

Independent Expert Report Summary

Commonwealth Financial Planning Limited

30 May 2019

LIMITATION

This Independent Expert Report Summary is prepared to provide a summary of our work carried out as the Independent Expert as defined within paragraphs 3.5.5 (i), 3.5.5 (ii) and 3.5.5 (iii) of the Enforceable Undertaking between Commonwealth Financial Planning Limited and BW Financial Advice Limited and the Australian Securities and Investments Commission (ASIC).

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Our scope and other limitations are stated in our addendum engagement agreement and statement of work dated 15 April 2019.



1. Executive summary

1.1 Introduction

Commonwealth Financial Planning Limited (CFPL) and BW Financial Advice Limited (BWFAL) entered an Enforceable Undertaking (EU) with the Australian Securities and Investments Commission (ASIC) on 9 April 2018.

The EU required CFPL to provide a series of attestations regarding its Ongoing Service (OGS) systems, processes and controls and to identify and remediate OGS Clients in respect of whom they did not discharge their Annual Review contractual obligations for the period 1 July 2015 to 31 January 2018.

On 31 January 2019, ASIC determined that CFPL was unable to satisfactorily provide the required attestations and subsequently directed CFPL to immediately take all necessary steps to stop charging or receiving OGS fees and to not enter into any new OGS arrangements.

1.1.1 CFPL commitments

In addition to the above requirements, as communicated in CFPL's letter to ASIC on 18 March 2019, CFPL committed to the following activities and timeframes:

▶ Complete remediation closure activities for the period 1 July 2015 to 31 January 2018	30 May 2019
▶ Update and/or implement new processes and controls to track CFPL OGS Clients and discharge its contractual obligations	
▶ Make further refunds of OGS Clients who declined an annual review or could not be contacted despite reasonable attempts for the period 5 June 2017 to 31 January 2019	30 August 2019
▶ Refund OGS Client fees received from 1 February 2019 due to time taken to turn off OGS fees within product and complete its reconciliation processes	30 September 2019

CFPL has retained Ernst & Young (EY) as its Independent Expert to assess and report on whether CFPL has taken reasonable steps to adhere to the clauses of the EU and complete the additional commitments above.

1.2 Our scope

The scope of our Review is to assess the activities performed by CFPL to address clauses 3.5.5 (i) and 3.5.5 (ii) of the EU dated 9 April 2018, clauses 3.5.5 (iii) and 3.8(C)(c) and (d) of the EU variation dated 20 December 2018 and the additional commitments outlined in CFPL's letter to ASIC on 18 March 2019.

This Report addresses our findings and recommendations relating to clauses 3.5.5 (i), 3.5.5 (ii) and 3.5.5 (iii).

We will report separately on the outcome of our testing of clauses 3.8(C)(c) and (d) and additional commitments outlined in CFPL's letter to ASIC by 30 September 2019.

1.3 Our approach

Our approach sought to assess the activities, controls and outcomes relied on by CFPL to demonstrably satisfy the clauses of the EU and EU variation. Our approach consisted of assessing the activities and controls undertaken by CFPL to:

- ▶ Stop charging OGS fees and not entering into any new OGS arrangement, including how this will be monitored and managed through CFPL's control environment
- ▶ Obtain comfort over the completeness and accuracy of OGS Client remediation, including: population, case assessments, remediation calculations, payments, communications and the transition of remaining activities to business as usual functions
- ▶ Update or implement changes to its systems, processes and controls to track OGS Clients and discharge its contractual obligations.

Our approach remains consistent with our 31 January 2019 Report. Where the outcome of our previous assessment found no material exceptions, we have not reperformed or retested.

We applied a risk-based approach when selecting sample sizes for our testing. We used a combination of statistical sampling and controls based testing to establish a reasonable basis to assess the effectiveness of CFPL's controls.

1.4 Summary findings and recommendations

CFPL has demonstrated a material step change in how it has responded to the EU since our 31 January 2019 Report. This change has delivered, in our view, the necessary outcomes and evidence to have materially addressed the requirements of 3.5.5 (i), 3.5.5 (ii) and 3.5.5 (iii) of the EU, including:

- ▶ Strengthening its governance arrangements including a fortnightly Program Steering Committee (PSG), chaired by the CFPL Accountable Executive and attended by senior representatives from across CFPL's Three Lines of Accountability (3LOA)
- ▶ An increase in the capability and capacity of resources, including: engaging experienced resources of a professional services firm and dedicated project management
- ▶ Active involvement by CFPL's Second and Third Lines of Accountability, including testing and ongoing check and challenge
- ▶ A mindset more intent on CFPL satisfying itself that the right outcomes had been achieved rather than deferring to the Independent Expert
- ▶ Greater completeness and consistency of key artefacts provided to evidence the outcomes of the activities and controls relied on by CFPL (for example, population reconciliation, calculation testing and external validation reports).

We have also observed the Bank actively use this experience as a case study to reflect, learn and respond to other customer and business remediations. We understand these learnings are being actively deployed where relevant across the broader Group.

1.4.1 3.5.5 (i) – CFPL taken reasonable steps to identify and remediate CFPL OGS Clients in respect of whom CFPL did not discharge its Annual Review contractual obligations in relation to the period 1 July 2015 to 31 January 2018

CFPL's remediation closure activities identified approximately 60 additional OGS Clients who would have otherwise not been remediated. These have now been assessed and subsequent remediation activities performed.

Having now completed its remediation closure activities, the work undertaken by CFPL since 31 January 2019 supports that efforts originally undertaken had materially addressed the requirements of clause 3.5.5 (i) of the EU.

Considering the above, in our view, CFPL has demonstrated the necessary outcomes and evidence to have materially addressed the requirements of 3.5.5 (i) of the EU.

1.4.2 3.5.5 (ii) – CFPL's systems, processes and controls as designed and implemented are reasonably adequate to track CFPL OGS Clients and the discharge of CFPL's contractual obligations to those clients

The requirement to stop charging OGS fees and not enter into new OGS arrangements required CFPL to re-evaluate its OGS systems, processes and controls. This has resulted in CFPL updating existing controls, removing redundancies and implementing new controls to accommodate for these changes.

CFPL has defined 16 key controls covering the delivery of the Annual Review, OGS Client off-boarding and not charging OGS fees or entering new arrangements.

Design adequacy and operational effectiveness

All 16 controls have been subject to varying degrees of testing by CFPL's 3LOA, consistent with the CBA Group Operational Risk Management framework.

No material exceptions were identified through these reviews. However, improvement opportunities and recommendations were provided to management which are in the process of being addressed.

As expected and consistent with the circumstances leading into our 31 January 2019 Report, three recently implemented controls provided partial testing samples. Where possible, operational effectiveness testing has been performed across CFPL's 3LOA and EY.

We found no material exceptions relating to the activities and controls performed by CFPL to get comfort over the design and operational effectiveness of the controls, including management's response to the improvement opportunities and recommendations.

CFPL has put measures in place to maintain a heightened level of control testing whilst the newly implemented controls are being embedded.

Go-forward business model and control environment

CFPL has been contemplating changes it can make to ensure an adequate level of control over the consistent achievement of market and regulatory expectations.

CFPL has committed to suspending pre-charging of OGS fees indefinitely and not entering into any new OGS Client arrangements, with measures taken to ensure the appropriate and controlled offboarding of current OGS Clients.

This change will materially reduce the inherent risk profile of fee charging for the provision of ongoing Annual Review services. Further, the reliance on a complex suite of inherently manual controls, as previously raised within our reports, will be substantially alleviated.

Accordingly, the controls required to successfully manage this reduced risk differ materially from those contemplated in our previous reports.

While current OGS Client contracts remain, new completeness controls have been implemented as many of the previously designed controls were prudently anchored to the charging of fees – something that no longer should occur even though the contractual obligation continues. Since our 31 January 2019 Report, we have assessed these new controls and found that they are both designed and operating effectively.

Having considered the above, in our view, CFPL has demonstrated the necessary outcomes and evidence to have materially addressed the requirements of 3.5.5 (ii) of the EU.

1.4.3 3.5.5 (iii) – CFPL has taken reasonable steps to address the findings and recommendations made within Section 4 of the Interim Report

Having considered the outcomes of our testing for 3.5.5 (i) and 3.5.5 (ii) and the commitment to suspend pre-charging of OGS fees, we believe CFPL has demonstrated the necessary outcomes and evidence to have materially addressed the requirements of 3.5.5 (iii) of the EU.

For completeness, CFPL continue to complete its activities to address our finding regarding the application of an inconsistent remediation methodology within our 31 January 2019 Report. This is due to be completed by 30 August 2019.

We also reviewed the materials provided to the Banking Executive Accountability Regime (BEAR) Accountable Executive and the steps taken to satisfy himself to prepare his Attestations. We found no material misstatements in the information relied on by the BEAR Accountable Executive or the reasonableness of the steps taken to prepare his Attestation.

1.5 Remaining activities and next steps

In line with the commitments and timeframes outlined in CFPL's 18 March 2019 letter to ASIC, the following activities are to be completed by 30 June and 30 September 2019 respectively.

1.5.1 Refund OGS Client fees received from 1 February 2019

OGS fees are charged monthly across 18 platforms, including 16 not controlled by the CBA Group (representing less than five percent of total OGS fees). Accordingly, there were approximately three months between CFPL initially responding to ASIC's directive and subsequently satisfying itself that this has been addressed.

CFPL has taken steps to refund the vast majority of OGS Clients where OGS fees were charged after 31 January 2019 by 30 June 2019. To complete this exercise, CFPL will perform a reconciliation process to get comfort over completeness and accuracy.

We will assess and report separately on the design and operational effectiveness of CFPL's refund activities and controls.

1.5.2 OGS Clients who declined an annual review or could not be contacted despite reasonable attempts for the period 5 June 2017 to 31 January 2019

We raised in our 31 January 2019 Report that CFPL applied two standards when assessing its OGS Annual Review obligation. Considering CFPL's prior practice and ASIC's guidance, the BEAR Accountable Executive directed that previous remediation was to be revisited, applying the customer-focused standard defined in ASIC's INFO sheet 232.

Limitations in the original data required CFPL to revisit approximately 40,000 service periods. This review is well progressed with case assessments reported as complete and subsequent remediation calculations, payments and communications to be completed by 30 August 2019.

We have found no material exceptions in the design of the remediation processes and controls which have been leveraged and updated to reflect learnings from the previous remediation. We have also performed initial case assessment testing which has not raised any material exceptions.

1.5.3 Limitations

Consistent with the scope of the EU, our work is limited to the provision of the Annual Review service. Our work does not assess the accuracy of fees charged for these services, the delivery or accuracy of Fee Disclosure Statements or Opt-in arrangements.

We understand CFPL has notified ASIC of potential Fee Disclosure Statement exceptions which are being investigated by CFPL.

We acknowledge the cooperation of CFPL management in undertaking our work.

We would welcome the opportunity to discuss with you, the Board or ASIC any matters relating to this Report.

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