



# Macquarie Group Limited

**Review of the application of Macquarie Bank Limited's  
Client Money Framework**  
Summary Report

### ***Inherent Limitations***

The services provided in connection with this engagement comprise an advisory engagement, which is not subject to assurance or other standards issued by the Australian Auditing and Assurance Standards Board and consequently no opinions or conclusions intended to convey assurance have been expressed.

This Summary Report ("this Report") provides a summary of KPMG's findings during the course of the work undertaken for Macquarie Bank Limited ("Macquarie"). As this Report has been requested to provide a high level view of our key findings in connection with the Engagement (as defined), you may not place any reliance on the information, findings or conclusions in the absence of written confirmation from us, as our conclusive findings are only contained in our final detailed report dated 18 May 2016.

No warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by, Macquarie or Macquarie management and personnel consulted as part of the process.

The information and conclusions set out in this Report have been extracted from our final detailed report dated 18 May 2016. KPMG has not, and is not obliged to, undertake any procedures in relation to, or update this Report for events occurring subsequent to 18 May 2016 that may be relevant to this Report.

Due to the inherent limitations of any internal control structure, it is possible that fraud, error or non-compliance with laws and regulations may occur and not be detected. Further, the internal control structure, within which the control procedures that have been subject to the procedures we performed operate, has not been reviewed in its entirety and, therefore, no opinion or view is expressed as to the effectiveness of the greater internal control structure.

The procedures performed were not designed to detect all weaknesses in control procedures as they were not performed continuously throughout the period and the tests performed on the control procedures were performed on a sample basis. Any projection of the evaluation of control procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

The findings in this Report have been formed on the above basis.

### ***Third Party Reliance***

This Report has been prepared solely for the purpose set out in Section 3 and for Macquarie's information, and is not to be used for any other purpose or distributed to any other party without KPMG's prior written consent.

This report has been prepared at the request of Macquarie in accordance with the terms of KPMG's engagement letter dated 21 April 2016 and Addendum dated 15 June 2016 ("our Engagement Letter"). Other than our responsibility to Macquarie, neither KPMG nor any member or employee of KPMG undertakes responsibility arising in any way from reliance placed by a third party on this Report. Any reliance placed is that party's sole responsibility. In that regard, we consent to this Report being released to ASIC on the basis set out in our Engagement Letter.

We disclaim any assumption of responsibility by KPMG to any person other than Macquarie, or for any use of this Report for any purpose other than that for which it was prepared.

The definitive version of this Report is the one bearing our original signature and Macquarie management is responsible for any errors or inaccuracies appearing in any reproduction in any form or medium.

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# 1. Introduction

As set out in our Engagement Letter dated 21 April 2016 ("Engagement Letter"), KPMG agreed to undertake a review of the application of Macquarie Bank Limited's ("Macquarie") Client Money Framework (Macquarie's Framework) in Australia ("the Engagement").

As part of the Engagement, we agreed to deliver a report to both Macquarie and the Australian Securities and Investments Commission (ASIC) within one month of the commencement date. Subsequent to the completion of the Engagement, Macquarie asked us to deliver a "Summary Report" providing a high level summary of the findings set out in our report dated 18 May 2016. The terms of this request are set out in an Addendum to the Engagement Letter dated 15 June 2016. This document is the "Summary Report".

As this Summary Report has been requested to provide a high level view of our findings in connection with the Engagement, you may not place reliance on the information or conclusions contained within it, as our conclusive findings are only contained in our final detailed report dated 18 May 2016.

# 2. Background

On 8 March 2016 a decision was issued by ASIC in relation to Macquarie that additional conditions should be imposed on its Australian Financial Services Licence (AFSL). Macquarie subsequently applied to the Administrative Appeals Tribunal for a review of ASIC's decision.

Through subsequent discussions, Macquarie engaged KPMG to undertake an external expert review of the effectiveness of the application of Macquarie's Framework implemented by Macquarie in response to the identification of the breaches.

# 3. Scope and approach

The scope of the Engagement was agreed as follows:

- Test the effectiveness of the application of Macquarie's Framework in Australia over the six month period ended 31 March 2016 in supporting compliance with the Client Money Requirements and with section 912D of the Corporations Act; and
- In light of the above, recommend to management enhancements to the application of Macquarie's Framework that we think are appropriate.

We note that the scope of this Engagement was designed in contemplation of the timeframe in which Macquarie and ASIC requested it be completed, being within one month from commencement. The scope only included limited testing of the operating effectiveness of certain operational controls relating to compliance with the Client Money Requirements to the extent stated.

In light of the Scope, a summary of the approach is as follows:

- We inspected copies of approximately 225 documents provided by Macquarie and made further enquires of Macquarie management and personnel as required.
- We conducted 39 interviews with a total of 53 members of Macquarie management and personnel in order to understand how Macquarie's Framework is applied in practice.
- Where processes and controls had been enhanced as a result of the breaches of the Client Money Requirements, we reviewed the actions identified by management to mitigate the risk of the breach recurring, assessed the appropriateness of those actions and, for a sample, tested that the appropriate actions identified have been implemented.

Our findings and associated recommendations set out in this Report should be considered in this context.

## 4. Overall Conclusion

Based on the work performed during the Engagement, we consider that Macquarie is applying Macquarie's Framework in the manner contemplated during its design and implementation. Overall, we make the following observations:

- We consider that the relevant Macquarie management and personnel have a strong understanding of Macquarie's Framework and client money activities designed to manage Macquarie's compliance with the Client Money Requirements.
- There is strong appetite within Macquarie management to be compliant with the Client Money Requirements, and a recognition of the importance of individual responsibilities in applying Macquarie's Framework as designed.
- We have evidenced a strong "tone from the top" regarding the importance of applying Macquarie's Framework effectively and managing ongoing compliance with the Client Money Requirements.
- In our view, Macquarie's Framework has been embedded into business as usual processes, controls and governance initiatives and standard Business Group reporting. For example, it is now a Macquarie policy requirement to consider client money in all new product approvals, assurance testing is being performed on critical client money controls by Macquarie's Business Operational Risk Managers, and client money bank accounts are being recorded in the bank account register. We note that Macquarie's Framework has been operating since March 2014, demonstrating its sustainability to date.
- We consider that appropriately qualified and experienced people have been appointed into the key roles within Macquarie's Framework. These individuals have displayed the right mindset, level of influence and desire to apply Macquarie's Framework effectively. Whilst there could be key person risk associated with several key roles in Macquarie's Framework, we note that where there has been some turnover in certain roles over the period under review, new appointees have been of an appropriate level of experience and appropriate steps have been taken to on-board them into their respective roles effectively.
- We observed appropriate incident escalation and breach management activities and an appropriate degree of transparency in recording, analysing and assessing incidents. This has led to the timely identification, assessment and remediation of incidents and appropriate documentation supporting decisions made.
- We note that certain processes and controls supporting Macquarie's compliance with the Client Money Requirements are of a manual nature. By their nature, manual processes have a higher inherent risk than automated, system driven controls. As a result, it is important that Macquarie continues to focus on ensuring that those processes and controls remain effective.

Through our procedures we did not identify any breaches of the Client Money Requirements which had not already been identified and assessed by Macquarie in accordance with Section 912D of the Corporations Act.

We raised a limited number of findings during the course of the Engagement and provided associated recommendations. Whilst we did not identify any issues which would constitute a breach of the Client Money Requirements, we consider that addressing these matters will further strengthen the application of Macquarie's Framework and therefore enhance Macquarie's ability to comply with the Client Money Requirements. A summary of these observations and areas for improvement are set out below.

Context	Summary of observation / improvement opportunity	Summary of recommendation
<p><i>Attestation process</i></p> <p>While not formally required under the Client Money Requirements, Macquarie's Framework includes a cascading attestation process whereby Client Money Control Owners complete quarterly attestations to report on compliance with the Framework.</p>	<p>We noted instances of where:</p> <ul style="list-style-type: none"> <li>• Exceptions reported in the attestations did not correlate to exceptions reported in Macquarie's incident management system;</li> <li>• Attestations were not completed for key client money controls as contemplated by Macquarie's Framework; and</li> <li>• Attestations were not completed within the time frames contemplated by Macquarie's Framework.</li> </ul>	<p>Refresher training should be provided to Client Money Owners in relation to their responsibilities, including:</p> <ul style="list-style-type: none"> <li>• the requirement to report all control exceptions (incidents and breaches) in the attestations; and</li> <li>• timeframes within which the attestations should be completed.</li> </ul> <p>Additional controls should be implemented to confirm that an attestation test is in place for all controls in the Business Group Client Money Operational Risk Self Assessment each quarter.</p>
<p><i>Training</i></p> <p>Macquarie's Framework requires that client money training forms part of Macquarie's business-as-usual compliance training. The format and frequency of training is determined by the level of perceived risk in relation to client money across the Macquarie Group.</p>	<p>A small number of new joiners in roles that are required to undertake client money training, with potential exposure to client money, were not included in the enrolment criteria for the online client money training course as required by the principles of Macquarie's Framework.</p>	<p>Management should consider introducing additional reporting to the Client Money Framework Owner in relation to members of staff who have not completed the mandatory training.</p> <p>Management should validate that all staff required to undertake the client money training across business functions not previously considered, have undertaken the training.</p>
<p><i>New Product Approval</i></p> <p>The Framework requires all new products and significant product variations to be formally assessed to determine whether there are client money implications resulting from the product or product variation.</p>	<p>Instances were noted where documented assessments for new product approvals, or product variations, did not contain evidence of considerations as to whether the products gave rise to client money implications.</p>	<p>Management should reinforce the requirements of the New Product Approval policy such that all new product approval or significant variation assessments include a statement in relation to client money implications.</p>

Context	Summary of observation / improvement opportunity	Summary of recommendation
<p><i>Incident reporting</i></p> <p>Macquarie's Framework requires all incidents (including potential breaches and near misses) to be escalated to Business Group Aligned Compliance, Business Group Legal and the Business Group Client Money Owner as soon as the issue is identified. Incidents and relevant assessments should be recorded in Macquarie's incident management system.</p>	<p>In relation to two incidents, documentation within Macquarie's incident management system, or supporting documents, did not include sufficient rationale as to why the incidents did not constitute breaches of the Client Money Requirements.</p>	<p>Management should consider enhancing documentation within Macquarie's incident management system, or supporting documents, to ensure the rationale as to whether or not incidents constitute a breach of the Client Money Requirements, is captured.</p>

Given the complexity of the regulatory environment, particularly as it relates to the Client Money Requirements, all financial services licensees can expect to see instances of non-compliance from time-to-time. An effective financial services business is therefore not expected to be a business that always avoids compliance issues, but rather a business that supports and actively promotes compliant outcomes and behaviours. It is one that responds to breaches or other compliance issues promptly and appropriately, including relevant remediation action as required. We consider that the manner in which Macquarie is currently applying Macquarie's Framework, supports it in achieving such compliance outcomes in relation to the Client Money Requirements.



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