



APRA regulated entities to lift GCRA

**Governance, Culture, Remuneration
and Accountability (GCRA)**

A regulatory and risk race to the top

January 2020

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Introduction

On 19 November 2019 the Australian Prudential Regulation Authority (APRA) published its plans to significantly scale up its efforts to lift industry standards of governance, culture, remuneration and accountability (GCRA).

With a more intensive regulatory approach to GCRA practices, increased transparency around what 'good looks like' and with clear BEAR accountabilities – will this be the start of a regulatory and risk 'race to the top'?

KPMG summarises the key changes, what it means and practical steps you can take now to get ahead of the curve.

What's on the way?

APRA have published their approach to strengthen governance, culture, remuneration and accountability:

Strengthening of the prudential framework

What does it really mean?

APRA will develop or review existing risk management, governance and remuneration standards (CPS 220, 510, 511) making them more prescriptive based on lessons learnt from the Royal Commission and self-assessments.

Why does it matter?

More prescriptive requirements will reduce the scope of possible misinterpretation of standards for Financial Institutions (FI) and enforce firmer oversight from regulators. Therefore, it is imperative to demonstrate clear traceability from the regulatory obligation to the implementation activity within FI's and to document why decisions were taken.

What is the timeline?

- **CPS 220 (Risk Management)**
- Consultation: July 2020
- Updated Final Text: July 2021
- **CPS 510 (Governance)**
- Consultation: July 2020
- Updated Final Text: July 2021
- **CPS 511 (Remuneration)**
- Consultation Feedback: Expected early 2020

More intensified supervision

What does it really mean?

An increase in APRA resourcing to focus on supervisory activities such as:

- Targeted prudential engagements (including assessing the progress of remediation plans)
- Thematic reviews (identifying drivers of effective governance)
- Onsite review (carrying out 'deep dive' prudential reviews of risk culture and remuneration)

APRA will 'use its powers more assertively to hold boards and senior management to account for ensuring high standards of GCRA are maintained'.

Why does it matter?

Firms should expect more frequent and deeper engagement with APRA. They should expect closer scrutiny of progress against plans developed in response to previous prudential reviews and will need to ensure adequate resourcing to be able to respond to regulator requests and anticipate industry expectations.

What is the timeline?

Deep dive prudential reviews have already started into risk culture and will increase in frequency in the coming years across all four pillars of GCRA.

Increased transparency

What does it really mean?

To build public trust in the financial services sector again, APRA intends to adopt a more strategic approach to transparency, through initiatives such as board and senior management declarations, periodic self-assessments and industry benchmarking to promote better practices.

Why does it matter?

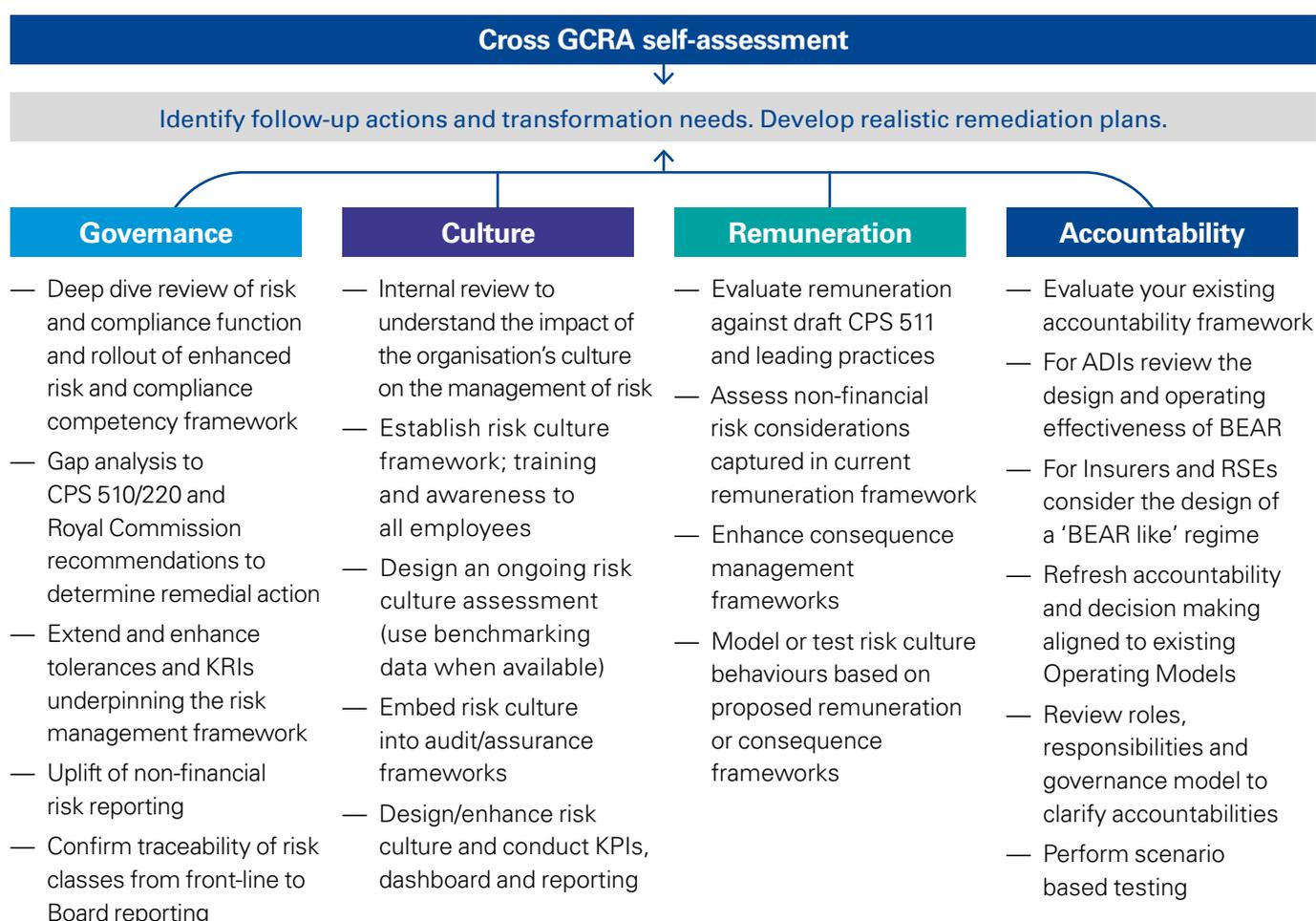
There will be higher pressure from public scrutiny with APRA's intended open sharing of findings and observations. This includes APRA disclosure and peer/society pressure on self-disclosure. Poor GCRA results will result in unnecessary costs, reputational risk and a loss of control over prioritisation.

What is the timeline?

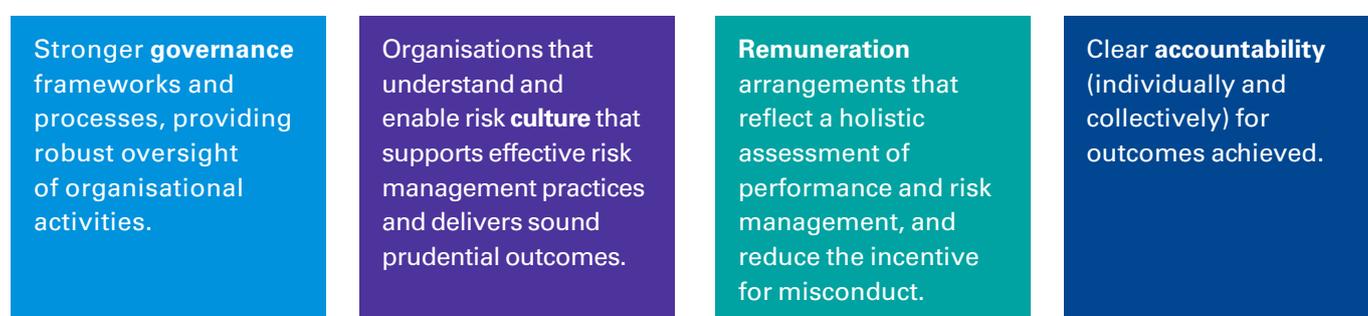
APRA will begin work mid-2020 on developing and establishing an industry-wide tool(s) to benchmark risk culture across industry sectors. However, APRA has already started deep dive reviews and findings could be publicised.

What should you do about it?

Substantial work is already underway by firms in response to the release of the final report of the Prudential Inquiry. However, the following activities should commence before updated prescriptive regulation is published:



APRA's intended outcome



“ Consideration should also be applied to your resourcing capabilities and the increased demand on your compliance and risk teams to address APRA's increased scrutiny.

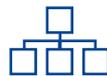
How can KPMG help?

We have deep experience across the financial services industry under-pinned by a multi-skilled team who bring global insights and data-enabled technology solutions to address the challenges arising from the uplift in governance, culture, remuneration and accountability (GCRA) standards. Our services include:



Self-assessment remediation plans

- Design effective risk transformation programs, particularly for complex federated organisations
- Perform health checks on in-flight remediation plans providing best practice program execution tools
- Share experience and insights from numerous self-assessment engagements
- Support in the identification of areas for further attention
- Quick or comprehensive assessment of status using KPMG's Accelerator Tool



Operating model assessment

- Review and refine three lines of defence (3LOD) operating models
- Design first line risk and control functions and first line risk operating models
- Design improved risk appetite statements and supporting non-financial risk reporting dashboards
- Conduct traceability analysis of key risks classes
- Assess second line compliance functions



Culture checks

- Design and conduct culture assessments and develop a tailored risk culture framework
- Identify appropriate culture indicators and develop measurement mechanisms including technology solutions to support data capture
- Recommend remedial actions based on industry insights to target areas of poor culture
- Develop training around behaviours and mindsets tailored to Boards through to first line



Remuneration deep dives

- Perform gap analysis against draft CPS 511 requirements
- Evaluate remuneration strategy and develop supporting performance framework and measures
- Develop a roadmap of activity to ensure the uplift of existing policies and the development of new policies to meet regulator's expectation
- Provide insights from global practices, especially the UK
- Design and develop data solutions to underpin reporting requirements



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