CBA business which is being prepared for sale.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that the revised Code of Conduct has been appropriately developed. We also concluded that the roll-out plan provides a suitable starting point to ensure that the Code is well communicated and understood by staff.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

In finalising our assessment, we foreshadowed our assessments of the Implement and Embed Milestones for Recommendation 15 will test the effectiveness with which the 'should we' and related questions are being communicated and reinforced. We will also assess whether and how the values and conduct expectations in the Code have been communicated to CBA businesses with their own Codes.

9. Culture, Capability and Consequences Theme Milestones

The Culture, Capability and Consequences Theme deals with *Inquiry Report* Recommendations on culture, the resourcing and capability of the non-financial risk function, accountability and remuneration.

The *Inquiry Report* identified a set of cultural themes that had inhibited sound risk management in CBA, including widespread complacency, reactivity rather than pre-emption regarding risk, not fully 'walking the talk' when it came to risk management, and over-reliance on good intent.

The *Inquiry Report* found inadequate resourcing and a lack of capability in CBA's operational and, particularly, compliance risk management functions. It also found that a lack of accountability had been a common theme underlying several of the issues observed in the Inquiry. Further, the Report observed significant weaknesses in the implementation and broader oversight of the remuneration process in CBA, particularly in adjusting remuneration as a result of poor risk and customer outcomes.

On **culture**, the *Inquiry Report* recommended CBA take a holistic approach to ensuring a robust and healthy risk culture. It made four recommendations focused primarily on the role of leaders in driving cultural change.

On **capability**, the *Inquiry Report* recommended that CBA build up the capabilities and subject matter expertise of operational and compliance risk staff.

On **accountability**, the *Inquiry Report* recommended building on the foundation established by the Banking Accountable Executive Regime (**BEAR**) by incorporating a set of Accountability Principles set out in the Report. The Principles are intended to place the onus for individual and collective accountability on the CEO and Group Executives.

On **remuneration**, the *Inquiry Report* recommended CBA introduce changes to its remuneration framework and to the governance and effective application of that framework.

CBA's response through the RAP is to create a culture that recognises the importance of sound operational and compliance risk management, to build the capability of employees to manage these risks, and to deliver consequences for employees whose actions lead to poor outcomes for customers.

In particular, the RAP envisages extensive measures to uplift CBA's risk culture driven by its leaders, measures to uplift the resourcing and capability of its non-financial risk management functions, incorporating and cascading the Accountability Principles through the organisation, and changing the content, governance and application of its remuneration framework.

9.1. Status of Culture, Capability and Consequences Theme Milestones

Milestones for the Culture, Capability and Consequences Theme Recommendations are on-track for completion by the due dates set out in the RAP.

During the Reporting Period, Milestones associated with Recommendation 15 were moved by the Program from the Culture, Capability and Consequences Theme to the Customer Outcomes Theme.

Progress in the Culture, Capability and Consequences Theme is set out in Table 9.1, and is discussed in more detail below.

During the Reporting Period:

- The Program submitted Closure Packs for three Culture, Capability and Consequences Theme Milestones (Milestones 25c.1, 25c.2 and 26.1) to Promontory. Closure Packs were in all cases submitted before the due dates set out in the RAP.

- Promontory completed its assessment of three Culture, Capability and Consequences Theme Milestones (Milestones 24a.2, 25c.1 and 26.1), including one Milestone for which the Closure Pack was submitted before the Reporting Period (Milestone 24a.2).

- The Program was working on 11 other Design Milestones for this Theme. Work had yet to start on one Design Milestone and 12 Implement Milestones. As the Embed Phase had not yet started, work had not begun on any of the 14 Embed Milestones for this Theme.

At the Reporting Date, Promontory had not started its review of one Culture, Capability and Consequences Theme Milestone (Milestone 25c.2).

Table 9.1: Progress on Culture, Capability and Consequences Theme Milestones

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
13	Resourcing	13.1 Design	Design the risk capability uplift plan	Mar-19	◕
		13.2 Implement	Implement training, recruitment and retention capability uplift	Mar-20	○
		13.3 Embed	Refresh of risk capability plans presented to ELT NFR Committee and targeted plans for the year developed	Feb-21	○
22	Accountability Principles	22.1 Design	Design plans to incorporate and communicate APRA's Accountability Principles into existing accountability frameworks and processes	Dec-18	◕
		22.2 Implement	Implement Accountability Principles via BEAR requirements, existing accountability frameworks and staff communication	Aug-19	○
		22.3 Embed	Accountability consequences are reflected in key individuals' performance reviews and the remunerations and consequences outcomes for FY20	Aug-20	○

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
23	Board governance of remuneration	23.1 Design	Develop plans for enhanced Board governance and processes for remuneration	Mar-19	◗
		23.2 Implement	Implement enhanced governance processes including increased reporting and review	Aug-19	○
		23.3 Embed	Board RemCo exercises stronger governance on CEO and Group Executive remuneration outcomes	Oct-20	○
24a	CRO assessment	24a.1 Design	Enhance the CRO assessment of CEO and Group Executive risk scorecards	Jun-18	●
		24a.2 Implement	Finalise enhanced CRO assessment of CEO and Group Executive performance	Aug-18	●
		24a.3 Embed	The Board uses further enhanced CRO assessment in determining appropriate CEO and Group Executive remuneration outcomes	Aug-19	○
25a	Board guidance on risk adjustments	25a.1 Design	Strengthen guidance to management on the Board's expectations for risk adjustments to remuneration outcomes	Mar-19	◗
		25a.2 Implement	Incorporate strengthened Board guidance into FY19 remuneration reviews	Aug-19	○
		25a.3 Embed	FY19 remunerations outcomes across all staff reflect Board guidance	Oct-19	○
24b	Analytics and reporting	24b.1 Design	Develop plan for enhanced analytics and reporting on remuneration outcomes to be provided to the RemCo	Jul-19	◗
		24b.2 Implement	Improve analytics and reporting provided to Board	Oct-19	○
		24b.3 Embed	Management provides analytics and reporting in line with Target State requirements	Feb-21	○

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
24c	Board Risk Committee support	24c.1 Design	Develop co-ordinated approach for Board Committees to ensure that risk outcomes are reflected in CEO and Group Executive remuneration	Mar-19	◔
		24c.2 Implement	Increase co-ordination between BRC, BAC and RemCo and provide RemCo with additional information	Oct-19	○
		24c.3 Embed	Annual remuneration review and allocation of STVR payments un the new STVR model	Dec-20	○
25b	Risk function support on risk adjustments	25b.1 Design	Design an enhanced approach for risk assessment that appropriately penalises or rewards risk and compliance and outcomes	Mar-19	◔
		25b.2 Implement	New process in place to strengthen the role of the risk function in FY19 remuneration reviews	Aug-19	○
		25b.3 Embed	FY19 remuneration outcomes across all staff analysed and reflect robust applications of the risk modifier	Oct-19	○
25c	Communication of outcomes	25c.1 Design	Develop a communications mechanism and strategy to communicate the impact of both good and poor risk outcomes to CBA staff	Oct-18	●
		25c.2 Implement	Communicate good and poor FY18 risk outcomes with the organisation	Nov-18	◑
		25c.3 Embed	FY19 remunerations risk outcomes exhibit appropriate aggregations and anonymization and communications approach revised	Nov-19	○
26	Remuneration framework review	26.1 Implement	Implement upside remuneration facility for positive risk assessment	Oct-18	●
		26.2 Design	Review the Group Remuneration Policy, informed by better global practices	Jun-19	○
		26.3 Implement	Reflect enhancements in FY19 remuneration outcomes	Jun-20	○

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
		26.4 Embed	FY20 Remuneration outcomes reviewed by RemCo and shown through analysis to be consistent with the fully updated remuneration frameworks and policies	Oct-20	○
27	Culture of self-reflection	27.1 Design	Develop plans to uplift risk culture mindsets and behaviours with targeted initiatives on self-reflection	Mar-19	◔
		27.2 Implement	Implement targeted interventions on senior leader capability, leadership diagnostics and performance assessment	Mar-20	○
		27.3 Embed	Conduct annual risk culture reassessment and refresh of the targeted initiatives to reinforce senior leadership challenge	Feb-21	○
28	Personal and authentic leadership	28.1 Design	Develop plans to uplift risk culture mindsets and behaviours, with targeted initiatives on role-modelling by senior leaders	Mar-19	◔
		28.2 Implement	Implement targeted interventions and annual re-assessment of leader led training and senior leader communications	Mar-20	○
		28.3 Embed	Conduct annual risk culture reassessment and refresh of the targeted initiatives to cascade good risk management	Feb-21	○
29	BU/SU relationships	29.1 Design	Develop plans to uplift risk culture mindsets and behaviours, with targeted initiatives on the relationship between business and risk functions	Mar-19	◔
		29.2 Implement	Implement targeted interventions including Lines 1 and 2 engagement forums and career pathways	Mar-20	○
		29.3 Embed	Conduct annual risk culture reassessment and refresh of the targeted initiatives to ensure effective working relationship between BUs and Risk	Feb-21	○
30	Vision and Values	30.1 Design	Develop plans to uplift risk culture mindsets and behaviours, with targeted initiatives on conduct and values	Mar-19	◔

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
		30.2 Implement	Implement targeted interventions including communications, recognition, values performance assessment and HR processes	Mar-20	◯
		30.3 Embed	Conduct annual risk culture reassessment and refresh the targeted initiatives to shift staff mindsets and behaviours	Feb-21	◯

9.2.   Culture, Capability and Consequences Theme Milestone Assessment Outcomes

9.2.1. Assessment of Recommendation 24a Milestone

The Target State for Recommendation 24a is to support the effective oversight of the remuneration framework with a comprehensive CRO risk assessment of Executives' risk behaviour and outcomes.

a)   Milestone 24a.2

Milestone 24a.2 (an Implement Milestone) requires that the RemCo use the CRO's assessment of the CEO and Group Executives' risk performance in determining remuneration outcomes for FY18.

Our First Report noted that the Group CRO had prepared a formal assessment of risk management in each area of CEO and Group Executive responsibility as required by Milestone 24a.1 (assessed by us in August as complete and effective). The CRO assessment included quantitative data, observations about risk management and specific recommendations for RemCo members to consider in determining CEO and Group Executive remuneration.

Based on our assessment of the Milestone Closure Pack, we concluded that the CRO assessment had been finalised and used by RemCo in determining remuneration outcomes for FY18.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

9.2.2. Assessment of Recommendation 25c Milestone

The Target State for Recommendation 25c is to support the effective application of the remuneration framework by creating appropriate internal and external transparency and communications about the remuneration impact of positive and negative risk outcomes.

a)   Milestone 25c.1

Milestone 25c.1 (a Design Milestone) requires that CBA develop a strategy to communicate the remuneration impact of both good and poor risk outcomes to CBA staff and external stakeholders, ensuring compliance with privacy regulations.

The Program has developed a communication strategy that outlines the approach to, and objectives of, communicating the impact of risk outcomes on remuneration. The strategy identifies the different types of internal and external stakeholder groups to which the communications will be tailored, and considers measures to ensure communications comply with relevant privacy regulations.

After reviewing the Closure Pack for this Milestone, Promontory sought and received confirmation that the BRC had approved the communication strategy.

Based on our assessment of the Closure Pack and the additional information we received, we concluded that the Program has developed an appropriate strategy for communicating the impact of positive and poor risk behaviours on remuneration.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

In finalising our assessment, we foreshadowed that our assessments of the Implement and Embed Milestones for Recommendation 25c will consider whether there is an appropriate balance between examples of good and poor risk outcomes in communications to CBA staff, and sufficient transparency about the link between those outcomes and remuneration.

9.2.3. Assessment of Recommendation 26 Milestone

The Target State for Recommendation 26 is a better alignment of remuneration practices and prudent risk-taking consistent with global better practice, and those practices being operationalised with more effective governance and implementation.

a)   Milestone 26.1

Milestone 26.1 (an Implement Milestone) requires that CBA introduce positive remuneration adjustments to FY18 remuneration for good risk outcomes, and adjust Group Executive performance scorecards for FY19 to promote collective accountability.

CBA revised employee risk assessments in the FY18 performance review to allow managers to recognise 'Positive' and 'Outstanding' risk management behaviours exhibited by their team members. The RemCo has also reviewed and approved Group Executive scorecards for FY19 which introduce mechanisms to adjust executive remuneration for progress on and contributions to shared priorities.

After reviewing the Closure Pack for this Milestone, Promontory sought and received confirmation that the Group Executive scorecards for FY19 had been reviewed and approved by the Board. This approval was confirmed.

Based on our assessment of the Closure Pack and the additional information we received, we concluded that CBA has introduced positive risk outcomes as a factor in FY18 remuneration and has developed an appropriate method of recognising positive risk outcomes and promoting collective accountability through the FY19 Group Executive scorecards.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and it is, therefore, complete and effective.

This Milestone was assessed before the overall review of CBA's remuneration framework required by Design Milestone 26.2. In finalising our assessment, we, therefore, foreshadowed that we plan to perform another assessment of Executive scorecards for FY20 against the revised framework, including consideration of whether the Financial Stability Board's supplementary guidance on sound compensation practices has been appropriately adopted.

10. Program Execution Theme Milestones

The Project Execution Theme deals with *Inquiry Report* Recommendations on aspects of managing the Program to deliver against *Inquiry Report* Recommendations, strengthening the role of Line 2 in Risk in Change processes, and improving prioritisation of investment in risk and regulatory projects.

The *Inquiry Report* noted that CBA's track record in delivering major risk initiatives had been a chequered one. It noted that remediation programs that fail typically do so not for want of design, but for want of execution.

The *Inquiry Report* also found that adequate measures had not been in place to ensure sufficient Line 2 oversight of Risk in Change assessments. It also found that CBA had generally only addressed risk, compliance and resilience issues on a reactive basis once they had become 'high-rated' issues.

On program execution, the *Inquiry Report* recommended CBA senior leadership be identified, held accountable and remunerated for the success of major risk initiatives. It recommended that organisational capacity be created to deliver the Program, and that rigorous project disciplines for delivering risk initiatives be developed. It also recommended that CBA strengthen the Risk in Change process to ensure effective oversight from Line 2, and take a more pre-emptive approach to investments in risk management, compliance, and resilience areas.

CBA's response through the RAP is to strengthen implementation of change programs by implementing and maintaining delivery standards, sharing insights and focusing on building the capability of people charged with delivering programs.

In particular, the RAP envisages enhanced project management disciplines, strengthened Line 2 involvement in Risk in Change activities and improved processes for prioritisation of risk management program investments.

10.1. Status of Program Execution Theme Milestones

Milestones for the Program Execution Theme Recommendations are on-track for completion by the due dates set out in the RAP.

During the Reporting Period, Milestones associated with Recommendations 11 and 20 were moved by the Program from the Risk Appetite, Taxonomy and Standards Theme and the Management Governance Theme, respectively, to the Program Execution Theme.

Progress in the Program Execution Theme is set out in Table 10.1, and is discussed in more detail below.

During the Reporting Period:

- The Program submitted Closure Packs for three Program Execution Theme Milestones (Milestones 31.1, 33.1 and 33.2) to Promontory. Closure Packs were in all cases submitted before the due dates set out in the RAP.

- Promontory completed its assessment of one Program Execution Theme Milestone (Milestone 31.1).

- The Program was working on four other Design and four other Implement Milestones for this Theme. Work had yet to start on two Design Milestones and three Implement Milestones. As the Embed Phase had not yet started, work had not begun on any of the seven Embed Milestones for this Theme.

Promontory was assessing one Program Execution Theme Milestone at the Reporting Date (Milestone 33.1). We received the Closure Pack for this Milestone in September and we are yet to finalise our assessment. Discussions continue with the Program.

At the Reporting Date, Promontory had not started its review of one Program Execution Theme Milestone (Milestone 33.2).

Table 10.1: Progress on Program Execution Theme Milestones

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
11	Risk in change	11.1 Design	Revise Risk in Change practices to strengthen the role of Line 2 Risk Management	Mar-19	◕
		11.2 Design	Develop BU/SUs plans to implement the revised Risk in Change methodology, and update the Line 2 assurance program	Jun-19	○
		11.3 Implement	BU/SUs implement Risk in Change methodology	Dec-19	○
		11.4 Embed	BU/SUs have demonstrated effectiveness of Risk in Change in core processes as evaluated by Line 2	Jul-20	○
20	Investment prioritisation	20.1 Design	Revise the investment prioritisation process in relation to risk and regulatory projects	Dec-18	◕
		20.2 Implement	Develop quarterly ELT dashboard on investment allocation	Mar-19	◕
		20.3 Embed	Investment Prioritisation Process (**IPP**) cycle completed having incorporated new process and with new reporting on emerging risk and pre-emptive risk investment	Dec-19	○
31	Skin in the game	31.1 Design	Define changes to the CBA GDF to require CBA Delivery Leads to have appropriate skills and experience, and with KPIs/objectives tied to successful program delivery	Sep-18	●
		31.2 Implement	Identify Programs that require Senior Leaders to perform a lead role and update KPIs	Dec-18	◔

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
		31.3 Embed	Performance Reviews of Delivery Leads reflect delivery KPI allocations	Nov-20	○
32	Consequences	32.1 Design	Define changes to the GDF in relation to remuneration outcomes reflecting delivery requirements and accountabilities	Mar-19	◔
		32.2 Implement	Update KPIs for relevant staff to reflect delivery requirements and standards	Sep-19	◔
		32.3 Embed	Performance reviews of BEAR Accountable Executives reflect KPI allocations	Sep-20	○
33	Organisation capacity	33.1 Design	Define resourcing and technology needs to support delivery of the 35 APRA Recommendations	Sep-18	◕
		33.2 Design	Design 'capacity' prioritisation processes and guidelines to assist with program decisioning	Nov-18	◐
		33.3 Implement	Stop or defer existing Programs as directed by ELT and reallocate funding to delivery of Recommendations	Dec-18	◔
		33.4 Embed	Regularly consider in line with the IPP process the need to stop Programs in flight	Jun-20	○
34	Project disciplines and review	34.1 Design	Enhance the GDF to ensure it is fit for purpose for all Programs in the Group	Dec-18	◔
		34.2 Implement	Enhance CBA GDF including formalising Stage Gate review, Health Checks, required skillsets and risk in change process	Jul-20	○
		34.3 Embed	Regularly consolidate a Program status view of all IPP endorsed Programs	Nov-20	○
35	Embedding project framework	35.1 Design	Consolidate the design outputs of the RAP into a clear set of standards for Group to follow	Jul-19	○
		35.2 Implement	BU/SUs implement design standards in Recommendations 1 to 34	Nov-19	○

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
		35.3 Embed	The appropriate areas have demonstrated effective deployment of the design standards	Mar-21	◯

10.2. Program Execution Theme Milestone Assessment Outcomes

10.2.1. Assessment of Recommendation 31 Milestone

The Target State for Recommendation 31 is to have all large projects led by senior CBA staff who have appropriate skills and experience and are appropriately incentivised to deliver projects successfully.

a) Milestone 31.1

Milestone 31.1 (a Design Milestone) requires the GDF to be amended to require that internal senior staff with the appropriate skills and experience lead all IPP programs and to align their incentives with successful project delivery.

CBA has modified the GDF to:

- require that Program Leads for IPP endorsed Programs be senior staff members with the appropriate skills and experience;

- require that KPIs for Program Leads be significantly weighted toward delivery requirements for the project(s); and

- preclude external parties from leadership roles in IPP projects other than in exceptional circumstances.

After reviewing the Closure Pack for this Milestone, Promontory requested and received further information and interviewed relevant stakeholders about skills and experience requirements, the use of contractors, the role of Executives in allocating senior staff to projects, the form of the GDF, and the rationale for changes to Program Leads' KPIs.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that the Program has designed processes to allocate internal senior staff to lead IPP projects and appropriate incentive structures that align with successful project delivery.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

In finalising our assessment, we foreshadowed that our assessments of the Implement and Embed Milestones for this Recommendation will test the effectiveness of measures designed to ensure external parties do not lead IPP projects for prolonged periods. Should external parties be used in other than exceptional circumstances, we will review whether further changes to the GDF in this regard are required.