



1 July 2013

Mr. Terry Jackson
Senior Manager
Specialised Institutions Division
Australian Prudential Regulation Authority
Level 15
QV1 Building
250 St Georges Terrace
Perth WA 6000

Harmonising cross-industry risk management requirements

Dear Mr. Jackson

I refer to the consultation package released on 9 May 2013 relating to harmonised and enhanced risk management requirements across its regulated industries.

On behalf of the Board of Goldfields Money, I welcome the opportunity to make a response as part of the consultation process. Our primary concerns with the draft CPS 220 relate to the two main proposed enhancements and believe that overall the implementation of these requirements impose a significant cost to smaller ADIs which outweigh the benefits.

Risk Management Function and the Chief Risk Officer

Draft CPS 220 proposes institutions to designate a Chief Risk Officer (CRO) who is to be independent from business lines and the finance function. It explicitly excludes the CEO, CFO or Head of Internal Audit. For smaller ADIs like Goldfields Money, the risk management function can be efficiently handled by a small number of skilled staff who collaborate in implementing and managing the risk management framework. It is our view that this collaborative approach does not diminish the effectiveness of the ability to 'challenge the activities and decisions that may materially affect the risk profile of the organisation' as argued as a key reason in the Discussion Paper for the establishment of the CRO. All staff currently have unfettered access to the Board. In addition, the Board and the sub-committees have a better working knowledge of the day to day issues than with a larger organisation.

Board Risk Committee

The second proposed enhancement in the Draft CPS220 is the establishment of an Independent Board Risk Committee to strengthen the governance, effectiveness and resourcing

Banking on Better Service

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of the risk management framework. We believe that such a function is inefficient and duplicates the function of an Audit & Risk Management Committee where the current charter, roles and responsibilities provide a coherent framework in providing governance to the risk management function. There is a lot of crossover between audit and risk and there is potential for confusion and double-handling as to which committee is responsible for which role. To add another layer of committee structure where it is likely the members are the same adds no value and increases the cost of management and support and Director involvement. The independence will not be compromised by not having a separate committee as the current Audit & Risk Management Committee meet the same requirements.

The Discussion paper also notes that “the Board Audit Committee will continue to have responsibility for providing the Board, *inter alia*, with an objective review of the effectiveness of the institution’s risk management framework”. This appears to suggest that the Audit Committee is reviewing the output of the Board Risk Committee which appears an illogical outcome.

Risk management framework review and declaration

We note that new requirements are included in the draft CPS 220 in relation to an independent review of the appropriateness, effectiveness and adequacy of its risk management framework at least every 3 years. This is in addition to the annual internal and/or external audit compliance and effectiveness review. In addition, there is a new requirement for an annual risk management declaration which is an extension of the new requirements under APS 110 relating to the annual ICAAP report and accompanying declaration. We express the concern that continuing regulatory requirements post an unnecessary burden to smaller ADIs without any evidence off an enhanced risk management outcome.

Goldfields Money Risk Management

As you are aware, we have spent significant effort and resources, over the past 12 months in updating and improving our risk management framework, policies, risk appetite statement, risk reporting and staffing capability, and believe that this process has ensured a risk management capability and process which is appropriate given both our current size and our medium term strategic plan. In addition, the review of the ICAAP is that Goldfields Money is operating under a significant minimum capital ratio of 20% which provides a significant buffer for risk.

Cost Benefit Analysis

The estimate of the additional costs associated with this proposal is \$73,000 pa. Please find attached the report using the Business Cost Calculator attached to this letter.

Exemption for smaller institutions

We note that the Discussion Paper and the Draft CPS 220 provides for exemptions to be considered by APRA for smaller institutions that can demonstrate they meet, in substance, the principles underlying the requirements. It would be our intention that we would apply for an exemption to the requirements of employing a Chief Risk Officer and having a separate Board risk committee assuming the CPS 220 is finalised in substantially the same form as the draft version.

I would welcome the opportunity to discuss our response with you in person.

Yours Sincerely

A handwritten signature in black ink, appearing to read 'David Holden', with a long horizontal flourish extending to the right.

David Holden
Managing Director



Business Cost Calculator detailed report

Proposal name	Harmonising cross-industry risk management requirements													
Reference number	to be completed													
Problem and objective														
Problem	The proposal by APRA to harmonise and enhance its current risk management prudential requirements in a consolidated cross-industry prudential standard, Prudential Standard CPS 220 Risk Management (CPS 220), that would apply to authorised deposit-taking institutions (ADIs), general insurers and life insurers, and Level 2 and Level 3 groups.													
Objective	to be completed													
Explanatory information														
Not applicable														
Option 1														
Option name	New APRA CPS 220													
Option description	Implementation of draft APRA CPS 220													
Businesses affected	1													
Supporting evidence														
Level of certainty	High													
Compliance cost per business:														
	<table border="1"> <thead> <tr> <th>Type</th> <th>Start up</th> <th>Ongoing per year</th> </tr> </thead> <tbody> <tr> <td>Internal</td> <td>\$0.00</td> <td>\$0.00</td> </tr> <tr> <td>Outsourced</td> <td>\$0.00</td> <td>\$73,000.00</td> </tr> <tr> <td>Total Cost</td> <td>\$0.00</td> <td>\$73,000.00</td> </tr> </tbody> </table>		Type	Start up	Ongoing per year	Internal	\$0.00	\$0.00	Outsourced	\$0.00	\$73,000.00	Total Cost	\$0.00	\$73,000.00
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Internal	\$0.00	\$0.00												
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Total Cost	\$0.00	\$73,000.00												
Total compliance cost for all businesses:														
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Internal	\$0.00	\$0.00												
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Total cost	\$0.00	\$73,000.00												
Task 1.1														
Task name	Implementation of Draft CPS 220													
Task description	Employment of Chief Risk officer													
Activity 1.1.1														
Activity name	Chief Risk Officer employment													
Businesses affected	1													

Supporting evidence	Estimate of incremental cost of employment of high level designated position.		
Level of certainty	High		
Compliance cost per business:			
	Type	Start up	Ongoing per year
	Internal	\$0.00	\$0.00
	Outsourced	\$0.00	\$50,000.00
	Total Cost	\$0.00	\$50,000.00
Total compliance cost for all businesses:			
	Type	Start up	Ongoing per year
	Internal	\$0.00	\$0.00
	Outsourced	\$0.00	\$50,000.00
	Total cost	\$0.00	\$50,000.00
Activity 1.1.2			
Activity name	Board Risk Committee		
Businesses affected	1		
Supporting evidence	Assume 4 meetings for 4 Directors and associated support. Estimate 20 hrs per meeting in preparation, review & attendance at \$200 per hour for staff and Board. Total cost = \$16,000		
Level of certainty	High		
Compliance cost per business:			
	Type	Start up	Ongoing per year
	Internal	\$0.00	\$0.00
	Outsourced	\$0.00	\$16,000.00
	Total Cost	\$0.00	\$16,000.00
Total compliance cost for all businesses:			
	Type	Start up	Ongoing per year
	Internal	\$0.00	\$0.00
	Outsourced	\$0.00	\$16,000.00
	Total cost	\$0.00	\$16,000.00
Activity 1.1.3			
Activity name	Risk Management Review & Reporting		
Businesses affected	1		
Supporting evidence	Risk Reporting - average 10 hrs at \$200 per hour Risk Management Review - \$15,000 every 3 years		
Level of certainty	None		
Compliance cost per business:			
	Type	Start up	Ongoing per year
	Internal	\$0.00	\$0.00
	Outsourced	\$0.00	\$7,000.00
	Total Cost	\$0.00	\$7,000.00

Total compliance cost for all businesses:

Type	Start up	Ongoing per year
Internal	\$0.00	\$0.00
Outsourced	\$0.00	\$7,000.00
Total cost	\$0.00	\$7,000.00