
China Australia Governance Program

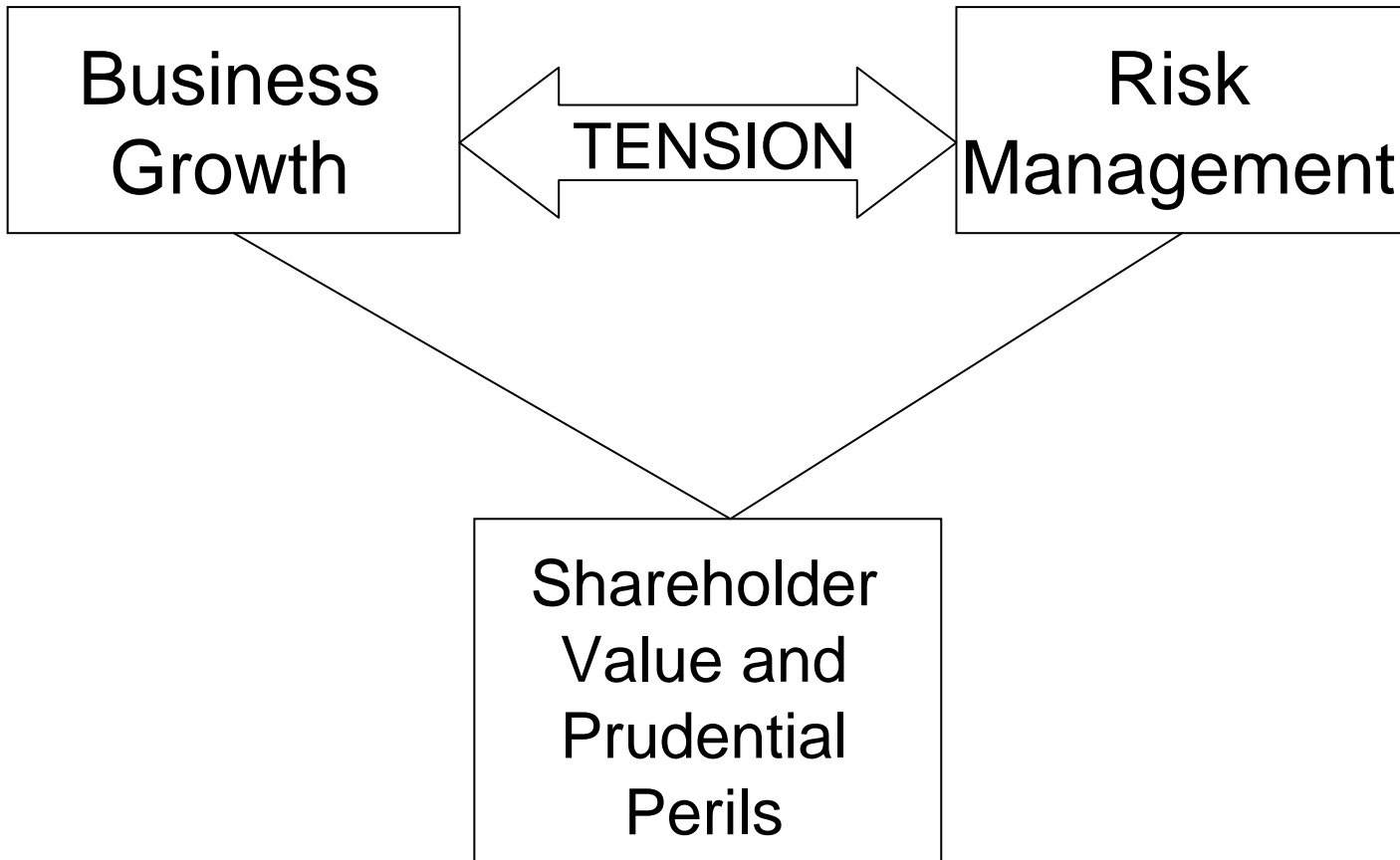
The Challenge of Change in the Financial System

Presented by

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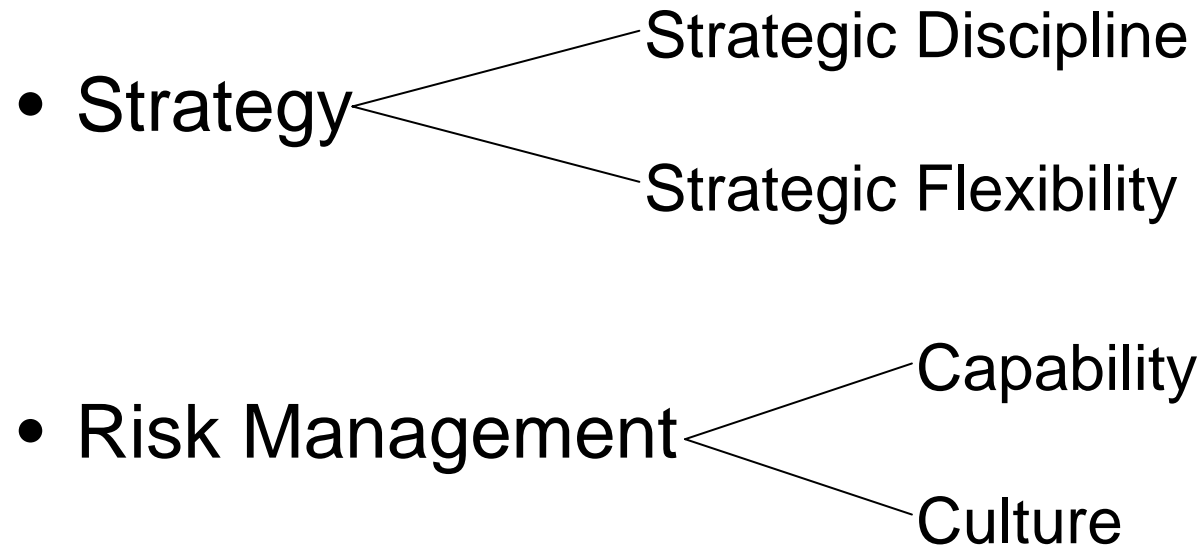
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Lessons from Australia's Experience with Deregulation



Change As Opportunity

Critical Success Factors



The Regulatory Straitjacket

STRATEGY

Little need for
strategic choices

RISK
MANAGEMENT

Little need to
manage risks in
the balance sheet

Change Management Imperatives

- Strategy
 - External analysis – environment and industry
 - Alignment between chosen strategic direction and competitive capabilities
- Risk Management
 - Alignment between agreed risk tolerance and risk control capabilities
 - Top down culture

Governance Imperative

The Board of Directors must exercise oversight

The role and responsibilities of the Board should include:

- “Establishing, with management, and approving the **strategies** and financial objectives”.
- “Establishing appropriate systems of **risk management**”.

Source: CBA Board Charter

The Board's Engagement with Strategy

- Two meetings per year devoted entirely to strategy
- One offsite meeting for two days
- At other meetings, strategic matters receive priority
- Strategy KPIs and milestones closely monitored
- Group strategy and financial plan approved annually
- Environmental assessment receives close attention

The Board's Engagement with Risk Management

- Separate Board Committee
- Chaired by Independent Director
- Meets frequently
- Annual meeting with Chief Risk Officer
- Oversees credit, market and operational risks
- Credit Risk – oversees credit policies, underwriting standards and provisioning
- Market Risk – approves policies and procedures for market, funding and liquidity risks
- Operational Risk – ratifies policies and reviews measurement and control

Essential Qualities of Directors – the 6 “i’s”

1. Integrity
2. Intellectual Capacity
3. Interpersonal Skills
4. Instinct
5. Interest
6. Intent

Source: Adapted from “Back to the Drawing Board” by Carter and Lorsch

The Three Dimensional Board

1. Monitor
2. Decide
3. Advise

Critical requirement – specify delegated authorities – matters reserved for the Board and those delegated to management