

3 April 2014

Mr Neil Grummitt
General Manager, Policy Development
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Australian Prudential Regulation Authority
GPO Box 9836
SYDNEY NSW 2001

Via email: riskmanagement@apra.gov.au

Dear Neil

Draft Prudential Practice Guide CPG 220 – Risk Management Amendments

The Customer Owned Banking Association (COBA) welcomes the opportunity to provide feedback on APRA's Draft Prudential Practice Guide CPS 220 – Risk Management.

As you know, COBA is the industry association for Australia's customer-owned banking institutions, representing 81 credit unions, 10 mutual banks and 7 mutual building societies.

We welcome APRA's feedback in the Response to Submissions Paper that: "an institution may seek approval for alternative arrangements where the institution is materially constrained in appointing a CRO who is free from conflicts of interest, or for reasons particular to that institution. APRA expects these instances would be limited to smaller and less complex institutions."¹

We note that there is no guidance in either the prudential standard or the draft prudential guide around what APRA would consider to be a "smaller and less complex" institution. The Regulation Impact Statement prepared by APRA in support of this prudential standard states that "the 163 institutions holding less than \$500 million are assumed to meet the CRO requirements, with APRA's approval, by redeploying their current risk management staff."² While a \$500 million limit would appear to be a reasonable threshold in many circumstances, some customer-owned ADIs with assets of around that level are still relatively small with respect to employee numbers. For these institutions, a similar exemption is also arguably appropriate. We would therefore recommend that APRA consider broadening the exemption to also include ADIs with less than 100 employees.

¹ APRA, *Response to submissions – Harmonising cross-industry risk management requirements*, Jan 2014, p. 9.

² APRA, *Regulation Impact Statement – Harmonising cross-industry risk management requirements*, p. 11.

More generally, we believe that any threshold value APRA intends to apply to the granting of this exemption (such as the \$500 million asset limit) should be explicitly stated in the prudential guide. Such an approach would provide industry with greater certainty and transparency.

While we recognise that APRA needs to have some flexibility and discretion around determining what constitutes "small and less complex" the absence of any benchmark in the prudential guide creates the risk that different APRA supervisors could interpret this discretion in very different ways. The current approach is also starting to create confusion within our sector about APRA's expectations.

On a related matter, we note that where APRA does provide an exemption from the CRO obligation, there is an expectation that these ADIs will put "alternative arrangements"³ in place. In this regard, we welcome the inclusion of paragraph 61 on page 12 of the draft prudential guide, which provides some general information on the range of matters that an ADI Board should take into consideration in proposing alternative arrangements.

However, while this is a step in the right direction, the prudential guide would benefit from some practical guidance around the sort of alternative measures that would meet APRA's expectations. At the end of the day, compliance with this aspect of the prudential standard requires approval from APRA, and it is difficult for an ADI to assess whether APRA is likely to approve a particular arrangement in the absence of such guidance.

We note that APRA has been open to providing this sort of practical feedback with respect to the "designation" of a CRO, with APRA's Response to Submissions Paper stating that: "an institution may deem it appropriate to have a CRO who, for example, is also the head of the compliance function."⁴ This is a welcome approach and it would be useful if similar context could be provided around expectations of "alternative arrangements" to the appointment of a CRO. Some greater clarity in this space would be expected to assist member compliance.

Thank you for the opportunity to provide these comments.

Please contact me on _____ or Micah Green, Senior Policy Adviser, on _____ should you wish to discuss any aspect of this submission.

Yours sincerely



Luke Lawler
Senior Manager, Public Affairs

³ APRA, *Response to submissions – Harmonising cross-industry risk management requirements*, Jan 2014, p. 9.

⁴ *ibid.*