



| RECOMMENDATION | APRA'S FEBRUARY 2019 COMMITMENT | UPDATED STATUS |
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| <p>Recommendation 1.12 — Valuations of land APRA should amend Prudential Standard APS 220 to:</p> <ul style="list-style-type: none"> • require that internal appraisals of the value of land taken or to be taken as security should be independent of loan origination, loan processing and loan decision processes; and • provide for valuation of agricultural land in a manner that will recognise, to the extent possible: <ul style="list-style-type: none"> – the likelihood of external events affecting its realisable value; and – the time that may be taken to realise the land at a reasonable price affecting its realisable value. | <p>APRA will release proposed revisions to APS 220 by the end of the first quarter of 2019. The final version of the standard is expected to be completed by the end of 2019.</p> | <p>On track. APRA released proposed revisions to APS 220 in March 2019. The final version of the standard will be issued by the end of 2019.</p> |
| <p>Recommendation 1.17 — BEAR product responsibility After appropriate consultation, APRA should determine for the purposes of section 37BA(2)(b) of the Banking Act, a responsibility, within each ADI subject to the BEAR, for all steps in the design, delivery and maintenance of all products offered to customers by the ADI and any necessary remediation of customers in respect of any of those products.</p> | <p>APRA will establish requirements for accountability under the BEAR for product management and customer remediation. Proposed requirements will be released in the second quarter of 2019, with a view to finalising by the end of 2019.</p> | <p>On track. APRA released for consultation proposed requirements in June 2019. These will be finalised by the end of 2019.</p> |



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| <p>Recommendation 4.14 — Additional scrutiny for related party engagements</p> <p>APRA should amend Prudential Standard SPS 250 to require RSE licensees that engage a related party to provide group life insurance, or who enter into a contract, arrangement or understanding with a life insurer by which the insurer is given a priority or privilege in connection with the provision of life insurance, to obtain and provide to APRA within a fixed time, independent certification that the arrangements and policies entered into are in the best interests of members and otherwise satisfy legal and regulatory requirements.</p> | <p>APRA is currently completing a post-implementation review of the superannuation prudential framework and will address this recommendation as part of that work. The post-implementation review report, incorporating the full range of feedback received, will be published in the second quarter of 2019. Formal consultation on revised standards will commence shortly thereafter, with a view to having a new standard finalised in 2020.</p> | <p>On track. APRA's post-implementation review, which contained a number of proposed enhancements to strengthen the prudential framework, was published in April 2019.</p> <p>The proposed enhancements include refinements that will strengthen the requirements on trustees when selecting an insurer, especially when a potential insurer is a related party. APRA will be consulting on proposed changes to the prudential framework later this year 2019, with a view to finalising them in 2020.</p> |
| <p>Recommendation 4.15 — Status attribution to be fair and reasonable</p> <p>APRA should amend Prudential Standard SPS 250 to require RSE licensees to be satisfied that the rules by which a particular status is attributed to a member in connection with insurance are fair and reasonable.</p> | | <p>In March 2019, APRA wrote to all RSE Licensees indicating that it would be good practice for trustees for which Recommendation 4.14 is applicable to commission an independent review as soon as possible.</p> |



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| <p>Recommendation 5.1 — Supervision of remuneration — principles, standards and guidance</p> <p>In conducting prudential supervision of remuneration systems, and revising its prudential standards and guidance about remuneration, APRA should give effect to the principles, standards and guidance set out in the Financial Stability Board's publications concerning sound compensation principles and practices.</p> <p>Recommendations 5.2 and 5.3 explain and amplify aspects of this Recommendation.</p> | <p>APRA will release proposed revisions to <i>Prudential Standard CPS 510</i> by mid-2019 which will address this recommendation. This will incorporate the Royal Commission's recommendations, recent lessons from APRA's supervisory activity, the CBA Prudential Inquiry and associated self-assessments by other entities, and relevant international guidance. APRA's intention is to have a final standard determined by 2020.</p> <p>This work will include the design of new information collections that will allow APRA to better assess how remuneration frameworks work in practice</p> | <p>On track. APRA released for consultation a draft prudential standard, <i>Prudential Standard CPS 511 Remuneration</i>, in July 2019. APRA intends releasing the final prudential standard in early 2020. The draft standards encapsulates the Financial Stability Board's guidance in relation to sound compensation principles and practices, including in relation to misconduct, compliance and other non-financial risks.</p> <p>Work is underway to devise new information collections that will allow APRA to better assess how remuneration frameworks work in practice.</p> |
| <p>Recommendation 5.2 — Supervision of remuneration — aims</p> <p>In conducting prudential supervision of the design and implementation of remuneration systems, and revising its prudential standards and guidance about remuneration, APRA should have, as one of its aims, the sound management by APRA-regulated institutions of not only financial risk but also misconduct, compliance and other non-financial risks.</p> | | |



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| <p>Recommendation 5.3 — Revised prudential standards and guidance</p> <p>In revising its prudential standards and guidance about the design and implementation of remuneration systems, APRA should:</p> <ul style="list-style-type: none"> • require APRA-regulated institutions to design their remuneration systems to encourage sound management of non-financial risks, and to reduce the risk of misconduct; • require the board of an APRA-regulated institution (whether through its remuneration committee or otherwise) to make regular assessments of the effectiveness of the remuneration system in encouraging sound management of non-financial risks, and reducing the risk of misconduct; • set limits on the use of financial metrics in connection with long-term variable remuneration; • require APRA-regulated institutions to provide for the entity, in appropriate circumstances, to claw back remuneration that has vested; and • encourage APRA-regulated institutions to improve the quality of information being provided to boards and their committees about risk management performance and remuneration decisions. | <p>APRA will release proposed revisions to <i>Prudential Standard CPS 510</i> by mid-2019 which will address this recommendation. This will incorporate the Royal Commission's recommendations, recent lessons from APRA's supervisory activity, the CBA Prudential Inquiry as associated self-assessments by other entities, and relevant international guidance. APRA's intention is to have a final standard determined in 2020.</p> <p>This work will include the design of new information collections that will allow APRA to better assess how remuneration frameworks work in practice</p> | <p>On track. APRA released for consultation a draft prudential standard, <i>Prudential Standard CPS 511 Remuneration</i>, in July 2019. The draft standard requires regulated entities to:</p> <ul style="list-style-type: none"> • design their remuneration systems to encourage sound management of non-financial risks, and to reduce the risk of misconduct; • make regular assessments of the effectiveness of the remuneration system in encouraging sound management of non-financial risks, and reducing the risk of misconduct; • limit to 50 per cent the use of financial metrics in connection with variable remuneration; • provide for the entity, in appropriate circumstances, to claw back remuneration that has vested; and • improve the quality of information being provided to boards and their committees about risk management performance and remuneration decisions. <p>APRA intends that a final standard will be determined by the first half of 2020.</p> <p>Work is underway to devise new information collections that will allow APRA to better assess how remuneration frameworks work in practice.</p> |



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| <p>Recommendation 5.7 — Supervision of culture and governance</p> <p>In conducting its prudential supervision of APRA-regulated institutions and in revising its prudential standards and guidance, APRA should:</p> <ul style="list-style-type: none">• build a supervisory program focused on building culture that will mitigate the risk of misconduct;• use a risk-based approach to its reviews;• assess the cultural drivers of misconduct in entities; and• encourage entities to give proper attention to sound management of conduct risk and improving entity governance. | <p>Over the past year, APRA has been reviewing its approach to the supervision of governance, culture and remuneration in light of lessons from its supervisory activities, CBA Prudential Inquiry and associated self-assessments by other entities, and its 2017-18 review of remuneration practices at large financial institutions.</p> <p>Developing the capacity to supervise these issues, across a wide range of entities, with considerably greater intensity will be a multi-year program. APRA is working with the Government to ensure it has sufficient resources to implement this recommendation.</p> | <p>On track. Building on additional resourcing provided by the Government in the 2019 Budget, the recommendations of the Royal Commission, and the recommendations of the Capability Review, APRA is developing an enhanced approach to the supervision of governance, culture, remuneration and accountability within regulated institutions. APRA intends to publish a statement of its approach by the end of 2019.</p> |



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| <p>Recommendation 6.10 — Co-operation memorandum</p> <p>ASIC and APRA should prepare and maintain a joint memorandum setting out how they intend to comply with their statutory obligation to co-operate.</p> <p>The memorandum should be reviewed biennially and each of ASIC and APRA should report each year on the operation of and steps taken under it in its annual report.</p> | <p>APRA and ASIC are reviewing the cooperation and coordination arrangements between the two agencies, including revising the existing Memorandum of Understanding. This will be done with a view to strengthening the effectiveness of outcomes across the financial sector and promoting a whole of system perspective. This review will be completed in 2019.</p> | <p>On track. APRA and ASIC are progressing work on the updated MOU, which is on track to be published by the end of 2019. More formal arrangements for inter-agency coordination are also being established to ensure maximum alignment of activities in areas of common interest.</p> |
| <p>Recommendation 6.12 — Application of the BEAR to regulators</p> <p>In a manner agreed with the external oversight body (the establishment of which is the subject of Recommendation 6.14 below) each of APRA and ASIC should internally formulate and apply to its own management accountability principles of the kind established by the BEAR.</p> | <p>APRA will develop and publish accountability statements before the end of 2019.</p> | <p>On track. Subject to finalisation of its new organisational structure, APRA is developing accountability statements of the kind required under BEAR. These will be published before the end of 2019.</p> |