

APRA Capability Review Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

9 April 2019

By Email: apracapabilityreview@treasury.gov.au

PRINCIPAL MEMBERS



Dear Sire/Madam,

APRA Capability Review Submission

The Governance Risk and Compliance Institute (GRCI) is pleased to make the following submission relating to the APRA Capability Review. GRCI represents over 5000 compliance and risk professionals – the vast proportion of which are in the financial services sector. As such, they have strong interest in any proposed improvements in the ways that APRA currently regulates participants.

We have restricted our submission to the core issues.

1. Our members are concerned to ensure that APRA and ASIC are working collaboratively in the regulation of a particular financial services entity. Their experience is that they often have a number of visits separately from the regulators. With APRA moving into more compliance /risk related issues, our members would encourage greater communication and liaison between the regulators so that there could be joint surveillances on compliance issues rather than one visit which is compliance and another which is prudential.
2. Our members welcomed the leadership paper by APRA on the Commonwealth Bank. It has become a yardstick for measuring risk and compliance practices within entities. If APRA is intending to undertake more thought leadership papers like the CBA paper, the methodology was a useful and rigorous process that should be generically applied. However our members question whether the public "name and shame" nature of the report on CBA actually works where there are no compliance outcomes. The paper caused many entities, not subject to APRA's regime, to do an analysis of risk management, but is that enough? Our members report that APRA focusses on the risk equation without necessarily engaging with the compliance officers. In our members view, it is compliance that actually understands the day to day operations of an entity and without consultation for non – embedded APRA staff the nuances of the controls can be lost.

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3. The rise of risk cultures within entities, is a sign of entities factoring in non-compliance as a cost of doing business- i.e. how often will APRA conduct a surveillance? We recommend that APRA have in depth conversations with the "right" people i.e. ensuring that compliance is as a matter of course consulted rather than just the risk or legal staff of an entity.
4. Our members suggest that APRA needs to have more collegiate but not captured meetings. Being public about the messages is important- more industry education is essential. Private meetings at board level are useful but should not be the totality of interactions. APRA should continue to engage with industry participants through regular forums, roadshows, and educational briefings but ensure that they are national and not just Sydney/Melbourne centric. There is a clear perception that APRA focusses on the "big boys" and not necessarily on similarly regulated but less resourced participants. Opening the forums to electronic presence for smaller entities would be very useful.
5. We recommend that APRA focuses on drawing more staff with industry and compliance experience, rather than regulatory experience, at a senior level. Whilst actuarial experience is important we suggest that a program focused on industry recruitment will assist APRA to ask the right questions- the hard ones that are difficult to answer or obfuscate. Our members welcome more targeted surveillances as they are themselves focused on ensuring great compliance within the financial services sector.
6. More public outcomes of compliance surveillances is important. If a body has an issue that is an industry wide issue that needs modification e.g. unit pricing error remediation, it is important to bring to attention of the industry rather than the press. Our members welcome feedback on trends from surveillances as it is only through this that they can sometimes engage senior management if extra resources are required.
7. Our members expect candour and that APRA is meeting with us and understands the principles of compliance frameworks e.g. implementation of ISO 31000 and 19600. These standards should comfort regulators. But our members instead are confronted by the regulator's apparent interest more in regulatory capital than day to day governance. We urge APRA to consider undertaking a review of these standards in consultation with industry and ASIC so as to ensure that the standards accurately reflect not only the regulators', but the general public's expectations for compliance within an entity.
8. APRA does issue standards but they should also be more aware of the extent to which they have been applied. For example APS 220 was last substantially updated in 2006 and there have been changes in credit practices with improvements to information systems and the use of better algorithms and analytical methodologies. APRA has announced its wish to modernise the standard to reflect recent supervisory work on credit standards and credit risk practice. But given that the standard has existed for over 12 years it may appear that the review is delayed

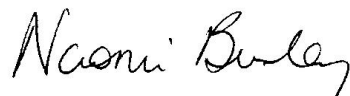
considerably. An urgent review of the existing body of standards is required to ensure that only relevant ones remain and that they reflect industry best practices.

9. Our members do not consider that APRA supports or understands the role of compliance in entities. We believe that APRA needs to be making more overt statements supporting those in a compliance role and insisting on excellence in this regard. For example, APRA should give consideration of the qualifications the compliance officer holds as these are vital to embedding a quality compliance framework in an entity – yet is it not a requirement in relation to the APRA's governance considerations. It is unacceptable that compliance staff do not hold requisite compliance training. (At minimum the Certificate IV in Compliance and Risk Management is the requisite standard with law degree grads potentially qualifying under RPL.) But the key is seniority of the compliance professional. It is not enough for APRA just to tick a box that there is someone in that compliance role and then focus on risk. They are different disciplines and training should reflect their differences,
10. Lastly GRCI's interaction with APRA have for the last year been patchy at best. We have had to use contacts to chase for an APRA liaison contact and there is still no certainty that APRA will attend our annual conference, even though all other regulators have agreed to do so. Given the importance of GRCI's role in liaison with compliance professionals it is critical that our liaison arrangements are strong and open.

As stated earlier, GRCI is very pleased to work more closely with APRA in ensuring that its liaison with compliance professionals is improved. We believe that such initiatives will be to the betterment of the financial services industry generally.

Should you require further input on any of these issues please do not hesitate to contact us on +61 2 9290 1788.

Yours,



Naomi Burley
Managing Director
GRCI: Compliance. Professional. Always.