FINANCIAL SYSTEM INQUIRY FINAL REPORT

COMMONWEALTH BANK SUBMISSION

March 2015

CommonwealthBank

Contents

1. Executive Summary

The Commonwealth Bank of Australia Group ('Commonwealth Bank') welcomes the Financial System Inquiry (FSI) Final Report ('the Final Report') and commends the Australian Government on the first comprehensive review of the financial system since the Wallis Inquiry was completed in 1997. The FSI Panel ('the Panel') has completed a substantial piece of analysis that delivers many valuable recommendations, which when appropriately translated into policy will be crucial to enabling growth in the Australian economy over coming decades.

The Panel's engagement with industry has been thorough and considered, as reflected in the Final Report's strong basis in evidence. A majority of the recommendations in the Final Report align with suggestions Commonwealth Bank advanced in its two submissions to the FSI, particularly in relation to innovation; managing outcomes from the superannuation system; improving consumer outcomes and reducing regulatory burden.

Productivity gains will be the primary driver of sustainable improvement in Australian living standards through economic and market cycles. It is crucial that policy settings be appropriately balanced to incentivise growth while protecting consumers and system stability. The Government's deregulation program has made considerable progress towards improving the regulatory balance, helping to support Australians in their efforts to create wealth. This momentum must be maintained if Australia is to remain a country of meaningful economic opportunity through the first half of the 21st century.

Where Government considers additional policy and regulatory intervention in response to the recommendations of the Panel, Commonwealth Bank strongly endorses the finding of the Panel that:

> *Intervention should seek to balance efficiency, resilience and fairness in a way that builds participants' confidence and trust. Intervention should only occur where its benefits to the economy as a whole outweigh the costs, and should always seek to be proportionate and cost sensitive.*[1]

This reflects a long-standing principle of public policy as effectively applied to the financial sector by successive Australian governments, evidenced by the sector's sustained strength and resilience to macro-economic downturns and risks emanating from overseas markets.

Australia has an enviable record in having built and maintained a principles-based and active supervisory approach to prudential regulation. This approach is an important source of competitive advantage and must be maintained in a way that reflects the specific characteristics of Australia's strong financial institutions, as well as developments in global markets. In this context Commonwealth Bank strongly supports the recommendation in the Final Report to develop a template for reporting capital ratios of Australian authorised deposit-taking institutions that relates transparently to the Basel framework.

If the benefits of Government's efforts to free up economic activity and remove unnecessary regulation are to be realised, the financial industry must also show leadership. Key areas of focus include collaborating with Government to advance the digitisation of financial services and building on efforts to improve Australians' levels of financial literacy.

---

[1] Australian Government—Financial System Inquiry (2014) *Financial System Inquiry Final Report*, November, p.xv (*Final Report*)

As is necessary in an inquiry with such wide-ranging scope and a limited period for review, the Panel concentrated its analysis on those issues it deemed most pressing. Nonetheless, Commonwealth Bank believes scope remains for additional positive policy reforms in the financial system, including in relation to the funding of start-up businesses, formalising principles-based regulatory frameworks for cloud computing, and closer integration with the financial systems of regional economies.[2]

This submission focusses on those recommendations Commonwealth Bank sees as central to the long-term wellbeing of Australians, consistent with Commonwealth Bank's vision to excel at securing and enhancing the financial wellbeing of people, businesses and communities.

The Government considers its response to the Final Report at a critical time for the Australian economy, as the 'baby-boomer' generation begins to enter retirement, the economy undergoes a structural transition following a period of consistently high terms of trade, and technology fundamentally reshapes service models globally.

Against this backdrop, sustained growth will depend on a series of key enablers which include investment in infrastructure, a skilled workforce, deeper economic and political engagement with the world and a strong and stable financial system. It is vital that policy and regulation reform continue to promote sustainable growth for the benefit of all Australians. Commonwealth Bank looks forward to working further with Government to advance this important endeavour.

[2] Commonwealth Bank (2014) Financial System Inquiry Submission, March 2014, p.29

2. Balancing Risk and Growth

Australia has a well-established tradition of reforming regulatory frameworks to facilitate growth and mitigate risk. Examples of key reform initiatives include the adoption of the Commonwealth Government Regulatory Impact Assessment process; tariff reform; the Hilmer Inquiry into competition; the National Competition Policy and the establishment of the Productivity Commission as an independent authority.

These reforms have prioritised market solutions and least-cost regulatory approaches that directly address specific market failures. In noting Australia's sustained success in implementing regulatory reform, the Organisation of Economic Cooperation and Development (OECD) has found that effective regulatory frameworks are required to underpin the country's economic resilience, allowing the economy to respond to external economic shocks.[3]

The Government's *Regulator Performance Framework* and the *Australian Government Guide to Regulation* (and associated reform initiatives) have renewed the focus on regulatory reform across government. Equally, the Government's successful completion of free trade agreements with Japan, China and South Korea will reduce regulatory impediments to flows of trade and investment across the region.

Many of the recommendations in the Final Report reflect the Government's commitment to re-balancing the regulatory burden. Notably, **Recommendation 31** calls for industry to be given more time to implement complex regulatory change and for Government to conduct more frequent post-implementation reviews for major regulatory change. Commonwealth Bank strongly endorses this recommendation, noting that nearly one quarter of the $1.2 billion it invested in FY2014 was directed towards risk and compliance.[4]

Commonwealth Bank believes there is scope to reduce this expenditure and improve consumer outcomes through more proactive, industry-led initiatives. Examples include giving customers better visibility over the likely trajectory of their superannuation savings, simplifying disclosure around insurance products and reducing the scope for fraud through improved data analytics.

In relation to the superannuation system, the Final Report notes that recently introduced regulation under the Stronger Super and Future of Financial Advice (FOFA) reforms must be given time to have its effect before additional regulatory intervention is considered, a recommendation Commonwealth Bank endorses. Costs could also be cut by reducing regulatory overlap between the Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulatory Authority (APRA) in relation to superannuation.

The importance of maintaining a balance between risk and growth is relevant not just to the Panel's recommendations on the regulatory system, but to all the recommendations in the Final Report.

Commonwealth Bank believes there is considerable risk in adopting obligations on regulatory capital that markedly exceed Australia's commitments under international standards, or which seek to pre-empt current international developments through the Basel process. Risks include unnecessarily constraining banks' ability to source funds

[3] Organisation of Cooperation and Development (2010) *Government capacity to assure high quality regulation in Australia*, OECD, Paris, p.7

[4] Commonwealth Bank (2014) *Annual Report 2014*, Sydney, p.7

competitively offshore and their capacity to extend credit, both of which are central to supporting Australia's economic growth. In addition, Australians will incur the cost of multiple regulatory changes relative to jurisdictions that remain aligned with the international process for setting standards.

As noted by the Secretary-General of the OECD, Angel Gurría, in response to the financial crisis:

> *[Second best outcomes] will also arise if countries go through with their own reforms - influenced by regulatory capture or popular pressure in their own country - without moving in a coordinated way between jurisdictions in a truly global approach. The experience of the past few years suggests we cannot again afford to drift towards a second-best regulatory system for financial markets.*[5]

Commonwealth Bank urges the Australian Government to carefully consider the implications of international regulatory developments in maintaining Australia's own supervisory framework.

In summary, Commonwealth Bank believes Government must maintain an efficient and minimal cost regulatory system in order to support confidence, giving individuals and businesses optimism to invest and embrace economic opportunity.

---

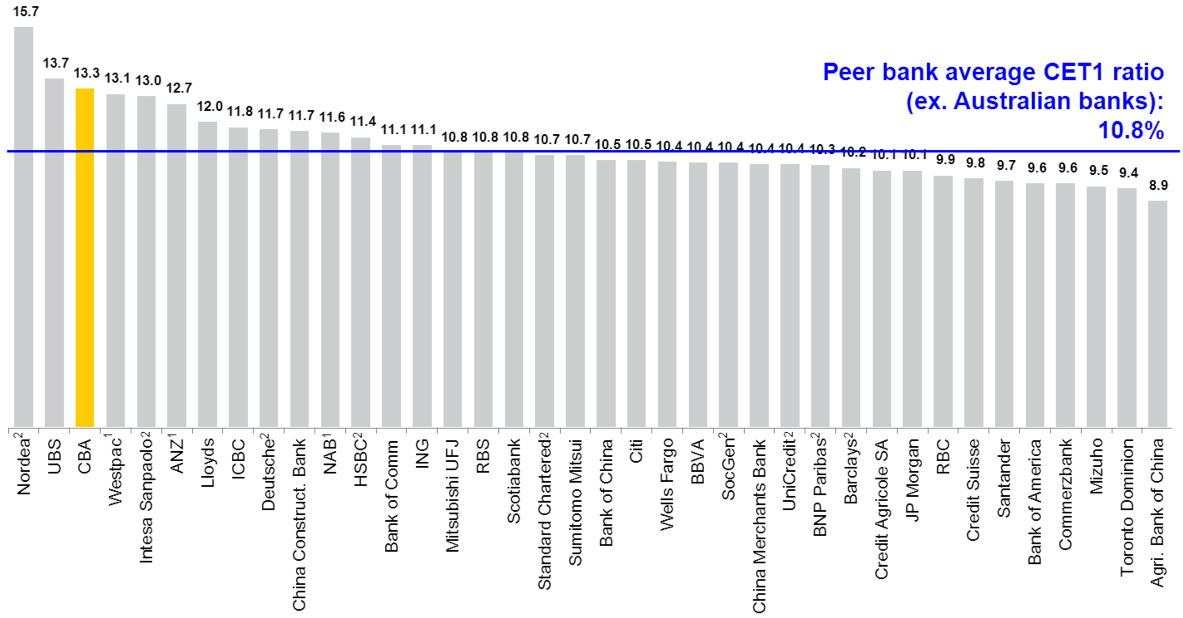
[5] Gurría, Angel (2010) "Regulatory Reform in the Financial System", speech presented by the Secretary-General of the OCED at the Effective Financial Market Regulation after Pittsburgh—Achievements and Challenges, International Conference, Federal Ministry of Finance, Berlin, 20 May, p.4

3. Strength and Resilience

Commonwealth Bank supports the Final Report's finding that "a robust stability framework provides a stable foundation for the financial system".[6] Commonwealth Bank's submissions to the FSI's terms of reference and interim report confirmed that Commonwealth Bank is committed to ensuring that the Australian banks are strong and stable, and are perceived to be strong and stable, so they can continue to fund the growth of the Australian economy.

In particular, Commonwealth Bank supports initiatives flowing from the Final Report that enable the true strength of Australian banks' capital ratios to be recognised. Using a methodology calculated by PricewaterhouseCoopers in a recent global study conducted for the Australian Bankers' Association (ABA), Commonwealth Bank recently reported an internationally comparable Common Equity Tier 1 (CET1) ratio of 13.3 per cent as at 31 December 2014. While views between APRA and industry differ as to how to disclose the position of Australian banks relative to international banks, Commonwealth Bank's view remains that its capital levels are unquestionably strong when compared internationally.

Figure 1 Internationally comparable capital ratios of Commonwealth Bank and international peers



Source: Morgan Stanley. Based on last reported CET1 ratios up to 5 February 2015 assuming Basel III capital reforms fully implemented. Peer group comprises listed commercial banks with total assets in excess of A$800 billion and which have disclosed fully implemented Basel III ratios or provided sufficient disclosure for a Morgan Stanley estimate.

Notes:

1. Domestic peer figures as at 30 September 2014.
2. Includes deduction for accrued expected future dividends.

Since the publication of the Final Report, the Basel Committee on Banking Supervision (BCBS) has released further reform proposals which are complex and build upon each other. An example is the potential introduction of a standardised capital floor for banks which use internal ratings-based (IRB) models. Calibration of the capital floor will only be possible once potential changes to the methodology for measuring operational risk, market risk and credit risk are settled. The BCBS does not expect these changes to be settled until December 2015 and then APRA will require time to amend its standards accordingly.

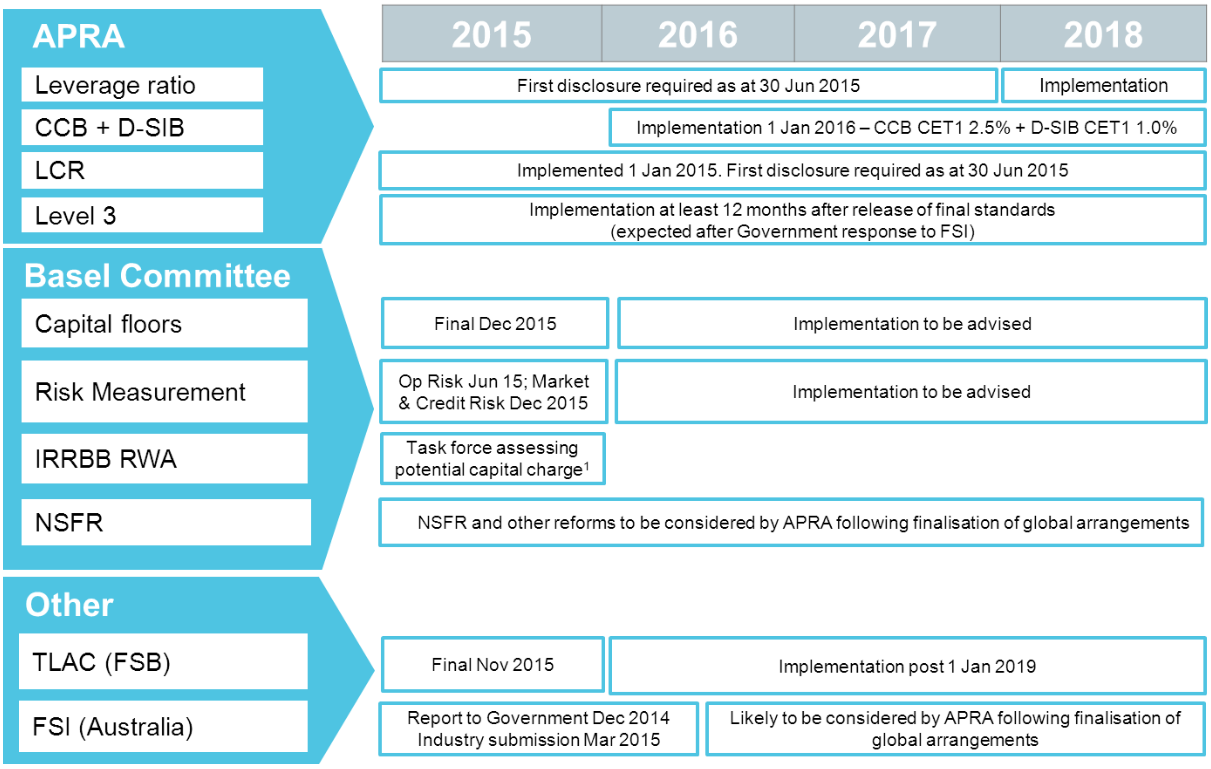
---

6 Australian Government—Financial System Inquiry (2014) *Financial System Inquiry Final Report*, November, page 35

A number of BCBS reforms coincide with some of the recommendations of the Final Report. It is important for the credibility of both the Australian financial system, as well as the position of the Australian banks when competing for capital and funding in global markets, that Australia's regulatory framework be aligned with the BCBS Framework. At the same time, there is a cost associated with the implementation of reforms and Australia should not accelerate implementation to the extent that the cost affects the ability of local banks to fund the economy efficiently.

Duplication of implementation costs should also be avoided. There is a risk of conflict between the recommendations of the Final Report and the BCBS reforms, leading to potential duplication of costs as Australian banks first implement the Final Report recommendations and then implement different BCBS requirements.

Figure 2 Timeline of key APRA, BCBS and FSB reform proposals



Abbreviations:

Capital Conservation Buffer (CCB)
Domestic Systemically Important Banks (D-SIB)
Common Equity Tier 1 (CET1)
Liquidity Coverage Ratio (LCR)
Risk Weighted Assets (RWA)
Interest Rate Risk in the Banking Book (IRRBB)
Net Stable Funding Ratio (NSFR)
Total Loss Absorbing Capacity (TLAC)
Financial Stability Board (FSB)

Source: Commonwealth Bank of Australia.

Note:

1. IRRBB will be implemented for the first time in other jurisdictions. APRA already requires Australian banks to hold capital for IRRBB and the review may make technical changes

Consequently, Commonwealth Bank urges the Government to:

- consider the recommendations of the Final Report in the light of the global reform agenda. The Government should confirm as a key principle that Australia's regulatory framework is to be aligned with the BCBS Framework, and ensure that accelerated implementation of global reforms in Australia is kept to a minimum; and
- encourage APRA to work with the Australian banks to determine the best way to implement the global reforms locally, as well as the recommendations of the Final Report. This includes determining the best sequencing of the implementation of multiple reforms.

Further comments are provided below and should be considered having regard to the above points.

Capital ratios

Commonwealth Bank supports the principle that Australian banks' capital ratios should be "unquestionably strong" and, importantly, be perceived to be "unquestionably strong" (**Recommendation 1**). This is critical to Australian banks' ability to compete for capital and funding in global markets and therefore to fund the economy efficiently. Commonwealth Bank believes that this objective needs to be balanced against the significant cost and resulting inefficiency from an over-capitalised banking system. Over-capitalisation, being an over-reliance on more expensive equity funding rather than debt funding, could result in upward pressure on lending rates. For businesses, this upward pressure will add strain to their cash flow and profitability, having flow-on effects for output, employment and the capacity of business to make productive investments. Equity is also a scarce resource and any increase in equity requirements will reduce the availability of credit.

Commonwealth Bank further believes that APRA and the Australian banks should work together to consider a number of implementation issues.

First, the definition of "unquestionably strong" should be clarified. It needs to be considered whether this should be a principle which influences the regulatory framework, rather than a benchmark. A benchmark will be difficult to implement because of frequent changes in the Australian banks' international peer group, the difficulty of obtaining timely data and the difficulty of setting an appropriate quartile benchmark. Rather, Commonwealth Bank believes that the discipline of reporting capital ratios to the market (known as Pillar 3 reporting) ensures that the banks remain competitively abreast of an appropriate peer group. Practical questions to consider include:

- Whether the Australian banks' international peer group is the domestically systemically important banks (D-SIBs) or the larger globally systemically important financial institutions (G-SIFIs)?
- Will the comparator set change from time to time?
- How will APRA obtain the detailed data for these international banks, which are not regulated by APRA and which have different balance dates from Australian banks?
- Who will be responsible for calculating the benchmark?
- Should it be the first or second quartile that reflects the concept of "unquestionably strong"?

Secondly, the concept of "unquestionably strong" cannot be addressed without identifying who will make the assessment of the banks' strength. In Commonwealth Bank's view, this is the Australian banks' equity and debt investors, and their concern is the ability to compare the Australian banks' capital ratios on a like-for-like basis with our international peers.

For this reason, Commonwealth Bank believes it is critical to implement the recommendation of the Final Report in relation to transparent reporting. Once the Australian banks' capital ratios can be calculated on a like-for-like basis, it will be easier to see what further reforms are needed to ensure capital ratios are "unquestionably strong".

Finally, the BCBS and the Financial Stability Board (FSB) are currently considering a number of potential reforms which would raise the capital of all banks, including the introduction of a standardised floor and the introduction of total loss absorbing capacity (TLAC). Sequencing of these reforms with the setting of a potential "unquestionably strong" benchmark needs to be carefully considered, as it will have a significant impact on the Australian banks' cost of capital.

Mortgage risk weights

The Final Report commented on domestic competition in the Australian banking system. Commonwealth Bank supports competition in the banking sector because it encourages innovation, reduces unnecessary cost and provides the best outcomes for consumers. Commonwealth Bank notes Glenn Stevens, Governor of the Reserve Bank of Australia, recently advised the House of Representatives Standing Committee on Economics that there was sufficient competition in the mortgage market.[7] Similarly, Wayne Byers, APRA's Chairman, agreed that there is significant competition:

> *There are 160 ADIs out there. It is a very competitive market. That is the whole point. We are paying particular attention to it because the competition is very hot. There would be plenty of choice for customers who were unhappy...*[8]

Commonwealth Bank would be concerned if measures were introduced that had the effect of making the largest financial institutions less efficient, particularly in the context of a market that is already highly competitive.

For competitive neutrality reasons the Final Report recommended an increase in the mortgage risk weights used in IRB models (**Recommendation 2**) to reduce the risk weight differences between banks using IRB models and standardised banks. If it is accepted that there is sufficient competition, then the benefits of Recommendation 2 are not clear. Increased capital requirements are then in essence a capital penalty, making the country's largest financial institutions, and by extension the economy more broadly, less efficient.

Commonwealth Bank believes that APRA should be given responsibility for responding to **Recommendation 2**. APRA has access to the relevant data and is best placed to determine the true difference between the mortgage risk weights used in IRB models compared to standardised models. If there is concern about risk weight differences between IRB banks and standardised banks, this should be addressed by looking at the models rather than imposing a simplified, blunt uplift in risk weightings. Indeed, since the publication of the Final Report, the BCBS has released further reform proposals, including a proposal to implement a standardised capital floor in capital ratio calculations and to fundamentally reform the standardised risk weights methodology. This is likely to align the capital held by IRB banks

7 Commonwealth of Australia (2015) "Official Committee Hansard: House of Representatives Standing Committee on Economics—Reserve Bank of Australia annual report 2014", statement by the Governor of RBA, Mr Glenn Stevens, during the public hearing on the Review of the Reserve Bank of Australia Annual Report 2014 on 13 February in Sydney, pp. 10–11

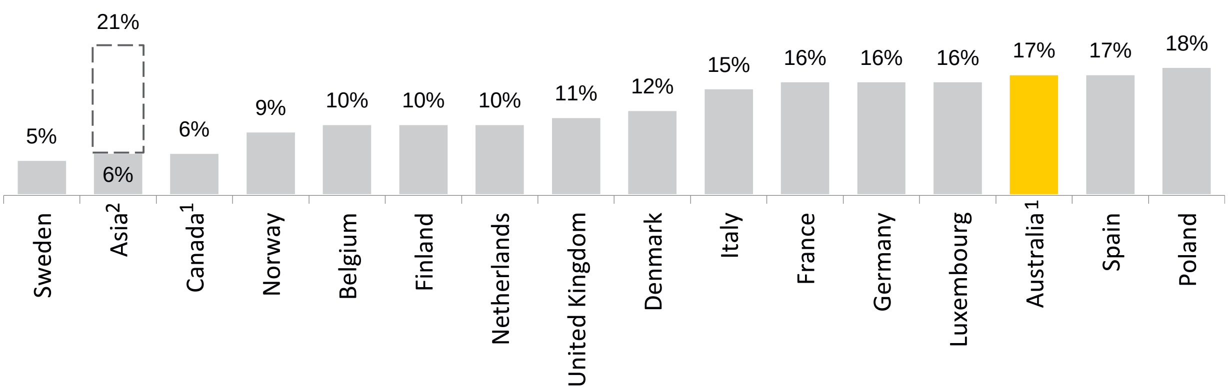
8 Commonwealth of Australia (2015) "Proof Committee Hansard: House of Representatives Standing Committee on Economics—Australian Prudential Regulation Authority annual report 2014", statement by the Chairman of APRA, Mr Wayne Byres, during the public hearing on the Australian Prudential Regulation Authority Annual Report 2014 on 20 March in Canberra, p.4

with those of standardised banks. It may be that the BCBS changes (capital floor and standardised methodology) may close the risk weight gaps without the need for any specific action by APRA.

Commonwealth Bank believes that increasing mortgage risk weights has a number of negative consequences. Commonwealth Bank does not believe that measures should be introduced which restrict the cost-efficient provision of credit to consumers. One consequence of this could be that costs for home loans increase on average across the economy. Secondly, this is likely to lead to an increase in the market share for banks whose risk management practices are less sophisticated (as indicated by their continued use of the standardised approach), reducing the incentive for those banks to further improve their risk management practices. This would have the effect of reducing the sophistication of industry-wide risk management applied to the housing market overall, which is unlikely to be beneficial to system stability in the long term. Another consequence is that smaller competitors may take this opportunity to increase their margins rather than remain at lower margins imposed by their lack of scale; this would be detrimental for customers of all banks.

Commonwealth Bank is also concerned that Australia already has one of the highest mortgage risk weightings in the world (**Figure 3**). As a result, the efficiency of the Australian banking system relative to other systems, and the efficiency of the Australian economy as a whole, may be reduced if Australian IRB banks become subject to an additional surcharge in the form of higher risk weights.

Figure 3 IRB mortgage risk weighting by country



Source: Fourth report on the consistency of risk weighted assets, European Banking Authority, 11 June 2014
Working paper – Revisiting risk-weighted assets, International Monetary Fund, March 2012
Public disclosures of major banks, various

Notes:

1. Sourced from public disclosures of major banks in those countries and includes some exposures not in those countries as a split of this information by geography is not available.
2. Dotted bar represents the maximum average risk-weighting for mortgages in this market.

As demonstrated by **Figure 3**, Australia's mortgage risk weights are significantly higher than many comparable countries. It is a common misconception that Australian risk weights are lower than, for example, United Kingdom mortgage risk weights—the European Banking

Authority has confirmed that the risk weight for United Kingdom domiciled mortgages is 11 per cent.[9]

Finally, competition issues may be better addressed by lowering mortgage risk weights for standardised banks. Under the Basel Framework (which applies to most standardised banks outside Australia), performing mortgages are required to be risk-weighted at 35 per cent. In Australia, APRA requires the Australian banks to risk-weight performing mortgages according to a loan-to-valuation matrix which applies risk-weightings of a minimum of 35 per cent, and often greater risk weights. Therefore, there is an opportunity to lower mortgage risk weights for Australian banks which use the standardised approach, which would be consistent with global regulation.

Commonwealth Bank believes that APRA and the Australian banks should work together to consider a number of implementation issues:

- the best way to implement the global modelling reforms in Australia, ensuring that the reforms impact the Australian IRB banks and Australian standardised banks appropriately as there are also proposed reforms to the standardised methodology which will affect the Australian standardised banks; and
- the best sequencing of the implementation of the global reforms with any further domestic reforms.

Loss absorbing capital framework

Commonwealth Bank supports the introduction of a loss absorbing framework (**Recommendation 3**). Immediately prior to the release of the Final Report, the FSB released proposals in relation to the introduction of TLAC for global systemically-important banks. TLAC may also become part of the BCBS Framework for domestic systemically-important banks and other internationally active banks. Commonwealth Bank would support this, given the importance of aligning Australia's regulatory framework with the BCBS framework, for the credibility of the Australian financial system, as well as for Australian banks when competing for capital and funding in global markets.

Commonwealth Bank agrees with the recommendation of the FSI that a loss absorbing framework be implemented on the same timeline as international reforms proposed for D-SIBs in other countries.

Transparent reporting

Commonwealth Bank supports the concept of transparent reporting and, in that regard, the development of a reporting template that is transparent against the BCBS Framework (**Recommendation 4**).

However, Commonwealth Bank urges the Government and APRA to consider transparency issues beyond the minimum requirements of the BCBS Framework. Regulators in other jurisdictions allow modelling concessions and as a result international peers report capital ratios which are higher than they would report under minimum requirements of the BCBS Framework. The key areas relate to the treatment of specialised lending exposures, and corporate exposure at default (EAD) and loss given default (LGD) measurements.

9 European Banking Authority "Fourth report on the consistency of risk-weighted assets—Residential mortgages drill-down analysis", 11 June 2014, p. 27

It is critical that the Australian banks be able to compete for scarce capital and funding against these international peers. Therefore, the template should be capable of recognising the modelling concessions which are allowed in other jurisdictions. Commonwealth Bank believes that there are sufficient data available to identify key modelling concessions, so APRA and the Australian banks can incorporate these in a conservative manner when designing the template.

While the Australian banks commit considerable time to explaining their capital ratios to investors and analysts, and calculate internationally comparable ratios, such technical explanations require reiteration or are met with scepticism because they are self-reported and are not recognised by bank regulators.

Crisis management toolkit

Commonwealth Bank supports the reopening of the review of APRA's crisis management powers (**Recommendation 5**). Commonwealth Bank believes that APRA's supervisory role and approach to supervision is a key element in the favourable perception of the Australian banking system.

Financial Claims Scheme

Commonwealth Bank also supports continuation of ex post funding for the Financial Claims Scheme (FCS) (**Recommendation 6**). Commonwealth Bank believes that it appropriately balances the stability objectives of the FCS while not unnecessarily adding to the cost of funding of the Australian banks.

As noted in the Final Report, the current ex post funding arrangements only impose a levy on industry in circumstances where the FCS is triggered and funds from the liquidation of the failed institution do not recoup the entire cost of bank failure. In addition, the Final Report notes that Australia's depositor preference arrangements significantly reduce the risk of a failed institution's assets being insufficient to meet insured deposits. In contrast, moving to an ex ante funding model would impose an ongoing cost on industry, which may be passed on to consumers through higher fees or lower interest rates for deposit accounts.

The current ex post arrangement represents a more efficient allocation of capital, provides an equivalent level of protection to customers and ensures taxpayers do not ultimately contribute to the cost of bank failure.

Leverage ratio

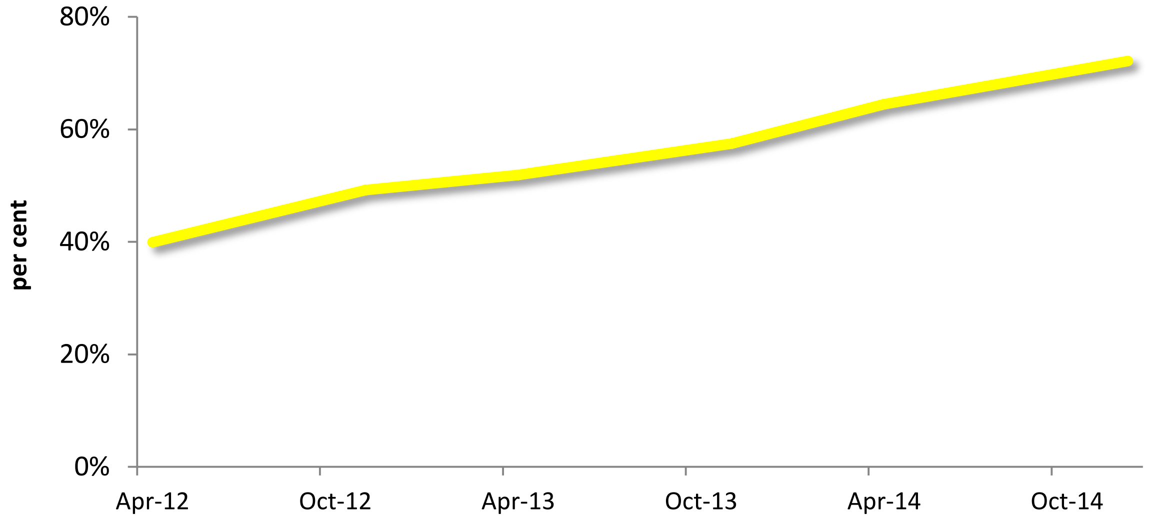
Commonwealth Bank supports the introduction of a leverage ratio (**Recommendation 7**) as it is part of the BCBS Framework. Commonwealth Bank believes it is important for the credibility of the Australian financial system, as well as the position of the Australian banks when competing for capital and funding in global markets, that Australia's regulatory framework is aligned with the BCBS Framework.

Commonwealth Bank agrees with the recommendation that the ratio continue to be applied as a backstop measure as that is a key principle of the BCBS Framework. While some other jurisdictions may cease to apply the ratio as a primary measure, this is driven by structural issues which are particular to those jurisdictions and are not relevant to Australia. Commonwealth Bank believes a sophisticated, risk-sensitive capital framework remains the best way to ensure Australian banks appropriately manage their risks.

4. Facilitating Innovation

Commonwealth Bank concurs with the Final Report[10] that innovation and technology are rapidly transforming the financial system, as evidenced by the emergence of new services, platforms and business models. Commonwealth Bank invests heavily in innovation so it can deliver market-leading services to customers. Commonwealth Bank was recognised as among Australia's most innovative companies in 2014.[11] Commonwealth Bank customers have enthusiastically embraced digital and mobile services (**Figure 4**) and take-up of new technology in Australia has been more rapid than in comparable jurisdictions.[12]

Figure 4 **Netbank log-ins via mobile device (as a proportion of all log-ins)**



Source: Commonwealth Bank

In addition to simplicity and convenience, Commonwealth Bank's goals in terms of innovation and technology include real-time insights via multiple devices and world-leading privacy and security frameworks.

In this evolving area it is vital that industry and Government cooperate in the development of policy to facilitate innovation. As such, Commonwealth Bank endorses **Recommendation 14**, which proposes a permanent public-private sector collaborative committee to inform policy-making that facilitates innovation. The Recommendation proposes that industry be represented by financial sector start-ups and innovators. The involvement of innovative incumbents such as Commonwealth Bank would be vital to such a committee realising its full potential, with a number of large companies currently at the forefront of innovation in Australia.

Commonwealth Bank endorses **Recommendation 15** to develop a national strategy for digital identity, as outlined in its submissions to the Panel. Commonwealth Bank recently conducted a trial of electronic document delivery for online initiated residential mortgages in

10 Australian Government—Financial System Inquiry (2014) *Financial System Inquiry Final Report*, November, p.xix

11 Business Review Weekly, "Most Innovative Companies", November 2014, accessible online at: http://www.brw.com.au/lists/50-most-innovative-companies/2014/

12 Australian Government— Australian Trade Commission "Australia Destination Innovation", April 2013, p.31

which virtually all applicants chose the option of eligible electronic documents over traditional hard copy. These approaches are facilitated by strong frameworks for identifying customers and giving them means to authorise documents electronically.

Commonwealth Bank's Innovation Lab

In October 2014 Commonwealth Bank launched its Innovation Lab. The Innovation Lab is an idea incubator and accelerator focused on developing cutting-edge products and solutions in collaboration with customers, partners, start-ups and industry experts.

The Lab's objectives include:

- explore new ideas and make quicker decisions on which of these ideas will work best for customers; and
- scale these ideas across the Bank so all customers and employees can take advantage of them sooner.

Crucially, the Innovation Lab harnesses the value of Commonwealth Bank's powerful data analytics, providing unique insight into the dynamics of the economy and the preferences of Commonwealth Bank customers across Australia.

The launch of the Innovation Lab coincides with the roll-out of a program for Commonwealth Bank employees designed to stimulate innovation and fresh ideas.
The "Unleashing Innovation" program allows employees to submit their innovative ideas to a panel of senior executives, with successful proposals moving into the Innovation Lab for incubation.

Commonwealth Bank's investment in the Innovation Lab reflects its commitment to maintaining a competitive edge in innovative products and services, recognising this will be integral to commercial success in financial services over the long term.

Payment systems

New methods to facilitate payments are proliferating, evidencing competition, and improving convenience and efficiency for businesses of all sizes. A balance is required between ensuring that new systems are sufficiently robust to protect customers while also ensuring that regulation of payments does not stifle additional innovation. Commonwealth Bank supports extending the e-payments code as a means to apply more uniform consumer protections to emerging payment systems, as proposed by **Recommendation 16**.

Regulation of new and emerging payment system participants is necessary to maintain confidence and payment system stability. Regulatory arrangements must protect customers and preserve trust in the payments system while encouraging innovation. Under a tiered approach to regulation, there is a risk that the lower tiers will not adequately mitigate the risk introduced to the system. Commonwealth Bank supports the recommendation to bring all purchased payment facilities within a standard regulatory framework, subject to further detail and consultation on implementation (**Recommendation 16**).

The integrated nature of payment systems means that localised weaknesses in prudential or security frameworks covering small providers can quickly become generalised either via digital channels or as innovative services grow rapidly in scale.

In this context, Commonwealth Bank supports regulators reviewing the extent to which their powers enable them to regulate emerging payment providers and digital currencies, as per **Recommendation 16**.

Interchange fees

The Reserve Bank was empowered as the regulator of Australia's payments systems as a result of the Wallis Inquiry. Since 1998 the Reserve Bank has been very active in its oversight of the Australian payments system. The Reserve Bank designated Visa and MasterCard in 2001; the first step in its process to regulating interchange fees.

Commonwealth Bank notes that since the release of the Final Report, the Reserve Bank has announced a review of the regulatory framework for card payments, consistent with **Recommendation 17**. Commonwealth Bank supports this approach and looks forward to engaging with the Reserve Bank in relation to this.

Crowdfunding

Commonwealth Bank recognises that the financing needs of start-ups may not be best suited to traditional debt-funding from banks. Venture capital is frequently better suited to this stage in the funding cycle and Commonwealth Bank supports initiatives to enhance efficiency and competition in financing, including crowdfunding. In its submissions to the FSI, Commonwealth Bank highlighted a number of models currently in place in other jurisdictions, such as the UK Growth Fund, that have allowed for broader funding for start-up companies.

The Final Report notes that crowdfunding has been growing at 50 per cent annually.[13] If this growth is sustained crowdfunding will emerge as an important investment channel and a source of risk systemically and for individual investors.

Establishing crowdfunding as an equitable and sustainable model of finance for the long term will require a regulatory framework that addresses the model's key characteristics. A relevant feature of crowdfunded investments is that entrepreneurs have no direct contact with their investors. This differs from more conventional venture capital, where investors frequently work closely with entrepreneurs, assisting them to refine their business models and thereby gaining an informed understanding of the project under consideration.

A framework that enshrines lower regulatory standards for crowdfunding relative to other types of finance, as outlined in **Recommendation 18**, carries significant risk if it does not address the information asymmetries and other risks inherent in the crowdfunded model.

As an example, the regulatory structure for crowdfunding in New Zealand, which is currently under consideration as a model for adoption in Australia, does not mandate a cap on contributions from individual equity investors.[14] As noted by the Corporations and Markets Advisory Committee, this exposes investors to the possibility that they could lose much of their net worth in what are by nature high risk investments.[15] Commonwealth Bank supports

---

13 Australian Government—Financial System Inquiry (2014) *Financial System Inquiry Final Report*, November 2014, p.178

14 Australian Government—Commonwealth Treasury "Crowd sourced equity funding: Discussion paper", Commonwealth of Australia, September 2013, p.16

15 Australian Government—Corporations and Markets Advisory Committee (2014) Crowd sourced equity funding: Report, Commonwealth of Australia, p.14

appropriate safeguards to protect investors in both traditional and innovative funding structures.

Data access and use

Commonwealth Bank strongly supports a more cooperative approach between government and industry in the use of data, as proposed by **Recommendation 19**. To meet the needs of customers Commonwealth Bank must maintain their trust. As such, policies on data use must recognise the foremost importance of strong security and protecting customer privacy. Important principles are that data be appropriately aggregated and anonymised, and that customers have the right to opt-out from their data being provided to third parties.

Any approach that mandates government access to data, or creates additional regulatory obligations for the private sector in relation to its data, must recognise that private enterprises invest in building, maintaining and protecting data for the primary benefit of their customers.

Commonwealth Bank endorses the proposal for the Productivity Commission to examine the costs and benefits of increased access to data and looks forward to providing feedback to this review.

PEXA e-conveyancing and the Commonwealth Bank

Commonwealth Bank of Australia was the first bank to complete a property purchase transaction using the PEXA (Property Exchange Australia) e-conveyancing platform.

This milestone signalled an industry shift from a paper-based system that has had little change for more than 150 years, into the digital era. In the same way that share trading moved from paper share certificates to electronic trading and settlement, Commonwealth Bank sees e-conveyancing driving a similar structural shift in the property industry.

The new e-conveyancing platform provides buyers and sellers with greater certainty their settlement will proceed as planned and on time. Previously, participants in the property transaction needed to meet in person to exchange paper documents and bank cheques, and verify information was correct on all documents.

A feature of PEXA is that it pre-populates documents and verifies relevant information directly with Land Registry systems, reducing errors and making it simpler for all parties while providing increased transparency and certainty the property will settle on time.

The e-conveyancing initiative has allowed collaboration between governments, land registries, financial institutions and legal practitioners.

Comprehensive credit reporting

Commonwealth Bank supports a comprehensive credit reporting regime that is voluntary and industry-led, as supported by **Recommendation 20**. Commonwealth Bank also endorses the Panel's finding that Government should not consider legislating this regime until industry has had sufficient opportunity to implement it on a voluntary basis.

Cloud computing

The Final Report's recommendations in relation to technology cover a number of areas where Commonwealth Bank believes further policy action is required in response to recent developments. These include the need for more collaboration to support innovation; a framework for digital identities; renewing the cyber security strategy (which has now been initiated) and ensuring access to public and private sector data.

Cloud computing is an area where Government must also ensure that policy and regulatory settings continue to balance significant gains in utility for users against the need to protect privacy and system security. This approach should be principles based. Commonwealth Bank believes cloud technology enables innovation, reduces infrastructure costs and provides businesses with flexibility.

An appropriate framework should reduce costs and improve accountability whilst retaining appropriate levels of privacy and system security. Boundaries around the use of the new technology must remain flexible so as not to restrict the benefits available to consumers and hinder broad take-up of such technologies.

A principles based framework should acknowledge primarily that cloud systems will vary greatly between providers and users and by their nature cloud services will be subject to rapid change. The principles should be based on regular compliance and audit programs and principles should cover standards of:

- security;
- privacy and confidentiality;
- contractual provisions and sub-contractor arrangements and transparency; and
- data location and infrastructure.

Commonwealth Bank has also advocated for an agency to be established within Government that would be responsible for:

- aligning the provision of digital services across public service functions to ensure they consistently meet the needs of end users; and
- advising Government on how best to regulate digital service providers so their services align with customer expectations in the non-digital economy.

In this context, Commonwealth Bank welcomes the recent announcement that Government will establish a Digital Transformation Office, tasked with ensuring that Government's digital service offering meets users' needs. Commonwealth Bank sees potential for the Office's remit to expand over time, to include advising on how to protect customers of digital services in the private sector, while continuing to encourage further innovation.

International integration

There are a wide variety of new opportunities for Australian businesses via the growing presence of its banks and financial institutions, particularly in the Asian region.

The Government should continue to take advantage of opportunities where possible to take a leadership role in policy development in the region and more widely. Australia's role in the Group of 20 economies in 2014 is a prime example of how the country has shown leadership in financial markets.

As outlined in Commonwealth Bank's first submission to the FSI, a number of trends will influence Australia's position, including super-regional banks, pan-Asian regional processing and clearing platforms, and new innovative business entrants.

These parties will seek to capitalise on the growing flow of goods, capital, and people along the Australia-Asia corridor as well as throughout the wider Asian region.

Financial services firms and regulators will need to work together, both to facilitate the growth of these multinational entities as well as to prepare for emerging risks arising from enhanced economic and financial interconnectivity.

Take Your Money Everywhere (TYME) acquisition

In February 2015 Commonwealth Bank announced the acquisition of TYME (Take Your Money Everywhere), a South African based financial services technology company.

TYME designs, builds and operates digital banking ecosystems that serve customers in emerging markets. In line with Commonwealth Bank's strategy this acquisition is capability-led and builds on our core strength in innovation and technology.

TYME's capacity will be drawn in to Commonwealth Bank's Asian Mobile Banking program, which aims to introduce emerging customers through mobile and direct channels in a manner which is replicable throughout Asia.

The proliferation of mobile phones throughout the developing world is rapid, which is predicted to reach two billion mobile phone subscriptions in China, India and Indonesia by 2015. In Indonesia alone the mobile phone penetration rate is fast approaching 100 per cent. This, combined with a rapidly growing middle class, presents an opportunity to leapfrog traditional financial services infrastructure, leveraging Commonwealth Bank's strength in technology and customer service.

To date the success of Commonwealth Bank's mobile banking solutions in Australia has been replicated in both Commonwealth Bank Indonesia and Vietnam International Bank where Commonwealth Bank has developed market leading mobile banking applications.

5. Safeguarding Australia's Retirement

Commonwealth Bank recognises the importance of a strong and cost effective superannuation system to supporting Australians in retirement and reducing the burden on the age pension. Superannuation already has an important and growing positive impact on macroeconomic outcomes by driving growth through its impact on national savings and investment.

There has been considerable reform in the super system in recent years. Commonwealth Bank strongly endorses the finding that Government should allow more time for these reforms to have their impact before considering further regulatory reform. In this context, **Recommendation 10** is positive in deferring the next review of the sector.

Default funds and awards

Commonwealth Bank also supports greater competition in the selection of default funds, which could be achieved via reform of the Fair Work laws, specifically the allocation of future default superannuation contribution for employees covered by awards. The Stronger Super reforms did not adequately address this characteristic of the superannuation system. The Commonwealth Bank believes delaying this aspect of reform until 2020 is unnecessary. Indeed, the full benefits of MySuper will only be realised once the default market is exposed to full market competition. To assess the price efficiency of the superannuation system in the absence of such conditions would not provide a true reflection of the potential impact of the reforms.

Commonwealth Bank cautions against proposals that Government should run competitive tenders to select default funds. Concentrating the superannuation savings of a large portion of the economy in one fund, or a small number of funds, would lead to a concentration of risks both within the fund and in the broader financial system. The presence of a large default fund could lessen incentives for funds more broadly to compete outside the tender periods. Finally, moral hazard could result from the perception that the body selecting the funds was guaranteeing the quality of the fund.

Commonwealth Bank emphasises that all employers should be able to select any MySuper product as the default fund for their award-based employees.

Choice of fund and governance

Commonwealth Bank believes all employees should be permitted to select the fund into which their contributions are paid, regardless of the terms and features of the agreements covering their employment and conditions. This reflects a fundamental principle that individuals should be permitted to decide where they invest their savings, even where these savings are mandated by Government. As such, Commonwealth Bank supports **Recommendation 12**.

Commonwealth Bank also supports **Recommendation 13**, which would mandate a majority of independent directors on the board of corporate trustees of public offer funds. This reflects basic principles of sound corporate governance as applied in other contexts, and should apply to all funds (not just public-offer funds).

The retirement phase

Commonwealth Bank supports a greater focus on outcomes in the retirement phase for superannuation. In previous submissions the Commonwealth Bank advocated encouraging the take up of income systems within the retirement system. Further, Commonwealth Bank recommended a model which relies on member consent rather than an automatic default. This model would provide a ‘seamless’ method of opting-in or transitioning to commence an income stream.

The recommendation to require superannuation trustees to pre-select (but not mandate) a comprehensive income product for members’ retirement (**Recommendation 11**) aligns closely to Commonwealth Bank’s proposed approach. Commonwealth Bank is also pleased that the FSI suggests the most appropriate product solution for many retirees may be a combination of an account based pension with an income stream which provides longevity protection, such as a deferred lifetime annuity.

In previous submissions[16] Commonwealth Bank has also advocated for the removal of regulatory barriers to product development in the income stream market,[17] to ensure products which offer longevity protection to the market on a competitive basis. Commonwealth Bank agrees with the FSI’s endorsement of the removal of such regulatory barriers (**Recommendation 11**).

Superannuation engagement

Commonwealth Bank is undertaking a number of initiatives designed to improve customers’ engagement with their superannuation. These include facilitating the value of the superannuation appearing in online banking applications and segmenting regular member newsletter content and improved digital execution to create more engaging and targeted member communications. These and other initiatives are designed to encourage savers to think practically about preparing for their retirement.

In this vein, Commonwealth Bank supports **Recommendation 37**, which promotes the use of retirement income projections on member statements as a means to encourage income streams and member engagement. Further industry work is needed to determine and agree industry standards in this area.

Legacy products

In its submissions to the FSI, Commonwealth Bank supported the rationalisation of legacy products in superannuation, life insurance and managed investment schemes, and so endorses **Recommendation 43** which proposes a mechanism to facilitate this rationalisation. Over many years, Commonwealth Bank has been keenly interested in the development of such a measure and has participated in a number of consultations with Government and Government agencies on this issue. The recent commencement of the MySuper regime, which has seen an increase in the number of highly competitive offers to superannuation customers, is likely to have increased the amount of funds in the legacy category. Commonwealth Bank also notes that investors in legacy products should be guaranteed equivalence in functionality and financial benefits. Commonwealth Bank welcomes further consultation on this issue.

---

16 Commonwealth Bank of Australia, “Financial System Inquiry Submission”, March 2014, p. 79

17 Such as rigid standards to qualify for earnings tax exemptions

6. Supporting Consumer Outcomes

To remain competitive in the Australian banking market, Commonwealth Bank endeavours to understand customers' needs and to hold Commonwealth Bank's people accountable for the products and services they deliver. As such, Commonwealth Bank agrees with the broad findings of the Final Report which recommend financial institutions take steps to strengthen their focus on consumer interests.

Financial literacy

Commonwealth Bank supports the finding of the Final Report that financial literacy has an important role to play in supporting better outcomes. A financially literate nation contributes to a stronger and more stable market and economy,[18] equipping consumers with the knowledge for financial planning, prudent decision making and consumer preparedness for unexpected financial shocks.[19]

Commonwealth Bank notes the FSI's support for the continuation of efforts to increase financial literacy and financial inclusion.[20] Commonwealth Bank has announced an investment of $50 million in its financial education programs to help young Australians develop financial literacy and digital money skills for the future.[21]

Product design and distribution

Commonwealth Bank recognises there is an onus on issuers and distributors of financial products to take the interests of end customers into consideration when designing and distributing financial products. This should include building and maintaining systems and processes to ensure these matters are systematically taken into account. Commonwealth Bank notes that the regulatory framework covering consumer credit products already includes a suitability test. Comparable protections exist within superannuation and for customers buying products subsequent to receiving personal advice. The FSI notes in relation to **Recommendation 21** that basic banking products should require a simplified test of suitability.

Commonwealth Bank supports a requirement that issuers and distributors of financial products to retail customers be able to demonstrate internal processes to take customer interests into account when designing and distributing financial products. If the Government chooses to advance this recommendation, Commonwealth Bank recommends it undertake detailed industry consultation on the optimal way to implement such a requirement to ensure customers' interests are paramount, but avoid complexity that could compromise this goal.

---

[18] Commonwealth Bank of Australia (2004) *Improving financial literacy in Australia: benefits for the individual and the nation—A Commonwealth Bank Foundation study of the economic and social impacts of financial literacy in Australia*, page 3. Accessible online at https://www.commbank.com.au/about-us/download-printed-forms/FinancialLiteracy_KeyFindingst2004.pdf

[19] Klapper, Leora; Lusardi, Annamaria; Panos, Georgios, A. (2012) Financial Literacy and the Financial Crisis, Policy Research Working Paper No. 5980, Washington, DC: World Bank, February 2012. Accessible online at http://documents.worldbank.org/curated/en/2012/02/15878022/financial-literacy-financial-crisis

[20] Australian Government—Financial System Inquiry (2014) Financial System Inquiry Final Report, 7 December 2014, pp.193–197

[21] Commonwealth Bank of Australia (2015) "Commonwealth Bank to expand financial literacy programs", Media Release on 29 January 2015. Accessible online at https://www.commbank.com.au/about-us/news/media-releases/2015/commonwealth-bank-to-expand-financial-literacy-programs.html

Product intervention power

Commonwealth Bank understands ASIC's desire to be empowered to intervene where there is a risk of significant customer detriment, but sees considerable challenges associated with the proposal for a new power under **Recommendation 22**. These challenges include:

- avoiding a perception among consumers that:
    - ASIC will intervene whenever investors face risk, or that
    - when ASIC intervenes to amend a product that product is then risk free;
- defining in precise terms the circumstances in which ASIC should act, given that under the current proposal ASIC will act where there may be "no demonstrated or suspected breach of the law," but equally only "as a last resort";
- providing clear guidance so businesses designing and distributing products that address legitimate customer needs and meet all regulatory requirements can be confident they are acting in a way that will meet ASIC's expectations, and so customers' investments are not jeopardised following a product intervention.

Should the Government determine an additional power is required, it should consult widely in order to examine the above challenges in greater detail.

Digital disclosure

The Final Report cites several examples of poor consumer outcomes where customers did not understand features of the product they purchased. The existing regulatory framework does allow for some degree of simplification of disclosure in order to improve customers' understanding of product features. Enhanced digital channels can also help customers to better understand product features, and hence Commonwealth Bank supports **Recommendation 23**, which aims to facilitate greater digital disclosure.

Improving financial advice

Commonwealth Bank also strongly supports those aspects of **Recommendations 24, 25** and **40**, which serve to improve industry standards in financial advice, the competency of advisors, and the renaming of "general advice", respectively.

Adviser education and professional standards

Some Commonwealth Bank customers have previously received financial advice which led to poor customer outcomes, which is unacceptable. Commonwealth Bank agrees with the FSI that minimum education, competency and professional standards for financial advisers must increase.

In July 2014 Commonwealth Bank announced new minimum education standards for Commonwealth Financial Planning Limited (CFPL) and BW Financial Advice (BWFA) financial advisers, supervisors and managers of advisers. This continues our investment in the professionalism of the advice industry to help build greater trust between financial advisers and their customers. In October 2014, Commonwealth Bank announced it was applying higher adviser education standards across the Group's financial advice businesses, to all advisers and licensee employees in supervision and monitoring roles. The new education standards will apply to Financial Wisdom Limited (FWL) and Count Financial (Count) advisers and licensee support employees.

In addition, as a minimum standard, financial advisers and relevant licensee employees will have to be a member of a relevant financial services industry association.

An overview of these new standards is outlined in **Appendix A**: Commonwealth Bank adviser education standards. Commonwealth Bank has also put in place a rigorous recruitment, induction and continuous professional development program that seeks to enhance and test the knowledge and skills of each financial planner.

In addition, Commonwealth Bank has implemented a far-reaching program for customer review and remediation through the Open Advice Review program, giving considerable thought to the changes required to build a financial planning business that earns the trust of customers and helps meet a critical customer need for effective financial advice.

A national exam for financial advisers

Commonwealth Bank supports measures that go towards raising the competency standards for financial advisers. Commonwealth Bank believes that raising competency standards is key in supporting the industry's move towards becoming recognised as a profession and most importantly, will ensure quality advice is provided to anyone who seeks it.

Commonwealth Bank believes that a profession includes a number of elements such as increasing education standards, mandatory ethics training, mandatory industry association membership and comprehensive ongoing professional development training.

Commonwealth Bank believes the introduction of a national exam which is appropriately tailored to the requirements of the Australian financial advice sector should be implemented in combination with other measures that raise the competency and ethical standards of advisers.

Financial advice and insurance

Commonwealth Bank supports a strong life insurance advice sector that minimises conflicts of interest. Commonwealth Bank supports the intent behind the recently released Review of Retail Life Insurance Advice report,[22] prepared by John Trowbridge, to ensure the accessibility and affordability of quality financial advice and life insurance for all Australians. It is critical that the life insurance and financial advice industries work to implement sustainable remuneration structures.

A life insurance industry code of practice which binds insurers, licensees and advisers will both improve outcomes for customers and the efficiency of the industry.

Commonwealth Bank believes a choice of insurers and products is important to provide a range of options to meet the best interests of all customers, and is carefully reviewing the Trowbridge report to understand and consider the implications of the recommendations for customers, advisers and businesses.

22 John Trowbridge, "Review of Retail Life Insurance Advice, Final Report", Life Insurance Advice working Group, March 2015

Guidance on insurance

Commonwealth Bank supports **Recommendation 26**, which proposes that industry provide additional guidance to customers to allow them to assess their level of coverage when obtaining insurance products. Commonwealth Bank further supports initiatives which educate customers around how products at varying price points provide varying degrees of coverage.

Industry funding for ASIC

Commonwealth Bank views strong and appropriately resourced regulators as a benefit to consumers, industry and the community and therefore in principle supports **Recommendation 29**, which proposes that ASIC's funding be recovered through industry funding.

The introduction of industry funding should also be accompanied by increased transparency and accountability regarding ASIC's expenditure, adequate consultation with industry and fair principles around proposals for any tiered funding arrangements so larger institutions are not unduly burdened solely by virtue of their size.

The funding model should reflect the fact that ASIC is the nation's corporate, markets and financial services regulator[23] and therefore should not levy only the financial services industry.

Further, any levy model should be established in legislation rather than regulation in order to ensure greater transparency on future changes. In order to avoid a need to rush the design and implementation of a funding model, funds should not be recovered in FY2015–16 and should be staged in implementation. Commonwealth Bank would welcome the opportunity to participate in the development of an appropriate and equitable funding model.

With respect to increasing civil and criminal penalties as suggested under **Recommendation 29**, Commonwealth Bank considers that civil and criminal penalties should not become standard practice in circumstances where the existing enforcement mechanisms are appropriate.

Additional regulatory reform

In its submissions to the FSI, the Commonwealth Bank highlighted a number of other areas where reform could be contemplated prior to a full review in 2020. Clarifying the respective responsibilities of ASIC and APRA with respect to the superannuation system, as well as removing any overlap in terms of these responsibilities, would help to increase efficiency and reduce cost.

Commonwealth Bank also supports the principles behind **Recommendation 27**, which calls for the creation of a Financial Regulator Assessment Board (FRAB) in order to provide advice to Government on the performance of regulators.

Commonwealth Bank is of the view that the FRAB would be most effective if established as an external board or panel as opposed to a division of Commonwealth Treasury.

---

23 Australian Government—Australian Securities & Investment Commission (2015) "What we do" [Online] Available at: http://asic.gov.au/about-asic/what-we-do/

Independent analysis of the regulators annual activity, including analysis of regulatory overlap between agencies, would be best undertaken by a body that is not already responsible for general oversight as the lead portfolio agency.

In order to achieve meaningful assessment and advice on the regulatory bodies' performance it is recommended that the FRAB's terms of reference extend beyond agency mandates. Specific areas could include the use of legislative powers, duplication of regulatory activities between bodies and providing an avenue for ongoing industry feedback. The FRAB may also play a valuable role in the implementation of **Recommendation 31**, which calls for more frequent post-implementation reviews of major regulatory changes.

Abbreviations

ABA	Australian Bankers' Association
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
BCBS	Basel Committee on Banking Supervision
BWFA	BW Financial Advice
CCB	Capital Conservation Buffer
CET1	Common Equity Tier 1
CFPL	Commonwealth Financial Planning
D-SIB	Domestically systemically important bank
EAD	Exposure at default
FCS	Financial Claims Scheme
FOFA	Future of Financial Advice
FRAB	Financial Regulator Assessment Board
FSB	Financial Stability Board
FSI	Financial System Inquiry
FY	Financial Year
GFC	Global Financial Crisis
G-SIB	Globally systemically important bank
G-SIFI	Globally systemically important financial institution
IRB	Internal Ratings-Based
IRRBB	Interest Rate Risk in the Banking Book
LCR	Liquidity Coverage Ratio
LGD	Loss given default
NSFR	Net Stable Funding Ratio
OARP	Open Advice Review Program
OECD	Organisation of Economic Cooperation and Development
PEXA	Property Exchange Australia
RWA	Risk-weighted assets
RBA	Reserve Bank of Australia
SME	Small or medium-sized enterprise
SMSF	Self-managed superannuation fund
TLAC	Total Loss Absorbing Capacity

Table of Figures

Appendix A: Commonwealth Bank adviser education standards

Commonwealth Bank Wealth Management Advice: Professional and Educational Standards for CFPL and FWL

	New Applicants	Existing Advisers
CFPL Financial Advisers	Degree qualified in finance, business, commerce or a related field *(effective 18 July 2014)*	• Advanced Diploma in Financial Planning or equivalent; or • a Degree in finance, business, commerce or a related field *(effective 18 July 2014, transition ends 30 June 2017)* • For senior advisers, a Certified Financial Planner by the Financial Planning Association of Australia *(effective 18 July 2014, transition date to be determined)*
All CFPL and FWL Advisers	Membership of a relevant industry association required by 30 June 2015.	
FWL Advisers	Required to hold either: • a Degree in finance, business, commerce or a related field; or • a Certified Financial Planner professional designation; or • a Fellow Chartered Financial Practitioner; or • a Master's in Financial Planning; or • a degree in any field plus an accounting designation with one of the Joint Accounting Bodies; or • a minimum of three years full-time (or part time equivalent) experience within the preceding five years, as an adviser or paraplanner that included substantial involvement in the preparation or presentation of financial planning advice, plus attainment of the Advanced Diploma in Financial Planning by 31 December 2017. *(effective 22 October 2014)*	Required to hold either: • an Advanced Diploma in Financial Planning or equivalent; or • a Degree in finance, business, commerce or a related field; or • a Certified Financial Planner professional designation; or • a Fellow Chartered Financial Practitioner; or • a Master's in Financial Planning; or • a degree in any field plus an accounting designation with one of the Joint Accounting Bodies. *(effective 22 October 2014, transition ends 31 December 2017)*