Now questions loom from NZ regulators

Smart ATMs

Patrick Durkin

The Commonwealth Bank faces questions from anti-money laundering regulators in New Zealand, after revelations that its New Zealand subsidiary ASB Bank is under scrutiny over the use of its smart ATM machines similar to those exploited by criminals in Australia.

The CBA-owned ASB Bank rolled out a network of smart ATMs in December 2013 which allow its customers to deposit under $10,000 without any identification. The ATMs operate 24/7 and allow customers to deposit cash instantly into their bank accounts, including on weekends and public holidays. The customers can then transfer funds into other accounts and move funds into other accounts and move remit the funds overseas.

Experts said other banks had hard limits of $20,000 and no monitoring systems to prevent repeat deposited under $10,000 without any monitoring systems to prevent repeat deposit of funds the deposit of cash b

Catherine Livingstone was summoned by the Treasurer. PHOTO: BROOK MITCHELL

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Morrison warns all options are open

pay substantially docked was National Australia Bank's Cameron Clyne, whose statutory pay was cut by $1 million after NAB fell short of key targets in 2012 and narrowly avoided a first strike at its AGM.

Governance advisers and shareholders said the action was a positive first step for CBA as it tries to avoid a second strike at its annual general meeting in November, after the shock first strike last year.

But they say further action might include determining whether senior executives who have recently left the bank should have bonuses clawed back and whether any executives should lose their jobs.

One large institutional shareholder of CBA said after the pay cuts were announced that they might not go far enough. He said heads needed to roll, describing the move to cut bonuses as "obviously not sufficient."

Cutting the bonuses is [easy], the hard yards is determining who gets sacked.

Daniel Smith, CGI Glass Lewis

"What do you need to do to get sacked at CBA? If not this, then what? What is a sackable offence at CBA? That is the question for Livingstone," the shareholder said, adding that the decision by the board to cut bonuses legitimised the argument that bonuses should only be a reward for exceptional performance.

UniSuper's chief investment officer John Pearce said: "Obviously everyone wants to see accountability and the board has already made a statement that no group executive will receive a bonus – and I doubt that will be the end of it." He said Mr Narev was best placed to lead the bank through determination of the case.

"The chair and the CEO would be weighing up a lot of factors at the moment and we have full confidence in both of them to make the right decisions. The last thing they need is less-informed fund managers providing gratuitous advice."

While Ms Livingstone's statement on Tuesday suggested the bonus cuts applied only to current group executives, it also raised questions about whether financial penalties will be worn by former executives such as former group chief risk officer Allen Toovey, who left the bank on July 30 last year.

The annual report shows that a cash bonus of $752,691 was deferred "at risk" to July 1, 2017. Mr Toove also has rights worth $752,691 from Commonwealth Bank shares that will vest over the next three years worth $11.3 million at current prices.

Former CBA chairman David Turner left in 2016 after a lot of work to do to patch up relationships with institutional investors, following the first strike at the bank's AGM last November. It is understood Ms Livingstone has conducted several meetings with big institutional investors over recent months.

Institutional investors have for many years argued that variable remuneration in the banking sector is not variable enough, most senior executives are paid out 100 per cent of their entitlements to a short-term bonus, effectively baking it in to their annual pay.

"This is the first step towards demonstrating accountability," said Martin Lawrence, a governance analyst at Ownership Matters, of Ms Livingstone's move.

According to data from Ownership Matters, in 2016 and 2017, the average pay-to-CBA executives between the 2015 and 2016 financial years, only seven executives received a bonus below their target (which is 100 per cent of fixed pay), and the lowest one of these received 85 per cent of the target.

Over the past four years, only one senior CBA executive has been paid below their target, according to Ownership Matters data. This was the head of wealth, Anindel Spring, who received 95 per cent of her target payment in 2016 after the disastrous Commonwealth Financial Planning scandal.

Tuesday's action to cut the short-term bonuses to zero reflects that "the board has made a big statement that annual bonuses are at risk," said one institutional investor.

But the move may not be enough to appease the retail shareholder base. The Australian Shareholders Association welcomed the decision to axe share bonus units but said the annual reduc- tion was only one way in which managers should be held accountable.

The ASA also suggested heads needed to roll, adding the government needed to put a royal commission into the banking sector "back on the agenda".