

Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry

Questionnaire issued on 15th December, 2017

Response of Citigroup Pty Limited and
associated entities (“Citi Australia”)

29th January, 2018

1 Introduction

- 1 On 20th December, 2017, Citi Australia¹ received a letter from the Royal Commission (“**Commission**”) addressed to “Citi Australia, Citi Bank” enclosing a questionnaire and inviting it to provide answers to certain questions to assist the Commission’s inquiry into Misconduct in the Banking, Superannuation and Financial Services Industry.
- 2 Citi Australia recognises the importance of the work of the Commission and of any recommendations that it may make pursuant to its Terms of Reference. Accordingly, it provides this response on behalf of itself and its associated entities which carry on business in Australia and are financial services entities.

a) Some matters of context

- 3 Citi Australia considers that the following provides important context to its submission on responding to the Commission's questions: :
 - a) The Citi entities operating in Australia are subsidiaries of an ultimate US headquartered, regulated and listed parent company, Citigroup, Inc., an international financial institution that does business in more than 160 countries and jurisdictions. Therefore, the legal and regulatory oversight under which Citi Australia operates encompasses both Australian law and regulatory guidance and also the additional standards and requirements of a comprehensive global regulatory compliance framework with which its parent and all of its subsidiaries must comply. Appropriately, these requirements have been enhanced around the world following, and as a result of, the financial crisis of 2008. Therefore, during the period of the Commission's review, Citi Australia has constantly been developing its processes, systems, culture and reporting for the double obligation it owes to Australian and international regulatory requirements and customer/client expectations.
 - b) Coinciding with the work that Citi has undertaken developing its compliance framework, governance and oversight to meet the increased standards (see Section 3 below), Citi has also transformed its business internationally and in Australia to focus on its core activities of safeguarding assets, lending money, making payments and accessing the capital markets on behalf of its clients. Citi acknowledges that its capabilities and the role that it plays in the financial lives of its customers and clients create an obligation to act responsibly, prudently manage risk, and to take decisive action if we fall short of our obligations. Citi’s mission is to “serve as a trusted partner to our customers and clients by responsibly providing financial services that enable growth and economic progress”, and Citi seeks to operate in a manner that makes a positive financial and social impact in the communities it serves. Citi believes that the steps it has taken, especially in recent years in Australia, have put it in the best position to meet those aims, and where operational and regulatory issues have arisen in Australia, as described below, they have not arisen due to inadequate or inappropriate cultural standards. The local Australian governance framework and management have set increasingly heightened expectations for the satisfaction of customers’ and clients’ requirements and performance expectations over the period of the Commission’s review.

¹ The legal structure of the Citi Australia group is described in Section 2 below. In light of the Terms of Reference and questionnaire, the group is to be taken to include, where relevant, agents and contractors to the Citi Australia entities who play a role in the delivery of Citi Australia’s products and services to Australian customers and clients (“consumers” within the meaning of the Terms of Reference).

b) Structure of this response

4 Citi Australia's response is structured as follows:

| Section | Content |
|--|---|
| 1. Introduction | Description of the process undertaken by Citi Australia to prepare this response. |
| 2. Citi in Australia | Description of relevant Citi Australia entities, lines of business, and products and services. |
| 3. Citi Australia's risk management and governance framework | Description of Citi Australia's internal systems and processes for the management of risk (including its risk culture) and to ensure fair and transparent delivery of products and services to customers and clients. |
| 4. Institutional Clients Group | Reportable Matters identified in connection with Citi Australia's institutional banking business (Questions 1 to 3). |
| 5. Global Consumer Bank | Reportable Matters identified in connection with Citi Australia's consumer banking business (Questions 1 to 3). |
| 6. Privacy, confidentiality and AML | Reportable Matters associated with privacy, confidentiality of certain information, and AML (Questions 1 to 3). |
| 7. Employee conduct | Other Reportable Matters arising from employee conduct (Questions 1 to 3). |
| 8. ASIC media releases | Summary of relevant ASIC media releases pertaining to Citi Australia's conduct (Questions 1 to 3). |
| 9. Superannuation entities | Description of activities of Citi Australia's superannuation entity and response to Question 4. |
| 10. Further observations as to conduct and causes | A consideration of whether any Reportable Matters result from cultural practices or governance deficiencies. |
| 11. Glossary | A glossary of terms defined in this response. |

c) Approach taken to preparing this response

5 The Commission's questionnaire invites Citi Australia to report on the following matters:

- a) excluding theft from Citi Australia itself, whether Citi Australia has identified any misconduct engaged in by the entity or any conduct, practice, behaviour or business activity it has engaged in since 1st January, 2008, which it considers may have fallen below community standards and expectations (including any relevant conduct, practice etc. of its officers, employees, or others acting on its behalf) ("**Reportable Matters**");
- b) the nature, extent and effect of any such Reportable Matters;
- c) certain other information concerning each Reportable Matter, including:
 - i. whether it is, or has been, the subject of another inquiry, investigation or legal proceeding;
 - ii. whether Citi Australia attributes that conduct to any particular culture or governance practice of Citi Australia or of the industry sector in which Citi Australia operates, or to any other practices (including risk management, recruitment or remuneration practices); and
 - iii. any steps taken by Citi Australia to remedy its consequences and to prevent any recurrence.

6 The questionnaire (at Question 4) also seeks information concerning registrable superannuation entities.

7 The questionnaire requires any respondent to report matters which it considers to constitute "misconduct" within the meaning of the Commission's Terms of Reference or a departure from "community standards and expectations" ("**CSE**"). Accordingly, in the period since 20th December, 2017, Citi Australia has taken the steps described below to inform itself of any conduct, practice etc. engaged in since 1st January, 2008, which might meet those descriptions.

8 Citi Australia has taken the view that properly to inform itself it should, in the short time available:

- a) retrieve and review those of its records most likely to identify any Reportable Matters and to permit it to provide the information sought. There follows in Section 3 below a summary of Citi Australia's risk management and governance framework relevant to the prevention of, detection of, and response to adverse events or practices, including those which may constitute Reportable Matters. Citi Australia has identified relevant records generated by those systems and has carefully reviewed them to identify any Reportable Matters. The Commission will understand that record-keeping practices (including relevant computer and other electronic record-keeping systems) have evolved over the ten year period in issue and that the quantity and quality of information available with respect to the early part of the period does not in all cases meet the standard of more recent records. Further, in the time available, it has not, in some cases, been possible to retrieve and review certain primary hard copy or other electronic records, to the extent they have been retained and are archived. In such instances, Citi Australia has relied upon available

summary information contained in the records of its principal internal risk committees and personnel; and

- b) make enquiries of current senior officers and employees who may have knowledge of any such Reportable Matters. In many instances, relevant personnel now available for interview are only able to speak to a portion of the period under review.

- 9 To enable it to respond to the Commission's questionnaire, Citi Australia has been required to assess the available information by reference to the key concepts of "misconduct" and "CSE" as employed in the Terms of Reference and to make a judgement (often on limited information) whether the relevant matter constitutes a Reportable Matter. While in some instances this has been difficult, it has sought to err on the side of disclosure.
- 10 Despite the challenges mentioned, Citi Australia considers that it has identified all material categories of Reportable Matters. Indeed, it has disclosed certain instances where systems or staff errors have adversely affected customers or clients. They consisted of isolated events and occurred in the context of the many millions of transactions with, or on behalf of, its customers and clients which Citi Australia completes annually. Where detected, any adverse customer or client impact has been promptly remedied and a review of Citi Australia's systems has been conducted and, if misconduct was established to have been involved, staff appropriately disciplined. In Citi Australia's view, such instances, where they do not give rise to a contravention of the law, do not amount to misconduct or a departure from CSE.
- 11 When approaching the identification of Reportable Matters, Citi Australia has had regard to the Terms of Reference which refer to the operations of relevant financial services entities which provide banking and relevant financial products and services to Australian consumers. Citi Australia understands that the concept of "consumer" extends to its retail and wholesale customers.
- 12 Citi Australia also recognises that CSE (indeed, the expectations of regulators), both in Australia and globally, have evolved over the ten year period in issue. Citi Australia's risk management and governance practices have similarly evolved over that period having regard to:
- a) the interests of various stakeholders including regulators, shareholders, customers and employees;
 - b) the fact that the markets in Australia in which it operates are competitive and highly regulated, with higher standards of conduct for market participants set in large part (though not exclusively) by law and regulatory guidance, both of which have evolved better to reflect contemporary CSE; and
 - c) the fact that, as part of a global bank, it has during the relevant period complied with global policies and procedures, some of which have from time to time imposed higher standards of conduct than Australian law, regulatory guidance and market practice.
- 13 Where relevant, the matters referred to in the preceding paragraph are discussed in greater detail below.
- 14 In Sections 4 to 7 of this response, Citi Australia has described Reportable Matters (and has addressed Questions 1 to 3 posed by the Commission) by reference to its specific lines or other aspects of its operations. Where possible, it has done so by grouping conduct into

categories in a manner which may be of some assistance to the Commission having regard to its Terms of Reference. In such cases, in response to Questions 1 to 3, it has provided illustrative examples of such categories of conduct, its causes, and the remedial actions taken by Citi Australia. For the assistance of the Commission, Citi Australia has sought to annotate Sections 4 to 7 to identify where particular aspects of the Commission's questions are addressed.

- 15 The concepts of "misconduct" and "CSE", as employed in the Terms of Reference and questionnaire, extend well beyond conduct which is unlawful. Citi Australia makes no admission that any Reportable Matter involved unlawful conduct on its part or on the part of its officers, employees or agents. Further, while all incidents reported mark a departure from Citi Australia's own conduct standards and are regretted, it does not consider that all such incidents were associated with a breach of any legal obligation owed to a customer or client.
- 16 The Commission will appreciate that certain matters which might ultimately be determined to constitute Reportable Matters are the subject of current litigation or regulatory inquiry. Citi Australia has therefore not addressed those matters in this response.

2 Citi in Australia

- 17 Citi Australia has been actively involved in the Australian banking market since 1971, and was granted a full domestic banking licence by the Australian Federal Government in 1985 as part of the deregulation of the Australian banking system.
- 18 Citi Australia is the combination of the two main businesses that operate in Australia: the Institutional Clients Group (“**ICG**”) and the Global Consumer Bank (“**GCB**”). Unless indicated otherwise, references to GCB throughout this response are references to the Australian operations of the Global Consumer Bank. The two business lines are supported by certain functions, including Risk, Compliance, Legal, Human Resources (“**HR**”), Finance, and Operations & Technology.
- 19 Citi entities operating in Australia include: Citibank N.A., Sydney Branch (“**CBNA**”), Diners Club Pty Ltd, Citicorp Pty Limited, Citigroup Pty Limited (“**CPL**”), Citicorp Nominees Pty Ltd, Citisecurities Ltd, Citibank Australia Staff Superannuation Pty Ltd, Citigroup Securities Clearing Australia Ltd, CSCAL Nominees Pty Ltd, Citigroup Global Markets Holdings Pty Ltd, Citigroup First Investment Management Australia Ltd, Citigroup Global Markets Australia Nominees No. 2 Pty Ltd, Citigroup Global Markets Australia Pty Ltd, Dervat Nominees Pty Ltd, Calex Nominees Pty Ltd and Feta Nominees Pty Ltd.
- 20 Citigroup, Inc. is the ultimate parent company of the entities referred to above.

a) Institutional Clients Group

- 21 ICG builds and maintains relationships with clients by providing a suite of strategic advisory and financing products to multinational and local corporations, financial and public sector institutions, and governments in more than 160 countries and jurisdictions.
- 22 Citi Australia’s ICG business is organised into the following four groups:
- a) **Corporate and Investment Banking:** The Corporate Bank provides a spectrum of corporate banking services, including cash management, foreign exchange, trade finance, custody, clearing and loans, capital markets, derivatives, and structured products. The Investment Banking unit provides financial advisory and capital raising services.
 - b) **Capital Markets Origination:** This group includes Equity Capital Markets and Debt Capital Markets. Capital Markets Origination serves clients’ financing needs by offering a range of products such as bond and loan underwriting, initial public offerings, private placements, leveraged finance and derivative structuring.
 - c) **Markets and Securities Services:** Citi Global Markets is Citi’s international broker-dealer which has a presence internationally and a presence in Australia as a dealer, market maker and underwriter in equity and fixed income securities and offers risk based services to producers and investors in commodity markets. It also provides financing services to a range of corporations, governments, and institutional investors. Citigroup Global Markets Australia Pty Ltd’s (“**CGMA**”) trading activities encompass equities, commodities, credit, futures, foreign exchange, cash, exchange traded and over-the-counter (“**OTC**”) derivative markets.

Citi Securities Services acts as a custodian in safekeeping assets and providing a range of domestic and global custody services. It also provides additional services in

transfer agency, fund accounting, prime brokerage, structured lending, hedge fund investments, securities lending, buying, selling and clearing of futures and OTC derivative clearing services to its base.

- d) **Treasury and Trade Solutions:** This group provides integrated cash management and trade finance services to multinational corporations, financial institutions and public sector organisations across the globe. Offerings include cash management, payments, receivables, liquidity management and investment services, working capital, commercial and prepaid card programmes, and trade finance.

23 The primary legal entities used by the ICG business in Australia include Citibank N.A., Sydney Branch ("**CBNA**") and CGMA. Some components of the Custody and Fund Administration Services (fund accounting and unit registry are services within Fund Administration) and Commercial Cards, operate in CPL. In addition, ICG offers third party clearing services through Citigroup Securities Clearing Australia Limited, a subsidiary of CPL.

24 CBNA is a foreign authorised deposit-taking institution ("**ADI**") regulated by APRA. CBNA provides services to wholesale clients in Australia under ASIC Class Order 03/1101. CGMA holds an Australian financial services licence and is an ASX, ASX 24 and Chi-X market participant.

b) Global Consumer Bank

25 CPL operates the GCB in Australia. It is an ADI and holds an Australian financial services licence and an Australian credit licence. GCB's target client segments are emerging affluent, affluent and high net worth, globally-minded consumers.

26 Globally, GCB serves more than 100 million clients, competing based on its global footprint, its local presence and knowledge, and its ability to deliver a consistent and enhanced banking experience. In Australia, GCB consists of three primary business lines:

- a) branded and white labelled credit cards (including the Diners Club network);
- b) retail banking (including basic banking products and sales of investment products);
and
- c) mortgages.

27 All the above lines of businesses operate within CPL except for the Diners Club charge card business. This operates through Diners Club Pty Limited, a related entity which is not an ADI, the holder of an Australian Financial Services Licence or an Australian Credit Licence.

28 GCB offers a range of financial services products including transaction and savings accounts, foreign currency deposits, investments, credit cards, unsecured personal loans and lines of credit and mortgages. It also distributes a limited range of insurance, primarily in connection with credit cards and loan products.

29 GCB does not offer certain banking products offered by other providers in the market. For example, GCB is not involved in the following business lines:

- a) automotive loans, including related add on insurance;
- b) other secured personal loans or consumer leases; or

- c) SME financing (although some credit card products are offered to business customers, mainly under the Diners network).

c) Superannuation entities

- 30 One of Citi Australia's associated entities (Citibank Australia Staff Superannuation Pty Limited ("**CASS**")) is an APRA Registrable Superannuation Entity ("**RSE**") licensee. Its activities and Citi Australia's response to Question 4 are addressed in Section 9 below.

3 Citi Australia's risk management and governance framework

a) Introduction

31 There follows a description of certain of Citi Australia's internal systems and processes for the management of risk. Those systems and processes (including Citi Australia's risk framework) exist not simply to ensure bare legal and regulatory compliance by Citi Australia. Importantly, they exist (and are regularly reviewed) with the aim of ensuring that when delivering products and services to its customers and clients, Citi Australia does so in a fair and transparent manner and meets their expectations.

b) Risk framework

32 The risk framework is the primary framework used by Citi Australia to manage regulatory and compliance risk and to ensure appropriate service delivery to customers and clients.

33 CPL and CBNA manage (in accordance with *APRA Prudential Standard CPS 220 Risk Management*) a range of risks by employing a formal risk management system. CPL's and CBNA's Risk Management Framework ("**RMF**"), Risk Management Strategy ("**RMS**") and Risk Appetite Policy ("**RAP**") function together to identify, measure, evaluate, monitor, report and control or mitigate all sources of material risk. The RAP communicates types and levels of risk that CBNA and CPL are willing to take within the approved Risk Appetite Statement ("**RAS**").

34 "Three Lines of Defence" have been implemented to ensure clarity of responsibilities and risk management. The First Line of Defence consists of each of Citi Australia's businesses, which own and manage the risks inherent in or arising from their business. They are responsible for establishing and operating controls to mitigate key risks, performing manager assessments of the design and effectiveness of internal controls, and promoting a culture of compliance and control.

35 The independent control functions (the Second Line of Defence) include Independent Risk Management, Finance, Compliance, Legal, and Human Resources. These groups set standards against which the businesses and functions are required to manage and oversee risks, including conformance with applicable laws, regulatory requirements, Citi Australia's policies and other relevant standards of ethical conduct.

36 Citi Australia's Internal Audit function (the Third Line of Defence) independently reviews the risk compliance activities of the first two lines of defence based on a risk-based audit plan.

c) Material Risks

37 The range of risks Citi Australia faces includes credit, market, liquidity, operational, compliance, legal and reputational risk. Most relevant to this response to the Commission are operational, compliance and legal risk.

38 The RAP and RMF address the material operational, compliance and legal risks that CPL and CBNA face:

- a) Operational risk is the risk of loss resulting from inadequate or failed internal processes, systems, human factors, or from external events. It includes

reputational² and franchise risk associated with business practices and market conduct, and the risk of failing to comply with applicable laws and regulations, but excludes strategic risk;

- b) The Citi Global RAP defines Legal risk to include the risk of loss, whether financial or reputational, due to legal or regulatory actions, proceedings, or investigations, or uncertainty in the applicability or interpretation of contracts, laws or regulations;
- c) Compliance risk³ is the risk arising from violations of, or non-conformance with, local, national, or cross-border laws, rules, or regulations, internal policies and procedures, or relevant standards of conduct. The main sources of compliance risk are regulatory change, control frameworks, business change, management information systems and training and education.

39 The Operational Risk Management Framework (“**ORMF**”) is intended to ensure the management throughout Citi Australia of operational risk and ongoing exposures in the development and delivery of products and services. Twelve operational risk categories have been identified in the framework and these risks are categorised using the Operational Risk Matrix. The Operational Risk Appetite Ratio, Operational Risk Capital Strength and Operational Risk Loss Events are metrics and tolerances used to monitor and to reduce such risks. Operational risk is also managed through the Manager’s Control Assessment, which is a global framework for the identification, development and implementation of risk assessment and control monitoring activities tailored for each significant operational risk in each business, control or support unit, and the analysis, assessment and reporting of control information. The management of operational risk is governed by the Global Head of Operational Risk, Operational Risk Management, and Operational Risk Senior Managers.

40 Compliance monitors regulatory compliance risk. The Compliance Risk Appetite Framework is guided by the principle of Responsible Finance and aims to increase transparency and accountability throughout the organisation. Compliance provides training and awareness, policies, procedures and oversight of regulatory and policy breaches to mitigate compliance risk. The Compliance Chief Country Compliance Officer Australia reports to the Board, governance committees and senior management on significant compliance risks, the management, minimisation, and mitigation of these risks, and the effectiveness of the programmes in place to manage these risks.

41 In order to minimise legal risk, the Australian Legal function provides and/or procures legal advice and counsel to facilitate, and ensure adherence with laws and regulations and to facilitate the operation of Citi Australia’s business activities. Legal risk is managed in accordance with Citi Australia’s qualitative risk appetite principles. Management is led by Senior Counsel, and supported by Legal Counsel.

d) Key personnel and committees

42 The CPL Board of Directors and Senior Officer Outside Australia (“**SOOA**”) for CBNA appoint the Chief Risk Officer (“**CRO**”) for their respective entities. The CRO has frequent, independent and direct access to senior management, the CPL Board of Directors and the

² Reputational risk, the risk to current or anticipated earnings, capital, business or enterprise value arising from negative public opinion, pertains to risk associated with negative public opinion.

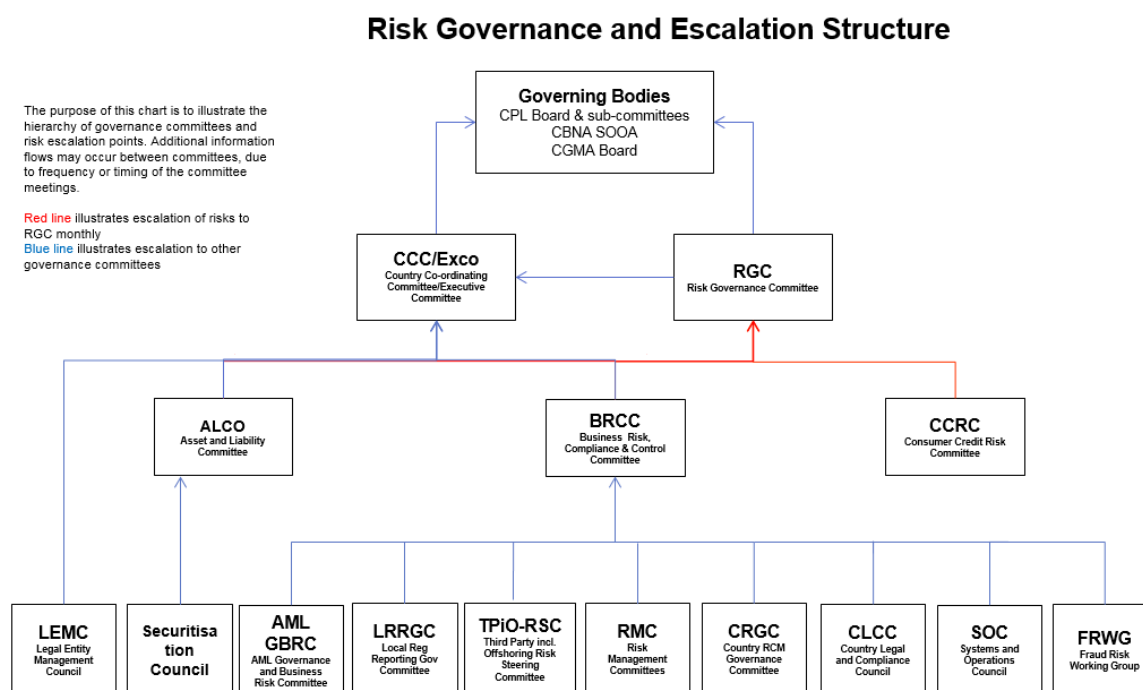
³ Strategic risk (associated with adverse business decisions, poor implementation of business decisions, or lack of responsiveness to changes in the banking industry and operating environment) also has relevance in this regard.

CBNA SOOA. The CRO reports directly to the Chief Country Officer/CEO of CPL and CBNA, and is responsible for:

- a) developing and maintaining an appropriate RMF, taking into account the size and complexity of CPL and CBNA;
- b) providing risk management oversight of all risks;
- c) providing oversight and challenge over the first line of defence; and
- d) ensuring risk functions are adequately resourced.

- 43 In conjunction with the Australian heads of global functions, the CRO appropriately reports on the risk profile of the APRA-regulated entities to the CPL Board of Directors and the CBNA SOOA, provides advice on risk based performance assessments and reports to the regulator any significant breach of, or material deviation from, the RMF.
- 44 The heads of global functions in Australia (including Independent Risk Management, Operational Risk Management, Risk, Treasury, Legal, Compliance, Finance and Human Resources) monitor material risks, ensure internal control systems are in place and oversee the risk appetite. Amongst other things, this involves the development of risk appetite and tolerance metrics, reporting performance within risk appetite, escalation of any breach or potential breaches of risk appetite, and ensuring remediation of any such breaches.
- 45 Business managers must ensure that their business operates within the RAS, promote awareness of the RAS to employees, escalate any identified breach or potential breach of risk appetite to a relevant risk manager, and ensure appropriate remediation of any breaches.
- 46 Risk is also governed at a country level to ensure that Citi Australia appropriately adheres to Australian regulatory requirements as well as Citi's Global and Regional policies (certain of which set more stringent standards of conduct than local law), regulatory guidance and market practice.
- 47 The Risk Governance Committee ("**RGC**") is the primary material risk management governance forum for the CBNA, CPL and CGMA legal entities. It operates as a formal mechanism to raise risk management issues.
- 48 The Business Risk Compliance and Control Committee ("**BRCC**") provides a forum for senior management to discuss significant issues within that specialist field, reach key decisions and oversee corrective action. The BRCC may review issues escalated from other committees on risk management matters.
- 49 The Country Co-ordinating Committee ("**CCC**")/Executive Committee ("**EXCO**") together comprise the primary governance forum in Australia and provide a formal mechanism to consider and act on important issues throughout Citi Australia. CCC/EXCO ensures the timely sharing of information and identification of any issues (including legal, compliance, regulatory, control or public relations). CCC/EXCO receives risk reporting from the RGC and escalates material issues to the CPL Board and the CBNA SOOA as required.

50 The diagram below illustrates part of Citi Australia's risk governance hierarchy.



Note: CCRC deals with credit risk in the GCB rather than regulatory or compliance issues

e) Code of Conduct

- 51 A Code of Conduct applies to every director, officer and employee of Citigroup, Inc., including those of Citi Australia. As to misconduct, the Code details leadership standards, reporting obligations, investigations, methods to protect Citigroup, Inc.'s customers, employees, brand and personal, proprietary and confidential information. The Code of Conduct, along with related policies and procedures, as well as documented leadership standards, set the standards of ethics and professional conduct to which Citi Australia's employees are expected to adhere.
- 52 The Code of Conduct imposes a reporting obligation on individuals who reasonably suspect or become aware of a possible violation of law, regulation, policy or the Code. Employees are encouraged to first report any concerns to an appointed person under applicable local disclosure procedures, a member of management, Human Resources, employee or labour relations representative, internal legal counsel, compliance officer or the Citi Australia Ethics Office. An "Ethics Hotline" allows people who reasonably suspect or become aware of a possible violation of law, Citi Australia's policies or the Code of Conduct to report their concern. Reports may be made anonymously and confidentially.
- 53 The Code of Conduct provides that, in response to reports of misconduct or other unethical behaviour, Citigroup, Inc. will investigate thoroughly and in a timely manner. Retaliatory action against anyone who has reported concerns in good faith is prohibited.
- 54 Violation of the Code of Conduct or any other of Citigroup, Inc.'s policies may result in disciplinary action, including termination of employment. Misconduct that warrants disciplinary action includes: violating or asking others to violate the Code, failing to raise a known or

suspected violation of the Code, ignorance of the Code, retaliation against another employee for raising concerns or participating in an investigation, or failing to demonstrate leadership in encouraging employees to comply with the Code.

f) Risk Culture

55 Citi Australia recognises that it engages in activities that involve uncertainty. It has founded a Risk Culture based on taking “Intelligent Risk with Shared Responsibility”, without forsaking individual accountability. Citi Australia sets an appropriate “tone from the top” by promoting a strong culture of compliance and control, including standards of integrity and ethical conduct for employees at all levels of the firm, as reflected in the Code of Conduct. Employees attest to the Code of Conduct when joining Citi Australia and reaffirm that commitment biannually by completing Code of Conduct training.

56 Citi Australia develops training and awareness programmes and initiatives to educate employees on requirements, risks, internal policies and procedures and conduct standards.

g) Risk and Incident Escalation

57 Any breaches of Citi Australia’s RAS (which would extend to Reportable Matters) are subject to the risk escalation process. Breaches are promptly notified to the CRO and Risk Governance Committee by the relevant Material Risk Manager. The CRO will discuss with the business owner or Material Risk Manager to agree action plans. The CRO will also advise the relevant boards, including the Board of CPL, and the SOOA of any material breaches. Any breaches of trigger levels (outside risk tolerance levels) will be handled employing existing governance described above.

58 Incidents may be identified through a variety of means, including but not limited to risk assessments, controls self-assessments, losses, near misses, breaches, internal management reporting, and complaints. Identified incidents follow an escalation process which entails investigation and reporting of the incident and includes root cause analysis, analysis of customer impact and remediation and control enhancements. Incidents are also reviewed to determine breach reporting obligations.

4 Institutional Clients Group

a) Citi Markets

59 The Citi Markets business includes providing services as a dealer, market maker and underwriter to corporations, governments and institutional investors. CGMA is a market participant in ASX, ASX 24 and Chi-X.

60 Citi Australia has identified a number of isolated trading-related incidents which occurred over the ten year review period that may constitute a Reportable Matter, though some constituted mere errors and so may not meet that description and are referred to only for completeness. The incidents fall into the following categories:

a) **Dealer errors:** For example:

- i. on 15 October 2008, a CGMA Designated Trading Representative (“**DTR**”) inadvertently entered an Order to cross 160,000 shares at \$1.85 into the ASX Integrated Trading System (“**ITS**”). The DTR had intended to enter the order at a price of \$4.85. The order traded immediately and in its entirety, resulting in a market for the shares that was not both fair and orderly. CGMA promptly advised ASX Market Control of the error and requested cancellation of trades by the ASX Dispute Governors Committee [*Question 3(a)*]. The ASX Enforcement Tribunal imposed a fine of \$30,000 plus GST [*Question 3(e)*];
- ii. in 2008 to 2009, a small number of trades in relation to overnight transactions was reviewed by the ASX Enforcement Committee [*Question 3(a)*] and a \$35,000 plus GST settlement was reached [*Question 3(e)*];
- iii. in 2011, CGMA erroneously entered a priority crossing. CGMA contacted ASX within 80 seconds of the entry of the order and requested that ASX market control contact the counterparties to the buy side of the six market transactions in order to facilitate a cancellation of those trades. This enabled resolution of the error and resumption of normal trading. This conduct was subject to an ASIC investigation and Markets Disciplinary Panel (“**MDP**”) hearing [*Question 3(a)*]. CGMA paid a penalty of \$30,000 to ASIC in compliance with a MDP infringement notice [*Question 3(e)*] (see ASIC Press Release dated 27th August, 2012, referred to in Section 8 below);

- b) **Price limit filter errors:** CGMA provides direct market access (“**DMA**”) to institutional investors via its DMA platform. The DMA platform uses price limit filters to ensure that orders received are within appropriate market limits. Citi Australia identified a small number of instances of non-compliance concerning filters. For example, in 2011 a professional client placed a futures spread order through Citi Australia’s futures DMA system, which was approximately 120 bps away from fair value. This conduct was subject to an ASIC investigation and a MDP hearing [*Question 3(a)*]. CGMA paid a penalty of \$40,000 to ASIC in compliance with an infringement notice issued by the MDP (see ASIC Press Release dated 21st January, 2014, referred to in Section 8 below). To prevent recurrence, CGMA also took a number of steps including introducing a new automated order processing system, enhancing manuals and training sales and electronic execution teams [*Question 3(e)*];

- c) **Surveillance activities:** In July 2013, certain SMARTS (trade surveillance system) alerts were raised and closed by CGMA's Outsourced Service Provider responsible for the initial review of trading alerts. ASIC sent notices to CGMA about trading patterns caused by swap DMA clients being subject to the closed alerts [*Question 3(a)*]. CGMA terminated its relationship with the clients. To prevent recurrence, it also provided in-depth staff training on pattern alerts and comprehensive training on market misconduct [*Question 3(e)*];
- d) **Inadvertent buyer/seller trades:** CGMA trades on behalf of numerous clients and funds. From time to time, it inadvertently conducts trades for different accounts where the trading entity or their associate is both buyer and seller in the relevant transaction and so have the potential to mislead the market. The vast majority of such trades fall within an exception in ASIC MIR 5.7.2(h). However, trades on ASX 24 on 11th May, 2017, were self-reported to ASIC and no further action was taken [*Question 3(a) & (e)*]; and
- e) **Staff misconduct:** In 2015, conversations between a sales desk representative and a rates trader resulted in a sell order on the ASX 24 futures market for a higher price. This conduct was subject to an ASIC investigation and MDP hearing [*Question 3(a)*]. The MDP noted that this was an isolated incident which did not result in damage to the market. CGMA paid a penalty of \$50,000 to ASIC in compliance with an infringement notice issued by the MDP [*Question 3(e)*] (see ASIC Press Release dated 9th June, 2017, referred to in Section 8 below).

b) Securities Services

- 61 The ICG Securities Services business provides custody and fund administration services to superannuation funds and other institutional clients. As custodian, ICG acts on instructions of the client or their agents (e.g. investment managers). ICG establishes bank accounts as part of these arrangements. The fund administration services are in effect outsourced by clients to Citi Australia.
- 62 Citi Australia has identified a number of isolated errors over the ten year review period in relation to custody and fund administration services. Citi Australia does not consider that all of these errors constitutes a Reportable Matter. However, they are summarised below for completeness.
- 63 The errors (with one exception noted below) were not the subject of an external inquiry, investigation or proceeding.
- 64 The errors fall into the following categories:
 - a) **Account opening errors:** ICG opened five NZ\$ accounts for three clients which were incorrectly set up as zero interest accounts. This occurred in about October 2013. One client detected the error and ICG then reviewed other clients' accounts and identified the two other affected clients. The affected clients were compensated and additional processes were put in place to prevent recurrence [*Question 3(e)*].
 - b) **Valuation and unit pricing errors:** Administration services provided by Securities Services include the valuation of clients' portfolios and the calculation of unit prices. It is not unusual to calculate multiple unit prices per client per day. Client portfolios typically consist of hundreds, if not thousands, of securities, and valuations rely on multiple pricing sources. Five examples of errors are:

- i. A superannuation fund trustee instructed ICG to adjust 50 unlisted securities' valuations as at 30th June, 2016. Four securities were incorrectly adjusted. The matter was addressed by recalculating the crediting rates and unit prices and providing them to the client's administrator to permit it to calculate any impact on members during the relevant period. Subsequently, Citi Australia undertook a review of the securities valuation process which led to a change being made to that process in consultation with the client [Question 3(e)].
- ii. The Net Asset Value ("NAV") of a Global Bond Trust AUD Class was incorrectly calculated due to an incorrect (zero) price flowing through to the valuation. This arose due to a zero price being validated against an incorrect source [Questions 3(b)-(d)]. The NAVs were incorrectly issued to the client and investors. The NAVs subsequently needed to be revised. Six investors received statements showing incorrect unit price movements. No redemption payments were issued incorrectly since they were held back until the NAV was recalculated the next day and only then were redemption payments issued. Updated security prices were provided to the client and reconciled against relevant reports. The fund value and unit prices were then recalculated and reissued. Following detection of this incident, process updates were introduced such that where a zero price security is identified by the system, it is reviewed against the portfolio valuation report or otherwise investigated by the appropriate business support group. Further, the pricing control system was refined to align benchmark checks across similar funds to identify apparent outliers [Question 3(e)].
- iii. In February 2016, a transaction error resulting in a valuation error for a client was identified. The error occurred since the client had instructed completion of a sale agreement form only on a Private Equity investment which was misinterpreted as a sales transaction and settled on the SECORE (a Custody IT) system. Fund Accounting ("FA") identified a stock reconciliation break between FA and Custody. However, FA also misinterpreted the client sales agreement as a sale transaction instruction and booked the sale in the accounting system (Multifonds). This resulted in a valuation error of - 0.13% between 6th December, 2015, and 10th January, 2016. Undervaluation resulted in exiting investors being underpaid and entering investors being allocated additional units. An internal independent review of Custody, Funds and processing sites was undertaken to address control failings and made several recommendations including the creation of new checklists and other control documents. Citi Australia compensated the relevant fund [Question 3(e)].
- iv. ICG used pricing from a third party vendor to value units in an unlisted trust for a superannuation trustee. ICG incorrectly used the retail class unit price instead of the institutional class unit price of the trust. The incorrect price resulted in the erroneous valuation of the superannuation fund and units being bought and sold at the wrong price in the period between November 2014 and April 2016. The unit class/price was corrected and included in the daily price file effective 17th April, 2016. A number of other steps were taken including a review of the oversight and governance model, backtesting and validation, and an independent review of control exceptions. Citi Australia paid compensation to the relevant fund [Question 3(e)].

- v. ICG failed to report a relevant interest in an ASX listed security which arose on 13th June, 2013. On investigation, it was found that the Citi systems had incorrectly valued some bonds for a client, which caused a rehypothecation of the security resulting in Citi's relevant interest change [Question 3(d)]. This triggered regulatory reporting requirements [Question 3(a)]. Operational Risk was notified to investigate root cause for the valuation error [Question 3(e)].
- c) Settlement error: In June 2016, a subset of Australia Direct Custody transactions was released to market without position holding validation (16 trades - 3 Fixed Income, 13 Equities). Investigation identified that Value Date Position ("VDP") flag was turned off in SECORE and hence the application failed to perform required validation checks on the outgoing transactions. The transactions that had gone to market utilised pooled stock positions rather than validated account holdings, causing client transactions to settle incorrectly [Question 3(d)]. VDP flag was later reverted (turned on) by OPS team to resolve the issue [Question 3(e)].
- d) Tax reporting errors: The administration services provided by ICG Securities Services include tax reporting. For some clients, this includes Taxation of Financial Arrangements ("TOFA") reporting. ICG semi-annually calculated distribution income for 22 Client ('D') Investment Trusts. The ICG TOFA model included a set up error of one particular transaction scenario. This resulted in the overstatement of distributable income to investors for 5 D investment trusts. Prior to the 30th June, 2014 financial year end, an independent accounting firm performed a review of the TOFA model. No issues were identified by that review. In addition, Citi Australia engaged a further accountancy firm to perform monthly reviews on Citi Australia's tax controls and tax packs [Question 3(e)]. The June 2014 review revealed an isolated issue in the TOFA model relating to the calculation of TOFA gains/losses (but client reporting had already being sent) [Question 3(d)]. The TOFA model was modified and tested to calculate correctly for the scenario causing this incident [Question 3(e)].

c) Other

- 65 Under ASX Settlement Operating Rules, settlement participants are required daily and quarterly to submit a Securities Lending Activity report to the ASX. A potential issue relating to these reports was identified in 2017. The reporting that was completed by Citicorp Nominees Pty Limited (a subsidiary of CPL which acts as an ASX settlement participant) appeared to have omitted certain data. The matter was reported to the ASX in June 2017 and a minor technology enhancement was implemented to remediate the issue to ensure that reporting is comprehensive and in compliance with ASX's requirements [Question 3(a) & (e)].
- 66 CBNA provides various services to wholesale clients in Australia, in reliance on ASIC Class Order [CO 03/1101] (now extended by ASIC Corporations (Repeal and Transitional) Instrument 2016/396). The Class Order recognises the regulatory equivalence between ASIC and the US Federal Reserve and the Office of the Comptroller of the Currency. The Class Order has certain conditions, one of which states that CBNA is to provide written disclosure to all persons to whom it provides financial services in Australia (before the financial services are provided) containing prominent statements to the effect that CBNA is exempt from the requirement to hold an Australian financial services licence under the Corporations Act in respect of these services and that CBNA is regulated by the United States Federal Reserve and the Office of the Comptroller of the Currency, under United States laws which differ from Australian laws. A Compliance Testing review in 2014 identified potential lapses in compliance with the disclosure obligation relating to the Class Order before providing financial

services to those wholesale clients. ASIC was notified of the breach and corrective action steps were raised to remedy the identified process gaps. These were remediated by 31st October, 2014, and notified to ASIC. Citi Australia includes a standard disclosure document as part of its account opening and onboarding process of Global Custody and Agency and Securities Lending products. Quarterly assessments by management are also in place to test compliance with this requirement [Question 3(a) & (e)].

- 67 CBNA's authority to carry on banking business does not allow it to accept deposits with an initial balance of less than \$250,000 from persons or unincorporated entities that are residents in Australia. Compliance testing conducted identified that some deposit amounts appear to have been accepted from ineligible customers, namely Australian residents with initial deposits below \$250,000. The internal review identified 132 accounts (approx. 4% of all accounts) as impacted by the breach. The matter was reported to both APRA and the ATO [Question 3(a)]. A letter received on 17th April, 2014, from APRA concluded that the breaches were a result of "inadequate or failed internal processes, people and systems" [Question 3(d)]. APRA required CPL to obtain independent tax advice as to whether depositors had suffered any adverse Australian income tax consequences (or any related fines, interest or other tax costs) as a result of having placed deposits with the CBNA Offshore Banking Unit ("OBU"). That advice was obtained and was provided to APRA on 12th May, 2014. In response to APRA's letter, two reviews were conducted by Internal Audit ("IA"). The first, an audit of CBNA OBU's Deposits controls, covered the activities of First and Second Lines of Defence in relation to the ongoing management of, and identification of issues in, the OBU. This report was issued on 30th September, 2014, and was rated Limited Assurance on IA's rating scale. The second IA review was completed by IA's Quality Assurance team and covered the activities of IA. Both reports were presented to APRA on 8th October, 2014. CBNA had exited OBU activities on 31st December, 2013 [Question 3(e)].

5 Global Consumer Bank

- 68 GCB and the products and services it delivers have been described in paragraphs 25 to 29 above. Further description is provided below.
- a) General approach to customer complaint monitoring and analysis**
- 69 Before turning to particular Reportable Matters, it may be helpful to the Commission if some description is provided of Citi Australia's approach to complaint monitoring and analysis.
- 70 As a retail bank which deals with many customers in respect of multiple products, and which completes many millions of transactions and customer interactions per year, Citi Australia receives a volume of customer complaints. The matters raised by customers in those complaints generally pertain to the following:
- a) product features, including rewards points;
 - b) timeliness of processing of applications for products;
 - c) the approved level of credit upon processing of an application;
 - d) technology failures, including functionality of ATMs and problems with internet banking;
 - e) perceived overly burdensome nature or extent of identification verification and other security processes; and
 - f) service experience and timeliness.
- 71 Citi Australia invests significant resources monitoring complaints and finding remedies for individual customers. Further, it devotes significant resources to the analysis and identification of complaint trends and in devising responses to any such trends, including by means of training or systems and product changes. Those remedies are identified by means of intensive reviews to identify core reasons for the complaints and negative customer perceptions, with senior management oversight and accountability.
- 72 Citi Australia's efforts in relation to complaint monitoring and analysis are reflected in a reduced incidence of customer complaints lodged with the Financial Ombudsman Service ("FOS"). Citi Australia's analysis indicates that it is now experiencing a lower instance of FOS complaints than historically.
- 73 Citi Australia has identified several instances of Reportable Matters in relation to GCB which have arisen over the ten year review period. Some represent isolated systems failures which appear to have had little adverse impact on customers but may be thought to fall within the Commission's definition of misconduct on the basis that they gave rise to a technical breach of provisions of particular consumer protection legislation (for example, certain failures to provide a statement of account for a credit card). In other cases, the relevant conduct concerns isolated systems or staff errors which, in Citi Australia's view, do not constitute a Reportable Matter but which are mentioned below for completeness.

b) General marketing issues

74] Citi Australia has identified a number of one-off issues concerning the marketing of its consumer products during the period which were resolved following discussions between Citi Australia and ASIC. None of these was the subject of proceedings or penalties. The following are examples:

- a) In 2014, ASIC made enquiries in relation to how the “Ready Credit” product (a line of credit product which operates similarly to a personal loan in some respects) was structured and advertised [Question 3(a)]. Following discussions with ASIC, Citi Australia made a number of changes to the way the product was structured and advertised [Question 3(e)].
- b) In 2011, issues were raised by ASIC about advertising for a “Fee Free Account” [Question 3(a)], and Citi Australia worked with ASIC to clarify disclosure of the nature of amounts that would be charged to customers (being third party ATM fees and interest for overdrawn amounts) [Question 3(e)].
- c) In 2008, ASIC raised concerns related to the marketing of Citi Australia’s “Ultimate Saver” Accounts, including as to the interest rate structure for the product and whether customers were fully aware of the rate being applied to their funds [Question 3(a)]. Citi Australia was able to demonstrate the rationale for the structure and prominence of its disclosures but agreed that such prominent disclosure would appear in all versions of the advertising [Question 3(a)].

c) Key systems and processes for credit cards and loan accounts

75 Citi Australia offers credit cards and loan accounts. Citi Australia has identified a number of one-off issues relating to relevant products, as follows:

- a) **ePayments:** Citi Australia was not consistently applying all of the requirements of ASIC’s ePayment Code relating to certain transactions on customers’ accounts that were disputed by customers, which led to improper treatment of some of those transactions. This was caused by lack of clarity in Citi Australia’s processes for handling some types of unauthorised transactions and was identified following customer complaints to FOS [Questions 3(a) & (d)]. Citi Australia made changes to its processes to address this issue and also undertook a review to identify and refund amounts to relevant customers [Question 3(e)]. Citi Australia worked with ASIC and FOS throughout that process (see ASIC Press Release dated 9th November, 2017, referred to in Section 8 below) [Question 3(a)].
- b) **International transaction fees (“ITF”):** This matter relates to an aspect of the charging of a fee on AUD transactions in situations where an online merchant charges consumers in AUD but processes the transaction through an international merchant acquirer, thus triggering the Scheme ITF and the Issuer ITF. As part of a broader review conducted by ASIC in 2016 into the industry’s practice, with respect to international transaction fees in credit cards, it was identified that Citi Australia had areas where its disclosures to customers could be improved so as to convey a clearer understanding of when particular retailers, who may not necessarily have an obvious foreign connection, are subject to the international transaction processing by card schemes (thus triggering the imposition of an ITF) [Question 3(a)]. One of the factors that gave rise to this issue was the significant increase in the number of retailers operating cross-border and who do not clearly identify that transactions

presented as being in A\$ are in fact subject to foreign processing [*Question 3(d)*]. From January 2017, Citi Australia has implemented broader and more detailed disclosure to customers and remedied all customers impacted (see ASIC Press Release dated 31st March, 2017, referred to in Section 8 below) [*Question 3(e)*].

- c) **Credit balances on closed accounts:** In 2017, Citi Australia self-identified that it had not been actively refunding credit balances on closed credit card and loan accounts to all customers, contrary to the account terms and conditions. This was primarily due to reliance on manual processes to identify the need for refunds [*Question 3(d)*]. Citi Australia has implemented a process to ensure this is now done and remediated all customers impacted [*Question 3(e)*] (see ASIC Press Release dated 9th November, 2017, referred to in Section 8 below) [*Question 3(a)*].

d) Collections procedure/hardship

76 Collections refers to the systems and process by which Citi Australia and other industry participants seek to recover overdue or over limit payments customers are obliged to make with regard to their credit facilities. As part of the collections process, credit providers have obligations to assist those customers experiencing financial hardship. There have been numerous changes to the relevant laws and regulatory guidance during the review period and continuous improvements made to Citi's policies, processes and practices.

77 Citi Australia has identified a number of issues which have arisen over the past ten years, some of which may amount to Reportable Matters. They fall into the following categories:

- a) **Contacting customers:** For example:
- i.] As part of the collections process and in addition to issuing formal collections letters and demands, collections agents contact customers by phone to discuss overdue and over limit payment amounts on their credit facilities. Citi Australia has systems for determining and initiating outbound calls to customers who are in arrears. Citi Australia's cards and personal loan products are unsecured and as such cannot be recovered by enforcement against secured properties as is the case with mortgages. Accordingly, Citi Australia has traditionally made contact with customers in arrears promptly and relative frequency in an effort to resolve issues before customers fall further into arrears [*Questions 3(b) & (d)*]. From time to time, there have been instances where outbound contact has not been appropriate. For example, in 2009/2010, a number of customers complained to ASIC about GCB's processes for contacting customers, in particular, the frequency with which and hours in which, contact was made; the reasonableness and appropriateness of language used during the calls; and the adequacy of complaint and records management.
 - ii. These complaints were investigated by ASIC and, as a result, Citi Australia agreed to enhance its collections contact processes and scripts and complaint and records management [*Questions 3(a) & (e)*].
- b) **Hardship:** Examples of the matters Citi Australia has identified are:
- i. Excessive time taken to assess customer applications for hardship review and the extent of documentation required to be completed by a customer before such an application is assessed by Citi Australia: This matter was identified

by ASIC in 2013. Concerns were raised by FOS during 2015 and 2016 about instances of customers not being provided with hardship assistance [Question 3(a)].

- ii.] These issues arose due to the use of manual processes to facilitate and track hardship requests. Onerous documentation requirements were primarily due to the limited scope of hardship assistance programmes which then allowed only significant and permanent debt waiver, but required significant detail regarding financial circumstances for such assistance to be approved [Questions 3(b) & (d)]. Citi Australia implemented an automated system to manage and track hardship requests, expanded its hardship programme offerings to include more short term and temporary assistance options and allowed more discretion when requesting supporting documents [Question 3(e)].
 - iii. A further deficiency in these processes was the failure of collectors to recognise from customer conversations triggers which may have indicated that the customer was experiencing financial difficulty and might require hardship assistance [Questions 3(b) & (d)]. This was exacerbated by changes to the credit legislation in March 2013 which had significantly expanded the definition of hardship. GCB addressed this issue by providing additional training for relevant front line staff in the identification of these triggers and in providing appropriate handoff to the dedicated hardship team [Question 3(e)].
- c) **Default listings with credit reporting bureaus:** In 2015, FOS identified issues regarding Citi Australia's default listing of customers who had entered into hardship agreements or who had complaints in progress [Question 3(a)]. At that time, GCB's collections management system was based on "days past due process" which, unless manually overridden, would automatically list a customer as in default once their account was outstanding for a prescribed number of days. This resulted in a number of incorrect and inappropriate default listings [Question 3(d)]. GCB put a stop on the automated processes for approximately 18 months from 2015 while it undertook a complete overhaul of the system. It now operates based on status codes which more accurately identify circumstances in which default listing is appropriate. The system now quarantines customers who have entered into a hardship arrangement or have a complaint in progress [Question 3(e)].

e) Insurance

- 78 GCB distributes a number of third-party manufactured insurance products to its retail customers. Those products include (or have in the past included) consumer credit insurance ("CCI"), complimentary and stand-alone travel insurance, and stand-alone life insurance. Citi Australia has not offered auto related insurance (e.g. gap) offered through car dealerships. In respect of the products it offers or did offer, GCB was not the insurer, and so did not manage claims. Accordingly, it has not experienced a number of the issues confronted by other industry participants with respect to such products.
- 79 During 2009, Citi Australia implemented a pilot process which introduced cross selling of CCI to customers as part of the card activation process. Card activation is a required process for customers to accept the terms and conditions of the account so as to be able to commence using the card. Card activation is now typically undertaken digitally through online banking. The pilot process involved the use of a new call centre, and was related to a re-card project where a significant portion of credit card customers were to be issued with replacement cards.

- 80 ASIC identified several issues with the sales process and practices related to this pilot process following a review of the pilot [*Question 3(a)*]. In 2009, it issued an advisory statement (see details of ASIC Media Release in Section 8 below). By agreement with ASIC, GCB contacted each of the impacted recipients of the product to invite them to confirm their purchase or to seek a refund. GCB also undertook a significant review of its sales practices and, as a consequence of that review, amended those practices, including by revising scripts (which included a general advice warning, avoidance of particular language and clear provision for customer responses), monitoring of calls, and more detailed instructions and guidance for call centre staff [*Question 3(e)*].
- 81 This incident occurred before ASIC's significant industry review of CCI sales by ADIs (which made reference to this incident). ASIC's review resulted in the report issued by ASIC in October 2011 (REP 276). Following GCB's improvement of its practices as described above, its revised procedures were, at the time of ASIC's review, consistent with ASIC's recommendations [*Questions 3(a) & (e)*].
- 82 In July 2014, Citi Australia identified that two insurance Financial Services Guides were not updated in May 2014 to reflect an increased amount of commission paid for an introduction of a particular insurance product. The Guides were updated on discovery of the issue [*Question 3(e)*].
- 83 In 2016, GCB also identified instances in which term life policies had been allowed to continue, with ongoing premium collection, after the policy expiry date. This occurred because the life insurer had, in its systems, wrongly set the expiry date at 99 years instead of 65 [*Questions 3(b)-(d)*]. When this was identified, the life insurer investigated the matter and refunded premiums, and rectified its systems to ensure the issue did not recur [*Question 3(e)*].
- 84 During the review period, GCB has, on occasion, made other changes to its disclosures and other activities as practice has evolved or in response to industry reviews by ASIC. In one instance, GCB updated its website pages dealing with insurance coverage to clarify the distinction between the types of travel and other insurance offered (this did not relate to the sales process) [*Question 3(e)*].
- 85 By taking the actions described above, GCB has sought to respond to CSE (and regulatory expectations as a reflection of CSE) as they have evolved during the review period [*Question 3(e)*].

f) Other systems or operational issues

- 86 Citi Australia has identified certain isolated incidents pertaining to its operational procedures and systems which may have had adverse customer impacts. Some may constitute Reportable Matters.
- 87 Incidents of this kind are often attributable to causes such as the following [*Questions 3(b)-(d)*]:
- a) latent coding issues which are not identified in testing or normal monitoring until examples of errors result in identification of an issue;
 - b) errors introduced and not detected in testing while changing systems or processes to deal with other matters;

- c) inclusion of incorrect data in fields, or reference by the system to an incorrect field, which can result in the application of incorrect processes or incorrect calculations;
- d) errors in the way interfaces operate between systems, both internal Citi Australia systems and with external counterparts; and
- e) change management, since unexpected consequences can arise as a result of implementing changes both in processes as well as systems.

88 The incidents include the following:

- a) Unclaimed moneys: During the period 2012 to 2015, Citi Australia's systems applied the wrong field, test or criteria for the identification of accounts to be subject to unclaimed monies requirements, such as the incorrect application of a field to identify the last transaction on an account, or the incorrect exclusion of certain types of accounts from classification. Citi Australia notified APRA and ASIC of the errors in 2014 and 2015, rectified the systems issues, and provided updated returns and paid relevant funds to unclaimed monies [Question 3(a) & (e)].
- b) Savings Plan: In 2017, Citi Australia identified an issue concerning its regular savings plan. This issue concerned a feature which allows customers to pre-set payments to be made from either a Citi Australia or external account to a Citibank Online Saver account, which should earn a higher interest rate. It identified that in some instances the pre-set payment worked in reverse such that the nominated amount moved from the higher to the lower interest account. The systems issue was rectified and forgone interest was paid to customers [Question 3(e)].
- c) Delivery of statements: Citi Australia has from time to time encountered issues relating to the production and delivery of statements of account. In most cases, the issues were a result of errors in Citi Australia's systems or those of its third party service providers/vendors, or of matters associated with the interaction between those systems [Questions 3(b)-(d)]. Examples of these errors include:
 - i. generic system errors, such as faults with server temporary memory capacity, resulting in delays in delivery of electronic statements;
 - ii. issues with data matching between Citi Australia's system and external host systems, resulting in some customers not receiving their electronic statement; and
 - iii. upload errors, matching errors, or printing errors, resulting in some customers receiving the incorrect statement or a statement including some incorrect pages.

Citi Australia continuously reviews its systems and processes to improve the delivery of statements reduce the occurrence of errors such as those described above [Question 3(e)].

- d) Production and delivery of disclosure and other documentation: Citi Australia has from time to time encountered issues with respect to the production and delivery of some disclosure and other documents, for example financial tables and other welcome pack information. In some cases, delivery of documents was delayed or did not occur. Further, in some cases, incorrect information was included in those documents when they were generated. In most cases, this occurred as a result of

errors in Citi Australia's systems or those of its third party service providers/vendors [Questions 3(b)-(d)].

- e) Do Not Call Register: The Australian Communications and Media Authority has, from time to time received complaints relating to Citi Australia's compliance with its obligations in relation to the "Do Not Call Register" [Question 3(a)]. Citi Australia has investigated the small number of complaints, but has not identified any material or systemic issues. However, in response to these complaints, Citi Australia has modified its policies and procedures in relation to the Do Not Call Register, including by strengthening the procedures it employs to reconcile its systems with the Do Not Call Register and its record keeping procedures in respect of changes to privacy preferences [Question 3(e)].
- f) Locked box: Citi Australia has a post office box address to which customers can send certain types of correspondence, including cheques for repayments. On some occasions, where changes were made to the locked boxes to be used for particular customers. Citi Australia has encountered issues in relation to the redirection of mail from locked boxes. This resulted in a number of cheques and general correspondence not being processed or addressed in a timely manner. Having identified this issue, Citi Australia has taken steps to decommission these locked boxes and to ensure that all redirections are up to date at all times [Question 3(e)].
- g) Staff training: From time to time, Citi Australia has detected instances where certain staff have failed to complete the necessary training that related to the delivery of products or services. Upon detection, Citi Australia has ensured that relevant staff cease delivering the relevant products and services until relevant training has been undertaken and appropriate review conducted of any advice provided to affected clients [Question 3(e)].

6 Privacy, confidentiality and AML

89 Citi Australia has identified the following matters which span the business lines addressed above and which it considers appropriate to report.

a) Privacy and confidentiality

90 In accordance with its legal obligations and internal policies, Citi Australia has in place policies and procedures designed to ensure that personal and confidential information of its customers is kept secure. It has identified certain isolated instances in which those policies or procedures were not followed. While Citi Australia does not consider that each such incident amounted to misconduct or a departure from CSE, it considers it appropriate to provide a description of the relevant circumstances.

91 These matters include the following:

- a) Australian Privacy Principle 11: In 2017, Citi Australia received a complaint from a customer in relation to Citi Australia's compliance with Australian Privacy Principle 11. At the same time, Citi had recognised globally that there was a need for system enhancements to ensure that it was not retaining personal data longer than defined record keeping obligations. Citi's systems are in the process of being enhanced globally to provide or to allow automated deletion of such data. In the meantime, a process is in place within Citi Australia to ensure access to such data is limited, which is an approach that the Privacy Commissioner has endorsed [Question 3(e)].
- b) Breaches of Citi's policies: Citi Australia has identified several isolated instances of breaches by employees and contractors of its policies in relation to privacy and information security, for example sending customer information to the wrong person and failing to inform customers that calls were being recorded. Relevant personnel have been subject to appropriate disciplinary action, which has been determined in accordance with its policies and having regard to a range of factors, including the seriousness of the breach, the employee's history with Citi Australia (e.g. whether previous warnings have been given) and customer impact (see Section 7 below). The consequences of such breaches have ranged from formal warnings to termination of employment. Where appropriate, customers have been informed and remedial steps have been taken [Question 3(e)].
- c) System failures: Occasional breakdowns in Citi Australia's systems have resulted in customer information (for example, statements of account) being sent to the wrong recipient. These have generally been isolated incidents and in each case Citi Australia has taken such action as it considered appropriate having regard to the cause and consequences of the particular incident, for example, issuing apologies, requesting that recipients delete data wrongly received, implementing system changes and undertaking staff training and coaching in relation to the impacts of mishandling customer information [Question 3(e)].

b) Anti-money laundering (“AML”) reporting

- 92 Citi Australia is subject to both local and international AML and sanctions requirements, and has a dedicated team which manages relevant processes for AML and related issues for both GCB and ICG.
- 93 Citi Australia has identified matters concerning its compliance with its regulatory reporting requirements, including threshold transaction reports and international funds transfer instructions reports. These matters have not had a single cause, but generally resulted in information gaps in particular reports, due to, for example, outdated reporting templates, issues arising from system changes, other systems issues, or uncertainty concerning the appropriate entity required to lodge reports in circumstances multiple banks were involved in the relevant transaction. In some instances, such issues have concerned agents or a counterparty's systems [Questions 3(b)-(d)].
- 94 Where relevant or appropriate, Citi Australia informed AUSTRAC corrected or provided additional reports and took steps to prevent recurrence of the errors [Question 3(e)].

7 Employee conduct

- 95 Citi Australia holds its employees to a high standard of conduct and, in accordance with the Code of Conduct, requires staff to:
- a) comply with laws, regulations, and Citi Australia policies; and
 - b) know, understand, and act in accordance with the values and principles expressed in the Code of Conduct.
- 96 Compliance with the Code of Conduct is a condition of continued employment with Citi Australia. Its key provisions have been described in Section 3 above.
- 97 In 2011, Citi introduced a formal disciplinary policy globally which standardised the approach to disciplinary matters across Citi's global business and resulted in a system change for disciplinary matters and changes in the way cases were categorised and logged in Citi's systems. The current procedure is not dissimilar to the procedure in place prior to the introduction of the formal policy.
- 98 Under the policy, a potential violation of the Code is escalated to the relevant supervisor, the business/function head and, depending on the nature of the violation, also to other departments such as Compliance, Legal and Human Resources.
- 99 Most instances of staff conduct have no customer-facing implications. They may involve inappropriate dealings with colleagues; theft from or other fraud directed at Citi Australia itself; or departures from policy which have no material adverse customer impacts.
- 100 HR manages the investigation of employment-related issues. The Country Disciplinary Committee ("**CDC**") considers all breaches of the Code and policy and determines the appropriate action. The head of HR is required to make a recommendation to the CDC on appropriate disciplinary action based on a formal investigation report pertaining to the incident. Its recommendation is based on a consideration of all relevant factors, including the severity of the conduct, harm caused, regulatory implications, prior disciplinary record, employee co-operation, involvement of others, disregard of "red flags", whether the conduct was deceptive and any requirement imposed by local law, including local employment laws or CSE.
- 101 During the review period, Citi Australia's employment level has ranged between approximately 1,600 and 2,700 total staff in Australia. Since the introduction of the formal disciplinary policy in 2011, 67 cases logged in the system involved conduct which could potentially be associated with a Reportable Matter. Given the length of the review period and number of staff employed by Citi Australia, Citi Australia does not believe that the number of cases recorded indicates a systemic issue with the culture of the business. On average, it represents fewer than ten per calendar year.
- 102 The cases fall into a small number of categories as follows:
- a) **Policy and procedure breaches:** The policies and procedures in question include breaches of the Code of Conduct, information security procedures, electronic communications policies and trading policies. These breaches were addressed according to a range of factors, including the seriousness of the breach, the employee's history with Citi Australia (e.g. whether previous warnings have been

given) and customer impact. The sanctions imposed ranged from formal warnings to termination of employment [*Question 3(e)*].

- b) **Fraud:** From time to time, Citi Australia staff and staff of its contractors have engaged in fraudulent conduct resulting in loss to customers. In instances where this is detected, Citi Australia promptly [*Question 3(e)*]:
- i. informs the affected customer(s);
 - ii. compensates the customer(s) or otherwise addresses the consequences of the staff conduct for example by reversing any account debit;
 - iii. disciplines the staff member, including termination of their employment; and
 - iv. reviews the causes of the incident and, if necessary, upgrades its internal systems and controls.

103 During the review period, there was only one significant instance of fraud involving client funds. It relates to a former Citi Australia relationship manager, Victoria Cai. Citi Australia reimbursed all customers and ASIC acknowledged Citi Australia's assistance in the matter when it announced a life ban of Ms Cai (see details of ASIC Media Release in Section 8 below) [*Question 3(a)*]. Ms Cai was dismissed for cause following Citi Australia's investigation into the matter [*Question 3(e)*].

8 ASIC media releases

104 For the assistance of the Commission, Citi Australia has prepared the following table which collates all ASIC media releases that refer to matters which have been the subject of regulatory intervention relating to Citi Australia during the review period.

| | Date | Title of press release | Link to press release |
|---|----------------------------------|---|---|
| 1 | 1 st December, 2009 | 09-238AD Citigroup responds to ASIC concerns about telephone sales | http://asic.gov.au/about-asic/media-centre/find-a-media-release/2009-releases/09-238ad-citigroup-responds-to-asic-concerns-about-telephone-sales/ |
| 2 | 19 th September, 2011 | 11-204AD ASIC bans former Citibank manager | http://asic.gov.au/about-asic/media-centre/find-a-media-release/2011-releases/11-204ad-asic-bans-former-citibank-manager/ |
| 3 | 27 th August, 2012 | 12-204MR Citigroup Global Markets Australia Pty Ltd pays \$30,000 infringement notice penalty | http://asic.gov.au/about-asic/media-centre/find-a-media-release/2012-releases/12-204mr-citigroup-global-markets-australia-pty-ltd-pays-30-000-infringement-notice-penalty/ |
| 4 | 21 st January, 2014 | 14-009MR Citigroup Global Markets Australia Pty Limited pays \$40,000 infringement notice penalty | http://asic.gov.au/about-asic/media-centre/find-a-media-release/2014-releases/14-009mr-citigroup-global-markets-australia-pty-limited-pays-40-000-infringement-notice-penalty/ |
| 5 | 31 st March, 2017 | 17-093MR Citibank refunds \$5 million in credit card international transaction fees, as ASIC warns consumers about international transaction fees | http://asic.gov.au/about-asic/media-centre/find-a-media-release/2017-releases/17-093mr-citibank-refunds-5-million-in-credit-card-international-transaction-fees-as-asic-warns-consumers-about-international-transaction-fees/ |
| 6 | 9 th June, 2017 | 17-180MR Citigroup Global Markets Australia pays \$50,000 in infringement | http://asic.gov.au/about-asic/media-centre/find-a-media-release/2017- |

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|---|--------------------------------|---|---|
| | | notice penalty | releases/17-180mr-citigroup-global-markets-australia-pays-50-000-in-infringement-notice-penalty/ |
| 7 | 9 th November, 2017 | 17-376MR Citibank refunds \$1 million following misleading statements made to customers about their rights under the ePayments Code | http://asic.gov.au/about-asic/media-centre/find-a-media-release/2017-releases/17-376mr-citibank-refunds-1-million-following-misleading-statements-made-to-customers-about-their-rights-under-the-epayments-code/ |
| 8 | 9 th November, 2017 | 17-377MR Citibank refunds \$3.3 million to credit card customers | http://asic.gov.au/about-asic/media-centre/find-a-media-release/2017-releases/17-377mr-citibank-refunds-33-million-to-credit-card-customers/ |

9 Superannuation entities

- 105 The Commission's Question 4 concerns superannuation entities.
- 106 As noted in Section 2 above, CASS is an RSE licensee which, during the review period, has been trustee of Citibank Australia Staff Superannuation Fund (a registerable superannuation fund).
- 107 In answer to Question 4 of the Commission's questionnaire, CASS has not applied members' funds other than for the investment of those funds, the administration of the Fund or the payment of the benefits.
- 108 The Fund is a closed defined benefit corporate superannuation fund and CASS does not have business units or cost centres. During each of the past ten years (the Fund's year end is 31st December) the costs attributed to administration have been directly applied to the assets of the Fund and disclosed in the Fund's annual financial report on an aggregated basis.
- 109 We understand that the expression "cost centres" as employed in the Commission's questionnaire refers to the different operations, or activities, involved in the administration of the Fund in respect of which costs are incurred. All operations and activities of CASS covered by administration costs constitute typical activities associated with the running of a closed defined benefit corporate superannuation fund and include:
- a) core administration activities including execution of fund operations, processing of transactions, maintenance of member records, responding to and actioning member requests, payment of member benefits;
 - b) preparation of member communications including those required by regulation (e.g. periodic statements, product disclosure statements and annual reports) and other educational material (e.g. newsletters, member information sessions);
 - c) fund reporting including financial statements, regulatory reporting and reporting under various accounting standards;
 - d) maintenance of the Fund website;
 - e) actuarial management of the Fund;
 - f) consulting services to support the core administration of the Fund, the Trustee's activities and investment of Fund assets;
 - g) insurance costs for eligible members; and
 - h) costs in relation to Fund compliance.
- 110 For the avoidance of doubt, the Fund does not accept new members and so does not pay for advertising or other promotional activities. Communications not required for compliance with regulation have an educational, not promotional, focus.

10 Further observations as to conduct and causes

- 111 The Commission has asked respondents to state whether any Reportable Matters result from particular culture or governance practices of the respondent or broader cultural or governance practices in the relevant industry or industry sector.
- 112 Citi Australia has provided in Section 3 above an overview of its risk and governance framework and a description of its risk culture. They reflect:
- a) an approach to risk management and governance which stresses transparency and individual accountability;
 - b) a recognition that “tone” is set from the top; and
 - c) that market practices, products and services (and risks associated with them), CSE and regulatory guidance have all changed over time and that risk management and governance processes must be kept under constant review and respond to such changes.
- 113 In Sections 4 to 8 above Citi Australia has provided an account of all Reportable Matters that it has identified pursuant to the process described in Section 3 above and has provided an explanation of the cause of the relevant conduct.
- 114 Citi Australia periodically conducts staff surveys to determine, amongst other things, ethical culture trends within the organisation. The surveys test the perception of staff at all levels of the organisation concerning the health of its ethical culture and leadership effectiveness. The surveys are conducted anonymously and are designed to reveal (in conjunction with Citi Australia’s risk and governance framework and systems) negative trends so that remedial steps may be taken. These surveys have indicated that Citi Australia’s ethical culture is healthy and following a positive trend across successive surveys, with engagement levels⁴ scoring consistently high (with “highly engaged” currently at over 90%).
- 115 Whether considered in isolation or taken as a group, Citi Australia does not consider that the matters it has reported were the consequence of any inappropriate cultural or governance practices. Indeed, many were the consequence of isolated system or staff errors, or staff misconduct. Whenever appropriate, remedial action was taken and steps were taken in an effort to prevent or to reduce the risk of recurrence. Citi Australia considers that its response to such incidents demonstrates the efficacy of its systems and practices and evidences its commitment to meeting not only its legal obligations but also community standards and expectations as they evolve.

⁴ An internal measure of staff commitment to (and perception of others’ commitment to) ethical and other conduct-related codes and policies.

11 Glossary

| | |
|----------------|--|
| ADI | Authorised deposit-taking institution |
| AML | Anti-money laundering |
| BRCC | Business Risk Compliance and Control Committee |
| CASS | Citibank Australia Staff Superannuation Pty Limited |
| CBNA | Citibank N.A., Sydney Branch |
| CCC | Country Co-ordinating Committee |
| CCI | Consumer credit insurance |
| CDC | Country Disciplinary Committee |
| CGMA | Citigroup Global Markets Australia Pty Ltd |
| Citi Australia | CPL and its associated entities which carry on business in Australia and are financial services entities |
| Commission | Royal Commission |
| CPL | Citigroup Pty Limited |
| CRO | Chief Risk Officer |
| CSE | Community standards and expectations |
| DMA | Direct market access |
| DTR | Designated Trading Representative |
| EXCO | Executive Committee |
| FA | Fund Accounting |
| FOS | Financial Ombudsman Service |
| GCB | Global Consumer Bank |
| HR | Human Resources |
| IA | Internal Audit |
| ICG | Institutional Clients Group |
| ITF | International transaction fee |
| ITS | Integrated Trading System |
| MDP | Markets Disciplinary Panel |
| NAV | Net Asset Value |
| OBU | Offshore Banking Unit |

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| ORMF | Operational Risk Management Framework |
| OTC | Over the counter |
| Reportable Matters | Refer to paragraph 5 above. |
| RAP | Risk Appetite Policy |
| RAS | Risk Appetite Statement |
| RGC | Risk Governance Committee |
| RMF | Risk Management Framework |
| RMS | Risk Management Strategy |
| RSE | APRA Registrable Superannuation Entity |
| SOOA | Senior Officer Outside Australia |
| TOFA | Taxation of Financial Arrangements |
| VDP | Value Date Position |