In December 2017, the Prime Minister of Australia released the Terms of Reference (TOR) outlining the scope of the Royal Commission into the Financial Services Industry. This paper summarises the contents of the TOR and provides our view on likely impacts.

### Entities in Scope

- Authorised Deposit-taking Institutions (ADIs)
- RSE licensee of a registrable superannuation entity
- Any entity that has any connection (other than an incidental connection) to the RSE licensee of a registrable superannuation entity
- Intermediaries between borrowers and lenders
- Life and General Insurers
- Australian Financial Services Licence holders (or those exempt by virtue of being an authorised representative)

### What the Commission is Seeking to Address

- What is the nature and extent of misconduct in financial services?
- Is the culture of financial services entities driving misconduct?
- Are governance practices or any other practices, such as risk management or remuneration, driving misconduct?
- Are mechanisms for providing redress to consumers effective?
- Are superannuation members’ retirement savings being used in the best interest of members?
- Are existing laws, self-regulation and internal systems adequate?
- How effective are regulators at identifying and addressing misconduct?
- What changes are needed to the legal framework, industry practices and financial regulators?

### Royal Commission Timeline

- **Nov 2017**: Announced
- **Dec 2017**: Kenneth Hayne AC QC Appointed
- **Jan – Sep 2018**: Investigation
- **Sep 2018**: Draft Report
- **Feb 2019**: Final Report

###Protiviti’s Point of View

**Entertainment**

**Scope of the TOR**

- Broad definitions suggest the government suspects misconduct occurring outside of Banking alone and its linkage to the strength of industry legislative/regulatory oversight.
- Optimistic scope covers thousands of entities to be reviewed within 14 months.
- The broad scope of the TOR does not lend itself to a clear outcome relevant to all financial services institutions.
- Benchmarking against 'community standards and expectations' is challenging and will vary widely.

**Impact on Industry**

- Challenge to large and complex financial services organisations to meet short turnaround time frames to submit voluminous amounts of data to meet information request.
- Recommendations to improve financial services conduct could result in higher costs which would be more easily absorbed by larger institutions and may ultimately lead to consolidation in the industry.

**Likely Effect on Industry Regulations**

- Increase in legislative and regulatory powers to more effectively supervise and regulate conduct.
- Increased supervisory effort and reform to harmonise minimum regulatory standards across the financial services industry.
- Greater Board and Executive accountability for institutional conduct (for example broader roll out of the BEAR).

### Call our experts to find out how we can help

Mark Burgess  
+61.408.506.411  
mark.burgess@protiviti.com.au

Mike Purvis  
+61.417.288.244  
mike.purvis@protiviti.com.au

Philip Doran  
+61.407.771.177  
philip.doran@protiviti.com.au

© 2018 Protiviti Inc. PRO-0318-108196-AUS-ENG. Protiviti is not licensed or registered as a public accounting firm and does not issue opinions on financial statements or offer attestation services.