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By email: PolicyDevelopment@apra.gov.au

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Dear Mr Brennan

### **CPS 220 RISK MANAGEMENT / CPG 220 RISK MANAGEMENT**

The Insurance Council of Australia (Insurance Council) welcomes the opportunity to provide feedback on changes to Prudential Practice Guide CPG 220 Risk Management (CPG 220) and Prudential Standard CPS 220 Risk Management (CPS 220). After consultation with members, we recommend several minor changes, which are outlined below.

#### **CPS 220 Paragraph 13**

The Insurance Council appreciates the statement in APRA's letter to industry of 7 October 2014 that it "will seek to ensure that its requirements of boards are communicated in a way that properly recognises the respective roles of the board and management." However, the Insurance Council is aware of concern amongst its members that the expression "ultimately responsible" as currently used in paragraph 13 of CPS 220 may have unintended consequences for director liability.

The words could extend liability to board members for any failure in the Risk Management Framework (RMF), included factors beyond their control. The Insurance Council believes that this would be contrary to the recent trend, illustrated by the COAG Principles adopted in 2012, that derivative liability provisions be replaced by an attribution of liability to directors for corporate wrongdoing only where some fault is established on their part.

Consequently, the Insurance Council submits that the prudential standard should be clarified to confirm that the board is only ultimately responsible for specific obligations, outlined in sub-points 13(a)-(g). The Insurance Council recommends that CPS 220 include further explanation of the expression 'ultimate responsibility' to avoid extension of legal liability beyond these obligations.

#### **Attachment A**

The Insurance Council supports the inclusion of the expression "in all material respects" in the Risk Management Declaration. However, the wording in 1(d) in the Risk Management Declaration (RMS) refers to "each measure and control described in the RMS" which does not reflect application of a materiality qualification.

We recommend that this provision be revised to read:

- d) the institution has a RMS that complies with this Prudential Standard, and the institution has complied with measures and controls described in the RMS.

#### **CPG 220**

##### **Paragraph 20**

Paragraph 20 appears to require that the board or the board risk committee obtain independent reviews and reports on all material risk issues that have been escalated to board or board risk committee level. This would be unnecessarily onerous and the Insurance Council would appreciate this requirement being qualified by the addition of, for example, “as appropriate”.

##### **Paragraph 33**

The Insurance Council suggests that this paragraph be deleted. The paragraph previously aligned with CPS 220’s former paragraph 13(h), which has now been removed. If APRA intends that paragraph 33 remain, we recommend guidance on the part of CPS 220 to which it refers.

##### **Paragraph 37**

The Insurance Council questions the statement of good practice that an outline of risk management practices should be disclosed in published annual reports. This recommendation by APRA does not appear to relate to any disclosure obligation in CPS 220 and therefore should be deleted.

If you require further information in relation to this submission, please contact Mr John Anning, Insurance Council’s General Manager Policy – Regulation Directorate by email:  
or tel:

Yours sincerely



Robert Whelan  
Executive Director & CEO