

DDO in focus (again)

Takeaways for your sector

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Introduction

Background and context

On 5 October 2021, the Design and Distribution Obligations (DDO) went live across the Australian financial services industry. The regime introduced targeted and principles-based obligations in relation to the manufacture and sale of financial products.

At the end of last year, Deloitte circulated a post-implementation survey to several organisations across the financial services industry. The purpose of the survey was to develop a view on the how the industry had implemented DDO, embedded arrangements into BAU, and is continuing to enhance and improve processes post go-live.

This report contains the result of this survey and provides suggestions for where the Banking, Insurance, Investments and Superannuation industries can focus now they have hit the six month mark following DDO go-live. This report also provides industry insights and post-implementation activities that sectors can commence in 2022.

Six months post go-live, it is important for organisations to now consider post-implementation reviews, and iteratively uplift implemented requirements, to support ongoing compliance with DDO. Deloitte hope this report will assist organisations determine areas of focus and aid their post-implementation assessment of DDO.

On the following pages, Deloitte outlines the results of the survey questions and the key insights that have appeared in the survey results.

 For further details about post-implementation activities, please refer to pages 17-20.

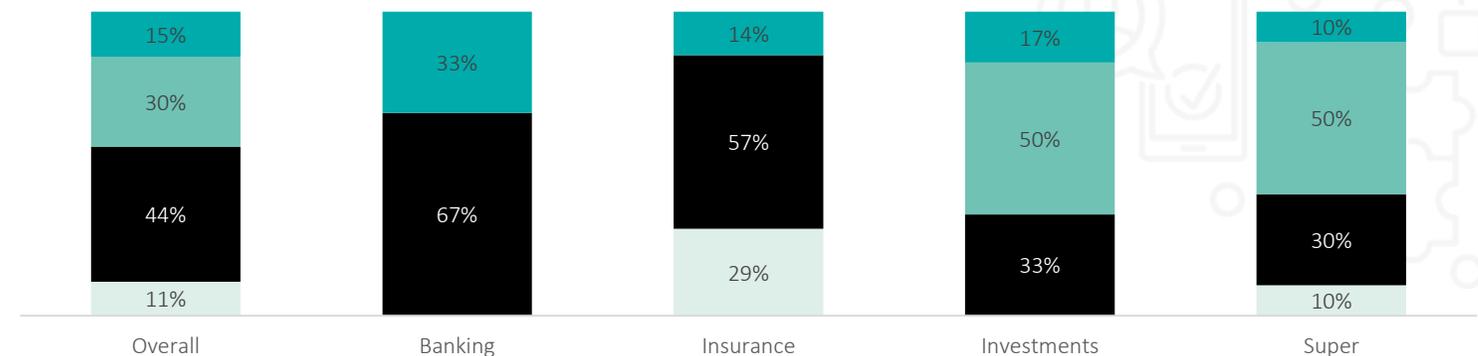
SURVEY RESULTS AND INSIGHTS

On 3 March 2022 ASIC Chair, Joe Longo, addressed ASIC's corporate governance priorities and the year ahead at the Australian Institute of Company Directors (AICD), Australian Governance Summit. Mr Longo reiterated that the purpose of DDO was to help consumers obtain appropriate financial products and noted that ASIC wanted to see long-term benefits of DDO realised for consumers. This demonstrates the importance for organisations to consider how they are actually delivering benefit to consumers through DDO and assessing whether the regime is performing as intended across their business.

Overall, organisations feel that DDO will result in improved customer outcomes, however, there still appears to be questions as to the extent of these improvements. The below survey results show that, across all industries, an average of 45% of respondents felt as though DDO implementation had either 'not' resulted in improved outcomes, or they were 'not sure' whether it had. While some optimism remains in-industry, the regulator's targeted surveillance and enforcement approach will align the industry to focus on improving outcomes for consumers.

DO YOU EXPECT DDO IMPLEMENTATION TO RESULT IN IMPROVED OUTCOMES FOR CONSUMERS IN YOUR SECTOR?

■ Yes ■ Yes, but not immediate improvements ■ No ■ Not sure



Banking

Industry implementation and insights

INDUSTRY IMPLEMENTATION

When compared with some of the other regulatory change items of 2021, DDO offered generous timeframes for implementation (aided by a six month COVID-extension). Despite these timeframes, organisational preparedness varied.

In the Banking sector, some organisations (particularly at the bigger end of town) chose to establish frameworks and methodologies, draft target market determinations (TMD) and assess reasonable steps well in-advance of 5 October. By comparison, some organisations (particularly multi-sector, or those with limited retail products) elected to focus on drafting TMDs in lieu of any governance arrangements, and undertook a high-level review of processes and controls to support reasonable steps.

Better practice is to establish comprehensive frameworks and methodologies to drive assessment / uplift of reasonable steps. Organisations that took a light-touch approach to DDO will need to focus on how the regime was embedded to support ongoing compliance.

Regardless of the approach taken, the post-implementation survey results demonstrate a level of confidence in the data and information being collected to monitor products, as well as the reasonable steps that are being taken. It is the output of the data, in assessing the adequacy of review triggers and determining significant dealings, which remains the biggest challenge, according to Banking sector respondents.

 Please refer to the next page for a sample of survey results from the Banking industry.

INDUSTRY INSIGHTS

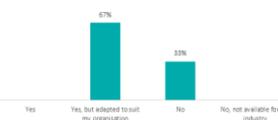
STANDARDISED TMD TEMPLATE

More than half of the Banking respondents (67%) identified that they used a standardised TMD template to implement DDO, whilst a smaller cohort (33%) identified they did not.

This difference in a standardised approach may result in a lack of consistency as to how information is described, or presented, within a TMD.

Although the difference in adoption may make it difficult for consumers to compare TMDs, it does reflect the regulator's intention for TMDs to be appropriately tailored to an organisation (and the product for which it has been drafted).

Refer to **Graph 1**



ACCESS TO DATA AND INFORMATION

All of the Banking respondents (100%) identified that they had access to all the data and information required (either internally or provided by third parties) to sufficiently monitor their products/ TMDs.

This response is promising as one of the largest areas of uplift for many Banking organisations was the requirement to improve data capabilities to ensure the data is timely, accurate, adequate and complete.

Organisations now need to think about how this data and information will feed back into the product design and ongoing review processes.

Refer to **Graph 2**



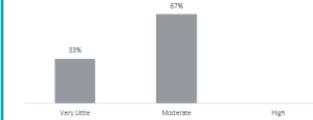
PRODUCT MANAGEMENT

DDO was expected to create a fundamental shift to product management, including consideration of policy and frameworks.

Despite this, more than half of respondents (67%) identified the requirements to have governance in place, etc..., only resulted in a 'Moderate' change to the way products were already managed (and 33% of the respondents reported 'Very Little' change).

Post-implementation activities will evidence if changes to product management were embedded correctly or if further work is required to create the intended fundamental shift.

Refer to **Graph 3**



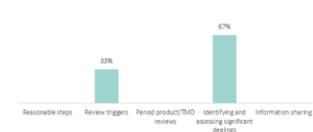
BAU ENVIRONMENT

More than half of the respondents (67%) reported the biggest challenge in BAU would be identifying and assessing significant dealings, with 33% highlighting review triggers.

While operating as discrete requirements under DDO, the appropriateness of review triggers (and thresholds) ultimately drives the identification of significant dealings.

Both of these requirements also seek some 'test and challenge' in BAU, as the metrics, thresholds, and criteria applied were often defined with little historical context to rely on.

Refer to **Graph 4**



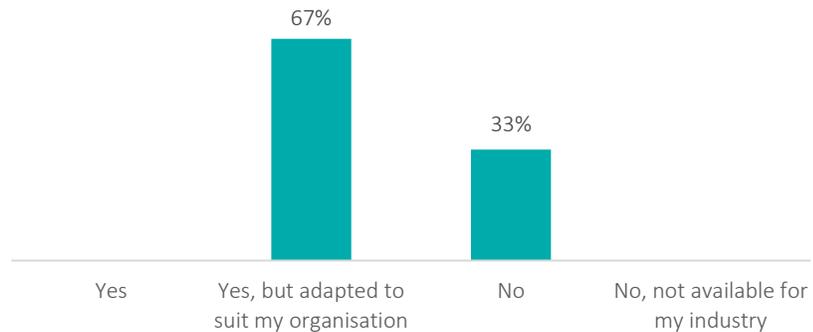
Banking

Survey results and suggested post-implementation activities

SURVEY RESULTS

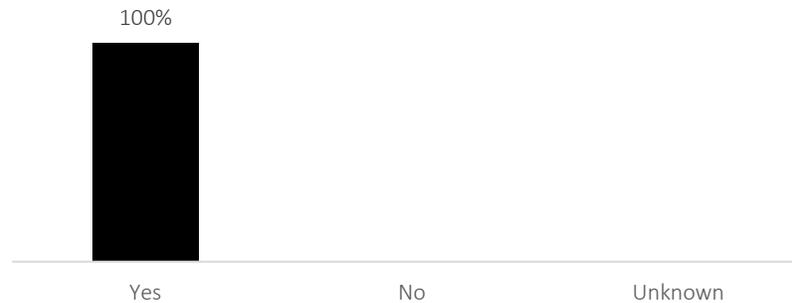
1

When preparing TMDs, did your organisation use a standardised industry template?



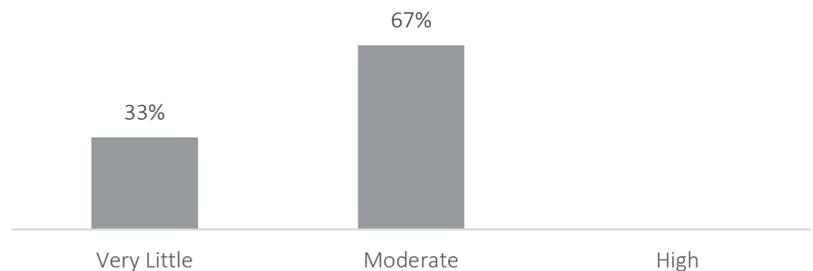
2

Does your organisation currently have access to all the data and information required (either internally or provided by third parties) to sufficiently monitor of your products/ TMDs?



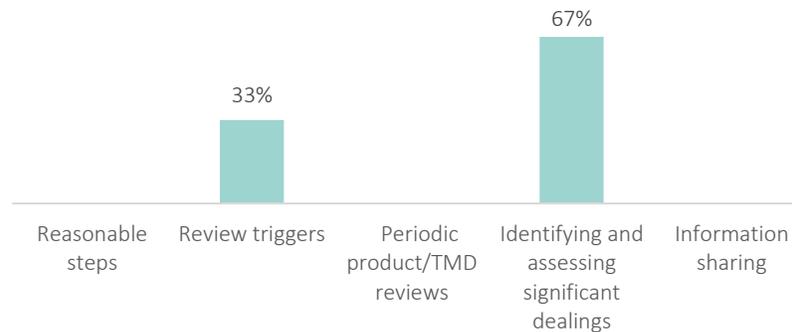
3

How did the requirement to have product governance arrangements, demonstrate reasonable steps, and establish review triggers and ongoing monitoring practices result in changes to the way products are managed?



4

Which area of DDO do you expect to require the most effort and/ or presents the biggest challenge in the BAU environment?



SUGGESTED ACTIVITIES



Review trigger thresholds assessment



Significant dealings review



Refer to pages 17-20 for further detail as to the above activities.

Insurance

Industry implementation and insights

INDUSTRY IMPLEMENTATION

Nearly 43% of respondents across the Insurance sector rated their compliance with DDO as adequate, and additional effort is required to achieve further compliance. Another 43% ranked themselves as strong and 14% of the Insurance industry ranked themselves as exceptional.

Whilst insurers are broadly consistent with other sectors, the variation within the insurance sector is likely attributable to the different levels of investment made in uplifting product governance arrangements, and the existing infrastructure pre-DDO.

Post-implementation activities will be important for the Insurance sector to understand the effectiveness of their approach to reasonable steps, and enhancing monitoring and reporting. Similarly, assessing review trigger thresholds, and reviewing the significant dealings, will be important activities to commence now the sector has had a chance to run DDO in a BAU environment.

Investing in the above activities will allow organisations to identify how well they have embedded conduct into product governance practices and how DDO has changed their business for the better, including developing products that meet the needs of customer and establishing monitoring that ensures products are performing as intended.

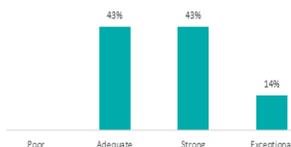
 Please refer to the next page for a sample of survey results from the Insurance industry.

CURRENT COMPLIANCE WITH DDO

Nearly 43% of Insurance respondents rated their compliance with DDO, and effort required to achieve further compliance, as adequate. Another 43% ranked themselves as strong and 14% of the insurance industry ranked themselves as exceptional.

Whilst insurers are broadly consistent with other sectors, various insurers are at different levels of meeting better practices on their DDO journey. This can be attributed to the shift in product governance that DDO requires and the extent of the requirements to meet compliance.

Refer to **Graph 1**

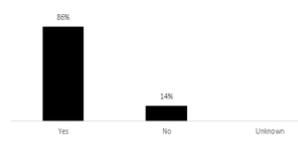


ACCESS TO DATA AND INFORMATION

Dependency on data collation, capture and analysis, and supporting systems and technology play an important role enabling efficiencies around review triggers and monitoring of TMDs. The majority of the insurers (86%) outlined they have the necessary data and information to be able to monitor their products and TMDs. However, there were some organisations (14%) that identified they did not have access to all data.

This demonstrates the sector's relative maturity in adopting technology enablers, and the additional time the sector may need in enhancing BAU DDO practices.

Refer to **Graph 2**

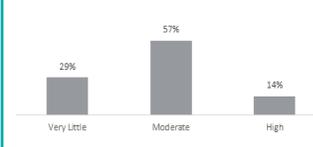


PRODUCT MANAGEMENT

For insurers, there has been largely a moderate change to the way products are managed. In response to the survey, 57% of respondents outlined requirements to enhance product governance arrangements, demonstrate reasonable steps, and establish review triggers, caused a moderate change within their organisations, while 14% reported a high change and 29% reported very little change.

DDO set-out to change not only the way products are designed and distributed, but also how they are governed and monitored. The responses from the Insurance cohort reflects this change.

Refer to **Graph 3**

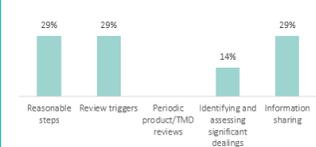


BAU ENVIRONMENT

The Insurance respondents identified the areas that will require the most effort, and/or present the biggest challenge in a BAU environment, were reasonable steps, review triggers and information sharing.

These results were unsurprising given the extensive distribution networks that many insurers have in place for their products. Notably, pre go-live, many organisations addressed the information sharing obligations through interim solutions. This will be a large area of focus moving forward where we will see streamlined processes developed.

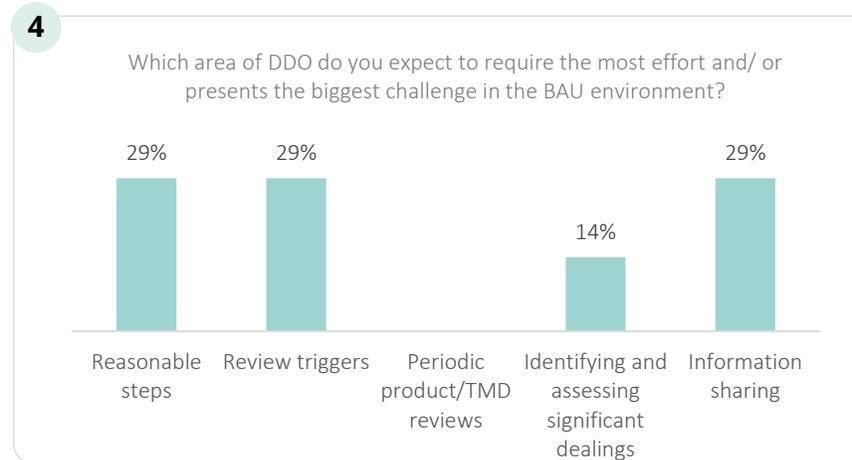
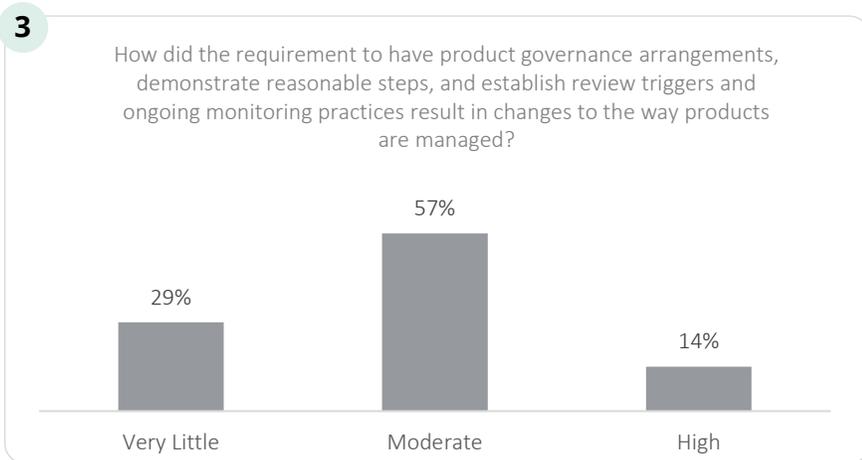
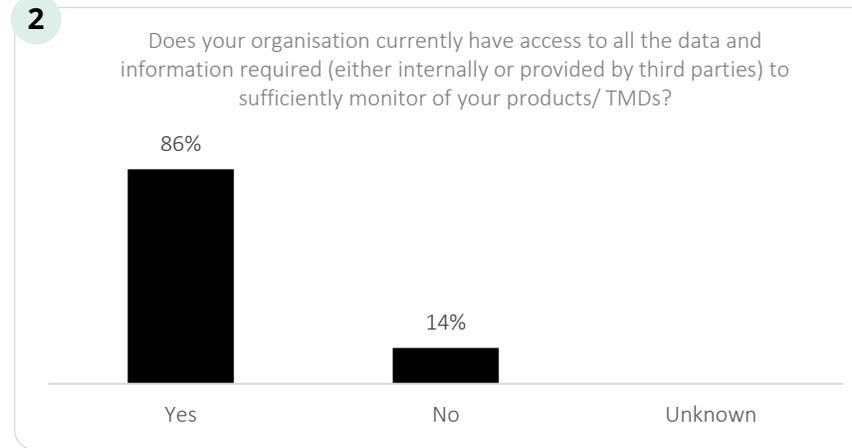
Refer to **Graph 4**



Insurance

Survey results and suggested post-implementation activities

SURVEY RESULTS



SUGGESTED ACTIVITIES



Refer to pages 17-20 for further detail as to the above activities.

4 | Investment Management



Investment Management

Industry implementation and insights

INDUSTRY IMPLEMENTATION

Approximately 83% of respondents across the Investments sector rated their compliance with DDO, and effort required to achieve further compliance, as strong (which was on average 20% stronger than other industry respondents). This is possibly a result of the sector having the most opportunity to leverage work done for similar products under the European MiFID II rules (especially where managers are part of global groups) and a strong degree of collaboration across the sector.

While the MiFID II rules were, in substance, substantively different to those requirements under DDO, the core focus on uplifting product governance standards and improving the way in which products were being managed is consistent. As such, many investment managers had existing consumer-centric product management frameworks, policies and procedures for which to overlay the DDO requirements.

Ultimately, this allowed investment managers to direct effort towards discrete activities, such as drafting TMDs and setting review triggers, rather than conducting a full overhaul of existing product management processes. This was reflected in the 'very little' changes that the Investment respondents noted to product governance arrangements as a result of DDO.

 Please refer to the next page for a sample of survey results from the investments industry.

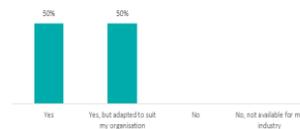
INDUSTRY INSIGHTS

STANDARDISED TMD TEMPLATE

Investment managers have also been the most uniform in their approach to adopting the requirement to have a public-facing TMD with 100% of respondents using a standardised industry template. Although 50% of respondents adapted their chosen template to suit their organisation's requirements.

More so than any of the other sectors, investment managers who do not use a standard template are likely to put themselves at a competitive disadvantage when dealing with distributors by reducing the ease of use of their products by advisers and platforms.

Refer to **Graph 1**

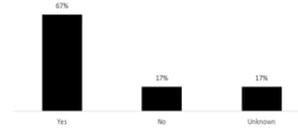


ACCESS TO DATA AND INFORMATION

Whilst a majority of respondents (67%) have access to all the data required to monitor their products, the sector had the largest response rate for those who did not have access (or were unsure) to sufficient data.

Access to sufficient data and information is critical to effectively monitor the performance of products. Data will ultimately drive the determination as to whether a TMD is, and remains, appropriate, or if redesign is required. This will be underpinned by ongoing benefits, risks and the outcomes for consumers.

Refer to **Graph 2**

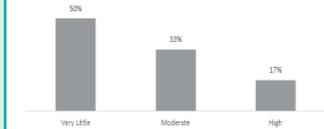


PRODUCT MANAGEMENT

Half of respondents (50%) identified that the requirement to have product governance arrangements in place, demonstrate reasonable steps and establish review triggers and ongoing monitoring practices resulted in 'very little' change to the way products are managed within the organisation.

This is likely a result of the sector having the most opportunity to leverage work done for similar products under the European MiFID II rules. Similarly to the Banking sector, it will be important to invest in post-implementation activities to assess how well changes have been embedded.

Refer to **Graph 3**

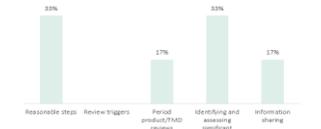


BAU ENVIRONMENT

The majority of investment managers identified that reasonable steps (33%) and identifying and assessing significant dealings (33%) would require the most effort and/or present the biggest challenge in the BAU environment.

Given there is no materiality threshold around what comprises 'reasonable', organisations have taken a risk based approach per product. Additionally, significant dealings have required organisations to build ongoing efficiencies in incident and issue management.

Refer to **Graph 4**



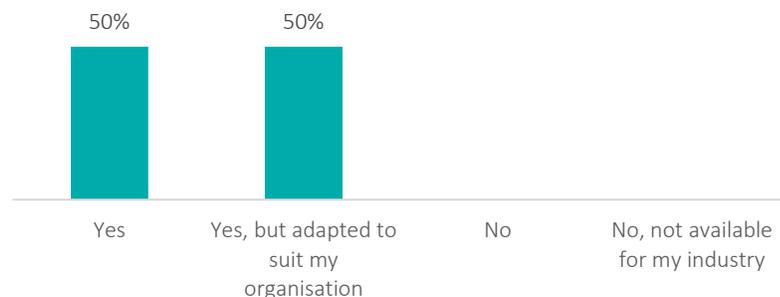
Investment Management

Survey results and suggested post-implementation activities

SURVEY RESULTS

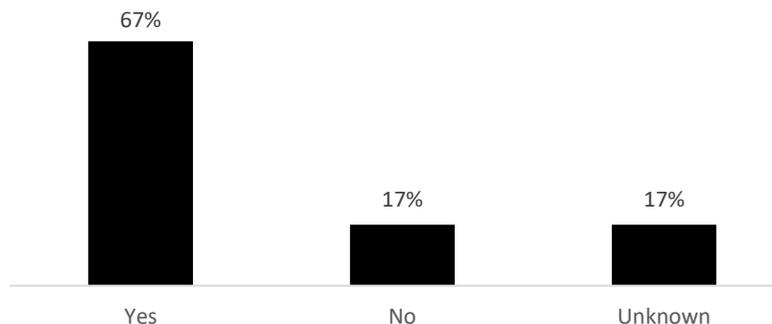
1

When preparing TMDs, did your organisation use a standardised industry template?



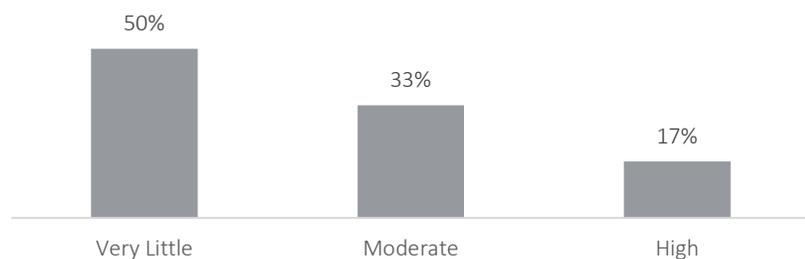
2

Does your organisation currently have access to all the data and information required (either internally or provided by third parties) to sufficiently monitor of your products/ TMDs?



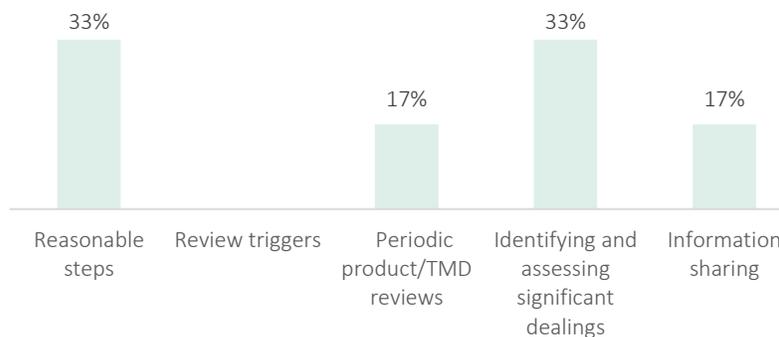
3

How did the requirement to have product governance arrangements, demonstrate reasonable steps, and establish review triggers and ongoing monitoring practices result in changes to the way products are managed?



4

Which area of DDO do you expect to require the most effort and/ or presents the biggest challenge in the BAU environment?



SUGGESTED ACTIVITIES



Reasonable steps assessment



Review of DDO integration



Significant dealings review



Monitoring and reporting evaluation



Refer to pages 17-20 for further detail as to the above activities.

5 | Superannuation



Superannuation

Industry implementation and insights

INDUSTRY IMPLEMENTATION

Overall, the level of compliance within the Superannuation sector is positive, with a range of responses from ‘adequate’ to ‘exceptional’. No funds felt that they are non-compliant. This is likely the result of the high level of correlation between the overall objectives of DDO and recent work undertaken to comply with Member Outcomes requirements.

Across the industry, Superannuation as a sector was the least optimistic about the ability of DDO to result in improved outcomes for members. 50% of respondents felt that the regime would not result in better outcomes and a further 17% were unsure.

Despite the continuing pressure on the sector to deliver value and positive member outcomes, a low proportion of respondents expect to see immediate benefits for members as a result of DDO. This is likely a result of the already high focus on outcomes across the sector, however funds should continue to use DDO as a tool to support members in accessing products that suit their needs and objectives.

Superannuation funds should now be focussing on embedding their overall product governance arrangements and ensuring there is a solid framework in place to develop and manage products throughout their lifecycle to ensure those member outcomes are realised.

 Please refer to the next page for a sample of survey results from the Superannuation industry.

INDUSTRY INSIGHTS

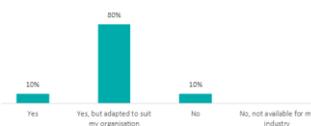
STANDARDISED TMD TEMPLATE

The majority (90%) of Superannuation funds used an industry-standard template to prepare their TMDs, although a large proportion of those have made changes to adapt the template to the needs of their organisation.

This level of consistency has largely been driven by the high level of coordination by industry bodies that we have seen within the Superannuation sector, aided by the level of similarity in product sets across different funds.

A consistent approach to TMDs will aid consumers in the sector to compare products.

Refer to **Graph 1**



ACCESS TO DATA AND INFORMATION

All of our respondents felt that they had access to all of the data required to monitor products and TMDs. However, monitoring review triggers was the most commonly identified challenge for funds in a BAU environment. This suggests that while raw data is available, funds may be struggling to translate this into meaningful and actionable reporting.

Review triggers will likely remain a test and challenge for many organisations who are looking at data and setting thresholds to monitor products for the first time.

Refer to **Graph 2**

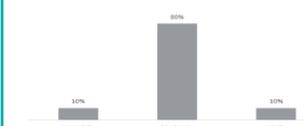


PRODUCT MANAGEMENT

Approximately 80% of Superannuation respondents identified that the requirements to have product governance arrangements, demonstrate reasonable steps, and establish review triggers and ongoing monitoring practices resulted in moderate changes to the way products are managed.

DDO was expected to create a fundamental shift to product management, including consideration of policy and frameworks. Post-implementation activities will evidence if changes to product management were embedded correctly or if further work is required.

Refer to **Graph 3**

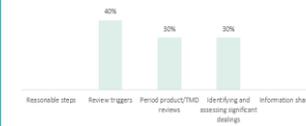


BAU ENVIRONMENT

Approximately 40% of the Superannuation respondents identified that review triggers would require the most effort/present the biggest challenge in the BAU environment. The remaining respondents identified periodic product/TMD reviews (30%) and significant dealings (30%). This is likely the result of challenges around identifying members who are outside the target market either at the overall product level, or at the individual option level.

Additionally the emphasis on review triggers reflected the ongoing and iterative process to ensure robust review triggers, and thresholds, are in place.

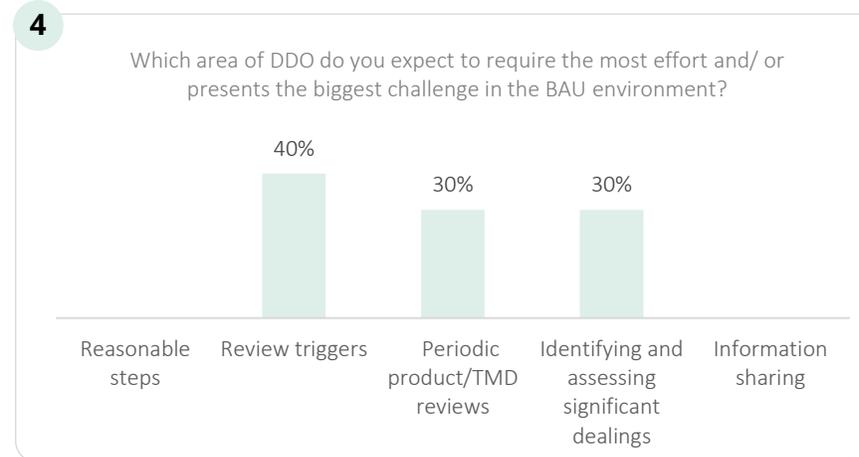
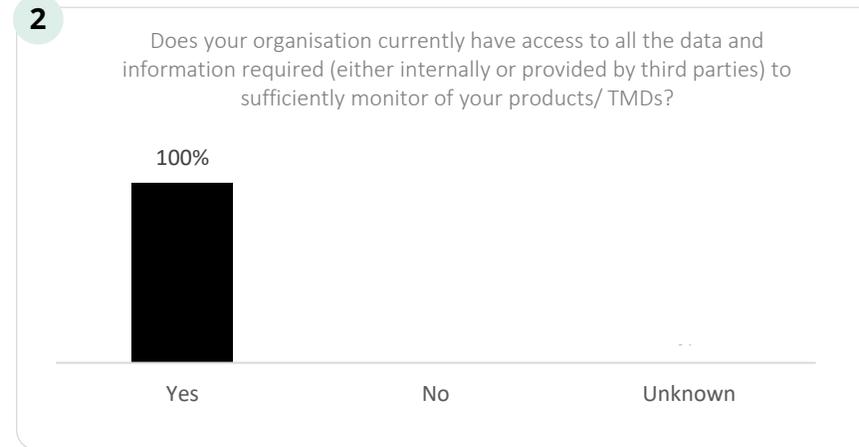
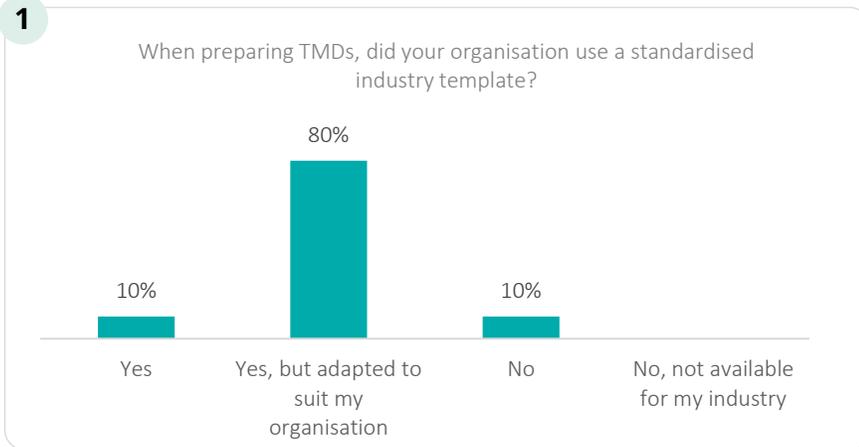
Refer to **Graph 4**



Superannuation

Survey results and suggested post-implementation activities

SURVEY RESULTS



SUGGESTED ACTIVITIES



Review trigger thresholds assessment



Review of DDO integration



Significant dealings review

Refer to pages 17-20 for further detail as to the above activities.

Post-implementation activities

What you can start now

POST-IMPLEMENTATION

On 3 March 2022, during his address at the AICD Australian Governance Summit, Mr Longo identified that ASIC considers the industry is reaching a point where it has had sufficient time to bed down its implementation of the regime. He outlined that ASIC will be expecting compliance with the regime, and across 2022 will pursue a targeted surveillance approach, moving to enforce the obligations where necessary.

In light of Mr Longo's comments, and the fact we are now six months post go-live, it is a good opportunity for organisations to invest in post-implementation activities that will assess how the DDO regime has been embedded across their business, identifying any areas of uplift.

Based on the nature of the industry, what we have observed both in the run up to implementation and from survey results, we believe the critical activities in the aftermath for DDO, for the various sectors, are post-implementation reviews that cover:

- Monitoring and reporting evaluation;
- Distributor practices and oversight;
- Reasonable steps assessment;
- Review of DDO integration;
- Review trigger thresholds assessment; and
- Significant dealings.

 For further details about above post-implementation activities, please refer to pages 19-20.

SURVEY INSIGHTS

The post-implementation activities that we have outlined on the following pages were developed based on the responses collated to the question 'Which area of DDO do you expect to require the most effort and/ or presents the biggest challenge in the BAU environment?'. In addition to this question, we asked organisations to rank the further work they are planning to conduct in order of priority. We outline the results of this question below, identifying the high-level area of work each sector has identified that they will refine, embed and enhance moving into 2022.

As organisations monitor their data, particularly customer outcomes, their review trigger thresholds will be tested and refined. Additionally, areas such as reasonable steps, significant dealings and product governance, are all items that presented distinct challenges in the lead up to go-live and some required interim solutions. As such, it is not a surprise these areas will a big focus of the post-implementation environment.

RANK ASPECTS OF DDO IN TERMS OF THE LEVEL OF FURTHER WORK YOU ARE PLANNING TO DO



Post-implementation activities

What you can start now

ACTIVITIES

CONTEXT

KEY ACTIVITIES



Reasonable steps assessment

The industry placed a larger emphasis on (1) the development of TMDs and (2) embedding DDO into Product Governance frameworks when implementing DDO.

The regulator's guidance was to take a risk based approach to reasonable steps. Many organisations took a light-touch approach to assessing and uplifting reasonable steps to support the distribution in-line with the TMD. There were inherent difficulties faced due to the lack of materiality thresholds relating to what comprises reasonable, therefore organisations were required to make a business decision as to what was appropriate per product. While most organisations had some level of comfort over their control environment, it has been suggested the regulator would expect evidence as to how this conclusion was reached.

- Undertake an assessment over reasonable steps currently in-place as it relates to the control environment, industry benchmarks and regulator expectations, including developing a structure through which to test appropriateness of reasonable steps currently in-place. This may include review of any artefacts that may evidence reasonable steps (e.g. process maps, sales scripts, promotional material, KPI/ incentive arrangements, training material).
- Consider technologies that can aid reasonable steps delivery (for example, voice analytics).



Distributor practices and oversight review

The level of oversight of distribution processes has been varied across the industry, for both internal and external distributors. Given the scope of DDO, many organisations found it challenging to embed oversight arrangements across all channels (including online, contact centres, third parties and branches).

Additionally, pre-go live, many organisations addressed information sharing requirements with distributors through an interim solution such as a manual inbox where distributors' submitted information.

- Undertake a deep dive of distributor oversight arrangements including information sharing practices and distribution agreements in place. This may be according to function/ business unit, channel, or distributor/ distributor type.
- Assess the adequacy of the distributor oversight arrangements against comparable arrangements across industry and better product governance practices (including sales processes).
- Develop options to streamline information sharing processes and better embed data from distributors' with internal data to provide consistency of information received both in form and content.



Review trigger thresholds assessment

Many organisations grappled with challenges in relation to establishing of metrics and thresholds for those metrics, when setting review triggers. It was a balance of:

- What review triggers are formalised and set out within the TMD, and what remain internal measures of product performance; and
- How to establish thresholds that will appropriately notify the business of a potential significant dealing, without creating an administrative burden for unnecessary ongoing reviews.

Many organisations opted to rely on historical data to provide a view as to reasonable metrics and thresholds, noting that this would need to be validated and updated over time.

- Undertake a review of the existing review triggers and the relative thresholds attached to each metric in relation to the appropriateness of the review trigger and the attached thresholds, having regard to (for example):
 - Organisational risk appetite;
 - Individual product risk rating;
 - Potential for consumer harm;
 - Likely impact of any harm; and
 - Outcome of any assessments to-date.

Post-implementation activities

What you can start now

ACTIVITIES

CONTEXT

KEY ACTIVITIES



Monitoring and reporting evaluation

The implementation of appropriate monitoring and reporting arrangements to support compliance with DDO was a significant challenge for many organisations pre-go live. As a result, there was an overreliance on manual monitoring and reporting options, with an intention to uplift these arrangements post-go live.

While manual monitoring and reporting options may have been a discretely compliant interim solution, they often fail to give a robust and complete view across the product value chain or product portfolio.

- Undertake a deep dive into monitoring and reporting arrangements. This may include product monitoring, and may also include the monitoring of distributors. This would involve: (1) review of relevant collateral, such as dashboards, reporting, review trigger approach/ thresholds, significant dealing investigations and third party reporting, (2) a comparative assessment of monitoring practices in line with DDO requirements and better practice across the industry.
- Consider how the organisation may be able to uplift monitoring and reporting arrangements to support compliance with DDO.



Significant dealings review

Similar to the challenges that organisations had in establishing metrics for review triggers – many organisations struggled to set the criteria to support a determination of a significant dealing. While the industry was aligned in leveraging existing issue and incident management policies, etc., the question often arose ‘what will make a dealing significant’. The lack of materiality threshold added to the challenge. Many organisations assessed the factors that may support in the determination, without prescribing certain levels or thresholds. Factors included, but are not limited to:

- number of customers who acquire the product that are outside the target market;
- the actual or potential harm (i.e. amount of financial loss);
- the nature/ extent of inconsistency of distribution with the TMD;
- the time period in which acquisitions outside target market occurred.

- Undertake a review of the process in relation to significant dealing, the criteria applied and the outcomes that can be reached to assess the adequacy. The assessment should consider timeframes, role of product and/or compliance functions and options to uplift and build ongoing efficiencies for the significant dealing process.



Review of DDO integration

To effectively meet the requirements under DDO, organisations were required to create a fluid working model of information sharing and obligation management. As DDO implementation often rested solely with risk, compliance and product functions, the appropriate onboarding of other business areas was limited pre-go live. There was also often a lack of business process mapping to address who was responsible for what in BAU.

Post-go live, many organisations have had to thrust themselves into a new operating rhythm without adequate change management.

- Complete an end-to-end mapping of how the DDO regime has been embedded, including periodic and ongoing TMD and product reviews.
- Review and assess effectiveness of the approach to meet DDO alongside other BAU practices and documented approaches, such as product governance policy and/or framework, alignment to DDO, and related roles and responsibilities

7 | Get in touch



Get in touch

Who to contact

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