

# Design and Distribution Obligations

Checkpoint tracker – 12 weeks until go live

<b>01</b>	<b>02</b>	<b>03</b>	<b>04</b>	<b>05</b>	<b>06</b>
Develop Target Market Determination	Assess Reasonable Steps	Reporting and monitoring	Review product governance arrangements	Design Significant Dealings framework	Other key go-live activities

With less than three months until the Design and Distribution Obligations (‘DDO’) come into effect, we expect that many issuers and distributors will be watching the clock with a sense of anticipation and uncertainty. As with most regulatory changes, organisations want to be seen as being ‘in-sync’ with peers, both in progress and approach. Therefore, the purpose of this checkpoint tracker is to provide issuers and distributors currently implementing DDO with an indicator of where the industry is at across various components.

This progress indicator is based on Deloitte’s industry insight across the financial services sector, and our view of the key activities and milestones that organisations should be undertaking to achieve compliance with DDO by 5 October 2021.

**01**

Develop Target Market Determination (‘TMD’)

**Determine TMD level**

Organisations need to define the TMD at a level within the product hierarchy that allows for sufficient granularity so that the product is aligned to the needs, objectives and financial situation of the identified class of consumer.

**Critically assess product**

Organisations need to review the product and critically assess whether it is fit for purpose, taking a data-led approach. That is, whether the product is consistent with the needs, objectives and financial situation of the target market.

**Draft TMD document**

Organisations need to draft the TMD based on content / appropriateness requirements, referencing the key product attributes, target market, distribution conditions and restrictions, distribution information, and review periods and triggers.

**Finalise and approve TMDs**

Organisations need to work through their respective TMD approval processes, including with distributors. This typically includes involvement from product, risk, compliance, marketing and legal teams, as well as sign off by the responsible executive.

**Publish TMDs**

Organisations need to make the TMDs publicly available. Many are choosing to publish TMDs online, where existing PDSs are currently stored. Most organisations will be publishing their TMDs just prior to 5 October.

Progress indicator

**02**

Assess Reasonable Steps

**Define existing controls**

Organisations need to understand and baseline the current distribution control environment to determine what is in place in terms of reasonable steps and how robust these controls are in practice.

**Risk assessment**

Organisations need to take a risk-based approach to determine if the existing distribution processes and controls will support distribution in line with the target market (considering risk vs likelihood factors).

**Due diligence**

Organisations need to determine whether existing and planned distributors and distribution channels are appropriate, able to comply with conditions and restrictions, and can provide the required reporting.

**Identify changes**

Organisations need to use an understanding of the risk posed and existing controls to define what uplift is needed to distribute accordingly. This may include a change in distribution strategy or distributors.

**Uplift environment**

Organisations need to embed any changes identified to the distribution environment. For example, choice architecture, training, incentives / KPIs, monitoring or marketing.

Progress indicator

**03**

Reporting and monitoring

**Understand needs**

Organisations need to determine what data and information they will require, internally and from distribution networks, for reporting and monitoring to support compliance with DDO.

**Explore data capability**

Organisations need to explore their data landscape and identify what data and information they currently have to support review triggers, monitoring and significant dealings.

**Engage distributors**

Organisations need to openly communicate and engage with distributors to assess whether they are able to meet the TMD distribution conditions and restrictions, as well as provide information.

**Assess data quality**

Organisations need to explore if the data and information that they hold is timely, accurate, adequate and complete. This may require an uplift of processes or collect information through other avenues.

**Implement changes**

Organisations need to implement or uplift systems that efficiently and effectively monitor data and information collected in relation to TMDs and distribution, with appropriate reporting over time.

Progress indicator

## 04

### Review product governance arrangements

#### Design effectiveness

Organisations need to undertake a desktop review of existing product governance frameworks, policies, procedures and processes to determine the design effectiveness.

#### Operating effectiveness

Organisations need to test the operating effectiveness of current product governance frameworks, policies, procedures and processes to determine how embedded these are organisationally.

#### Gap analysis

Organisations need to complete a gap analysis, based on the outcome of the design and operating effectiveness tests, to include consideration of DDO requirements across the lifecycle.

#### Document changes

Organisations need to address gaps identified in documentation to ensure product governance arrangements are robust and effective, comply with DDO and meet business needs.

#### Rollout changes

Organisations need to ensure processes and practices are updated, and staff are trained on changes made. This includes fulfilling any revised product governance considerations.

Progress indicator

## 05

### Design significant dealings framework

#### Review infrastructure

Organisations need to complete a review of existing issue, incident and/or breach management documentation and processes to understand current practices.

#### Establish governance

Organisations need to establish governance forums to assess significant dealings. The forum must have authority to act, including delegations, within required timeframes.

#### Determine data

Organisations need to define the data and information needed to make an informed determination of significant dealings. This should consider information required to report to ASIC.

#### Assessment criteria

Organisations need to specify the criteria for assessing significant dealings. These need to be flexible so as to be product-agnostic, while still driving consistency in outcomes and reporting practices.

#### Embed changes

Organisations need to formalise decisions made in relation to significant dealings architecture, including any upskilling and training required in embedding changes within the business.

Progress indicator

## 06

### Other key go-live activities

#### Promotional material

Organisations need to revise promotional material and related processes to resonate with the identified class of consumer, promote through the appropriate channels and specify the location of the TMD.

#### TMD review approach

Organisations need to determine the ad-hoc and periodic TMD review processes. Many are leveraging existing product review processes and incorporating DDO considerations as appropriate.

#### Record keeping

Organisations need to decide how to centrally store records of DDO material. For example, scoping decisions, archived/current TMDs and any TMD reviews. Existing records management protocols may support this.

#### Data sharing

Organisations need to agree on the method and frequency to transmit data and information between issuers and distributors. Some are relying on existing systems or email as an interim solution.

#### Threshold reviews

Organisations need to establish a process to review and refine thresholds for review triggers. These may be informed by data, the risk profile, past performance, and regulatory insights and expectations.

Progress indicator

## Post 5-Oct

### Life after DDO implementation

As the go-live looms, many issuers and distributors are left asking, what is next? Here are some tactical actions we suggest organisations should be thinking about now.

#### > Update internal audit plans

Review your FY22 internal audit plans to include a review of the design and operating effectiveness of product governance frameworks, policies and processes.

#### > Arrange and complete a post-implementation review

Establish a comprehensive end-to-end review of your implementation of the DDO requirements to identify areas of further uplift and enhancement, and assessing your compliance in a BAU environment.

#### > Focus on continuous improvement

Detail the approaches and solutions that were put aside as a strategic piece, and work through these in a prioritised and methodical way to deliver improvements over time.

#### > Align regulatory change programs

With DDO set to go-live in the same month as many other pieces of regulatory change (RG 271, breach reporting, anti-hawking), look at how you can make a concerted effort in BAU to streamline ongoing activities, monitoring and oversight.

### Find out more...



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