

2 November 2022

General Manager, Policy
Australian Prudential Regulation Authority (APRA)

By email: [REDACTED]

Dear Sir / Madam,

Re Bank First's response to APRA's consultation on Operational Risk

Bank First welcomes APRA's approach of codifying the operational risk prudential framework and wishes to take the opportunity to provide feedback to APRA's consultation on the proposed CPS 230 Prudential Standard.

Background

After 50 years of empowering educators to realise their dreams, Bank First are still driven by the same founding values and focus on putting our customers first.

As we are 100 per cent owned by our Members, our structure means that we can remain constantly focused on the needs of our Member-owners.

Feedback

Bank First encourage APRA to consider providing further guidance on the below components of the proposed Standard.

CPS 230 Requirement	Question
General	There would be benefit in understanding how APRA assess the appropriateness of an entity's approach to Operational Risk commensurate to the size, nature and complexity of its business,
General	The draft Standard is silent on Compliance versus Material Compliance and if APRA expects iterative improvements in a Bank's compliance from 1 Jan 2024.
General	The draft Standard proposes a compliance date from 1 January 2024. APRA are encouraged to consider whether this date is feasible given the significance of the change and if the effective date can be extended.
31	An APRA-regulated entity must ensure that operational risk incidents and near misses are identified, escalated, recorded and addressed in a timely manner, however no definition around a near-miss is provided.

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CPS 230 Requirement	Question
38	<p>APRA may require an APRA-regulated entity to review and change its tolerance levels for a critical operation. APRA may set tolerance levels for an APRA regulated entity, or a class of APRA-regulated entities, where it identifies a heightened risk or material weakness.</p> <p>We encourage APRA to define how they identify the heightened risk or material weakness, and if there is an expected timeframe to change the tolerance level once informed by APRA.</p>
49	<p>APRA has listed that any service providers providing the following services be classified as material: risk management, core technology services, internal audit, credit assessment, funding and liquidity management, mortgage brokerage, underwriting, claims management, insurance brokerage, reinsurance, fund administration, custodial services, investment management and arrangements with promoters and financial planners.</p> <p>There would be benefit in APRA providing guidance on how portions of outsourced activities are assessed for materiality (e.g. consultant providing risk consultation for maturity uplift or network monitoring).</p>
50	<p>Material service providers also include providers that manage information assets classified as critical or sensitive under CPS 234, however “management” of information assets is not defined.</p>
51	<p>An APRA-regulated entity must submit its register of material service providers to APRA on an annual basis. APRA may require an APRA-regulated entity, or a class of APRA-regulated entities, to classify a service provider, or type of service provider, as material, although the Standard is silent on when within the annual cycle this must be submitted.</p>
59	<p>An APRA-regulated entity’s internal audit function must review any proposed outsourcing arrangement with a material service provider for a critical operation, and regularly report to the Board or Board Audit Committee on compliance with the entity’s service provider management policy for such arrangements.</p> <p>APRA is encouraged to clarify on the regularity of the reporting requirement to the Board or Audit Committee.</p>

Additional Information

Thank you for the opportunity to provide a submission to APRA’s consultation on the proposed CPS 230 Operational Risk. If you have any questions or require additional information, please do not

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hesitate to contact if you require any further information, please contact me on [REDACTED]
[REDACTED]

Regards

[REDACTED]
/

Alison Hill
Chief Risk Officer

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