

SE Business  
HD **Danger in directors dabbling: CBA boss**  
BY Damon Kitney  
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EXCLUSIVE COMMONWEALTH Bank chairman David Turner has warned boards could face serious "unintended consequences" if more regulation forces directors to become too involved in management issues.

Joining the growing chorus of **company** directors concerned that regulation is forcing them to get more involved in day-to-day management because of the threat of class actions and activist investors, Mr Turner said he was concerned about the trend in the banking sector and generally in corporate Australia.

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"The regulation in this country has served the country very well. Just fine. In terms of the functioning of boards of directors, we need to watch out not to create a situation where directors become so concerned about their responsibilities that they start crossing wires with management," Mr Turner said.

"If that was to occur, you might end up with less control than you started with. The law of unintended consequences, that is what I think it is called. I'm talking in generalities, but also about the banking sector." His comments were made before last Friday's decision by the corporate regulator to order the bank to review the compensation arrangements for 4000 customers hit by the scandal in its financial planning business.

National Australia Bank's John Thorn and Transfield Services chair Diane Smith-Gander warned last month that directors were being forced to become too Continued on Page 18 Continued from Page 17 involved in operational detail.

Coca-Cola Amatil chairman David Gonski has previously said the performance of boards was being damaged by expectations that they could shield against operational mishaps and poor results.

Asciano chairman and BHP Billiton director Malcolm Broomhead has proposed a radical shake-up of traditional corporate governance practices to deal with the threat to directors posed by increased threats of litigation and legal liabilities.

He has proposed that management take over most board responsibilities, and that independent directors would be members of non-executive advisory boards and represent shareholders' interests.

Speaking more specifically about the banking sector, Mr Turner said he supported the four pillars policy that prevents mergers between the big four banks and a takeover of one of them by a foreign bank.

"Four pillars has served the country pretty well and continues to do so. Personally speaking, I am a free-market person and believe in free capital flows. I like healthy freedom," Mr Turner said. Last year, ANZ chief executive Mike Smith said the four pillars policy should be reviewed as it "doesn't actually add anything". But the head of the Abbott government's financial system inquiry, former Commonwealth Bank chief David Murray, has declared that the four pillars policy should be "locked in".

CBA is on track to post an annual profit of almost \$9 billion after boosting third-quarter cash earnings by 16 per cent last week, sending its shares to a record high.

The bank's loan impairment expense for the quarter came in at \$204 million, down from \$255m a year ago.

"The market doesn't worry us at the moment. There has been talk about a housing bubble and prices being too high, but much of our lending is based on serviceability, not prices," Mr Turner said.

"Serviceability relates to people's ability to pay their mortgage and interest. We are pretty rigorous about the way we do it. There is no downturn in terms of the business that we are writing. But of course we are always cautious." He said the economy had been flat in the lead-up to the federal budget and applauded the government for taking decisive action to address the deficit.

"One thing this government is doing well is that when they say something, they act quickly. They are an active group of people. This business of less regulation around the place is good," he said.

The bank's powerful financial position has prompted constant questions about its international plans, but Mr Turner reiterated the bank would not look at a major regional acquisition and do anything outside its core capabilities.

In Asia, CBA has branches in Hong Kong, Tokyo, Singapore, Vietnam and a wholly-owned subsidiary bank in Indonesia.

"I think if there was a technology edge that we could develop that was applicable to our businesses outside of Australia, it would be quite a magical answer for us. Because we could take the technology and the business knowledge, and do it somewhere else," he said.

"I'd love to see us do more, but it has to be within our capability and it has to be in an area in which we can add value for our own shareholders — otherwise all we do is end up paying out somebody else's shareholders and they might end up with a bigger smile than we end up with."

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