

Independent Expert Report Summary – Prime Access Enforceable Undertaking

Australia and New Zealand Banking Group

31 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 Paragraph 3.7 of the Enforceable Undertaking between Australia and New Zealand Banking Group (ANZ) 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 23 January 2019.



1. Executive summary

1.1 Introduction

The Australia and New Zealand Banking Group (ANZ or the Bank) entered an Enforceable Undertaking (EU) with the Australian Securities and Investments Commission (ASIC) on 29 March 2018.

The EU followed ASIC's investigation into ANZ's fees for no service conduct concerning the Prime Access service package offered to ANZ's financial planning customers. A key component of the package was the provision of a documented annual review of the customer's financial plan.

The EU required ANZ, among other things, to appoint an Independent Expert as the relevant auditor for the purposes of the Audited Attestations described in Paragraphs 3.2 to 3.4 of the EU.

We were engaged and approved by ASIC on 23 January 2019 to perform the role of the independent expert.

1.2 Our scope

Our scope is defined in Paragraph 3.7 of the EU as the relevant auditor for the purposes of Audited Attestations that ANZ undertakes to provide in paragraphs 3.2 to 3.4 of the EU.

ANZ's Audited Attestations are required to include:

- 3.2. Reasonable Assurance that, since 1 January 2014 to 29 March 2018 (Relevant Period) ANZ has provided Documented Annual Reviews to all Prime Access Clients who were entitled to Documented Annual Reviews
- 3.3. ANZ has implemented the changes to its systems, controls and processes set out in Paragraph 2.19 of the EU
- 3.4. That the Signing Executive has taken reasonable steps to satisfy himself or herself that ANZ has:
 - 3.4.1. Systems, processes and controls within its financial planning business which are designed and implemented to seek to ensure that Documented Annual Reviews are being provided in accordance with the Prime Access Service
 - 3.4.2. Systems, processes and controls that detect recurring instances of non-delivery of Documented Annual Reviews
 - 3.4.3. Systems, processes and controls for escalating, following up and remediating any detected instances of non-delivery of Documented Annual Reviews.

1.3 Our approach

Our approach sought to assess the activities, controls and outcomes relied on by ANZ to demonstrably satisfy the requirements of the EU. Our approach consisted of:

- ▶ Assessing the completeness and accuracy of the subject matter information prepared by ANZ for the Signing Executive to provide their Attestations
- ▶ Conducting system, process and control walkthroughs defined by ANZ as to how they ensure that Documented Annual Reviews are being provided in accordance with the PA Service, detect recurring instances of non-delivery, and escalate, following-up and remediate instances of non-delivery
- ▶ Attending ANZ's primary governance forum responsible for overseeing and monitoring the delivery of the PA Documented Annual Review
- ▶ Assessing the design, operational effectiveness and outcomes of key controls via sample based testing.

Our approach was applied across the following key activities and timeframes of the Relevant Period:

- ▶ PA Client remediation activities performed between 2014 and 2017
- ▶ Activities, controls and outcomes relied on by ANZ to design and implement changes to its systems, processes and controls between 2014 and 2016
- ▶ Activities, controls and outcomes relied on by ANZ to get comfort over the operating effectiveness of its systems, processes and controls between 2017 and 2018, including any PA Client remediation.

We applied a risk-based approach when selecting sample sizes for our testing to establish a reasonable basis to assess the effectiveness of ANZ's activities and controls.

1.4 Summary findings and recommendations

ANZ's response suggests, as it relates to the in-scope matters, a maturing risk organisation with a level of accountability and control awareness we would expect within a business of this nature, size and complexity.

ANZ's response to uplift its systems, processes and controls was largely completed by September 2016 and has since operated as business-as-usual. This has provided ANZ time to review and refine its arrangements, in-line with its continuous improvement framework.

ANZ has demonstrated significant improvement in the delivery of its PA Documented Annual Review during the Relevant Period. This improvement can be directly attributed to the

implemented controls with five PA Clients receiving refunds post September 2016 and none in 2018.

During the Relevant Period, ANZ notified ASIC of two issues impacting approximately 1,879 PA Clients and the delivery of their Documented Annual Reviews. ANZ has provided refunds and compensation for forgone earnings to these clients.

1.4.1 Remediation calculation methodology

When calculating remediation for PA Clients during the Relevant Period, ANZ has either remediated all PA fees or, applied its remediation calculation methodology – which is to apportion PA fees. Both approaches compensate for forgone earnings.

Where the remediation calculation methodology has been used, PA Clients who paid more than \$1,000 per annum in PA fees would be refunded between 45% to 60%. The remaining fees are apportioned to priority adviser access and institutional services (for example, portfolio monitoring).

This methodology was developed and provided to ASIC in 2015 with a statement from an external party confirming its appropriateness and reasonability.

ASIC released INFO Sheet 232: *Fees for no service remediation* (INFO Sheet 232) in August 2018, after ANZ commenced remediating the impacted PA Clients for the issues mentioned above, detailing their expectations regarding ancillary services, 'bundled fees' and apportionment. This includes, but not limited to, the following views and expectations:

- ▶ Ancillary services are generally less valuable to a client than the annual review
- ▶ ASIC expect that an AFS licensee will refund the full amount of the ongoing-service-arrangement fee rather than assigning particular values to each ancillary service
- ▶ If, in exceptional circumstances, the licensee does apportion fees to other substantive services that are covered by the 'bundled' ongoing-service-arrangement fee, it must have an evidence-based methodology for apportioning value to each service.

We believe ANZ's remediation calculation methodology, as established prior to INFO Sheet 232 being issued, deviates from our understanding of current market practice and INFO Sheet 232.

On 16 May 2019, ASIC advised ANZ that their remediation calculation methodology does not align with their current expectations. ASIC requested ANZ, for PA Client's remediated during the Relevant Period, to provide additional remediation to the effect of all PA fees plus forgone earnings.

ANZ has committed to complete the additional remediation by 12 July 2019 or such other date agreed with ASIC.

1.4.2 Go-forward business model

ANZ announced on 17 May 2019 that it is closing the PA Service to new business and will transition current PA Clients to an alternative arrangement over the next 18 months.

This change will dramatically reduce the inherent risk profile of fee charging for the provision of Documented Annual Reviews.

1.4.3 Audited Attestations

As required under paragraphs 3.2 to 3.4 of the EU, ANZ is required to provide ASIC with a series of Audited Attestations.

The EU defines Reasonable Assurance as a high, but not absolute, level of assurance based on detailed testing, evidence gathering and substantiation to support the conclusion.

Where Reasonable Assurance is required under Paragraphs 3.2 to 3.4 of the EU, we conducted our work in accordance with the Standard on Assurance Engagements ASAE 3000: *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (ASAE 3000) – *Attestation Engagements*.

1.4.3.1 Opinion

Based on the procedures performed and evidence obtained, we are not aware of any material amendments that need to be made to the subject matter information prepared by ANZ to provide their Attestations.

- 3.2. We found no material misstatements in the subject matter information relied on by ANZ's Signing Executive to prepare his attestation that, since 1 January 2014 to 29 March 2018, ANZ has provided Documented Annual Reviews to Prime Access Clients who were entitled to Documented Annual Reviews and, in instances where ANZ could not find sufficient evidence of a Documented Annual Review having been provided, ANZ has paid a refund plus compensating for forgone earnings
- 3.3. We found no material misstatements in the subject matter information relied on by ANZ's Signing Executive to attest that, ANZ has implemented the changes to its systems, controls and processes set out in clause 2.19 of the Enforceable Undertaking
- 3.4. We found no material exceptions in the steps taken by the Signing Executive to satisfy himself that ANZ has:
 - 3.4.1. Systems, processes and controls within its financial planning business which are designed and implemented to seek to ensure that Documented Annual Reviews are being provided in accordance with the Prime Access Service
 - 3.4.2. Systems, processes and controls that detect recurring instances of non-delivery of Documented Annual Reviews
 - 3.4.3. Systems, processes and controls for escalating, following up and remediating any detected instances of non-delivery of Documented Annual Reviews.

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