



18 February 2015

To: all authorised deposit-taking institutions, general insurers, life companies and RSE licensees

Regulatory cost savings - clarification of fit and proper requirements

APRA received submissions on its fit and proper requirements as part of consultation on opportunities for regulatory cost savings. In particular, some submissions commented that aspects of the requirements were giving rise to undue compliance costs. For further information on APRA's regulatory cost savings project, please refer to the 'Update on regulatory cost savings' available at:

<http://www.apra.gov.au/CrossIndustry/Pages/Regulatory-cost-savings-update-February-2015.aspx>

APRA-regulated institutions may in some cases incur costs through taking unnecessary steps to meet prudential requirements. The purpose of this letter is to clarify APRA's expectations in relation to fit and proper assessments.

Assessments of fitness and propriety

Under *Prudential Standard CPS 520 Fit and Proper* (CPS 520) and *Prudential Standard SPS 520 Fit and Proper* (SPS 520), an institution's Fit and Proper Policy must detail the processes to be undertaken when assessing the fitness and propriety of a responsible person. A fit and proper assessment must be completed before each appointment to a responsible person position¹ and, in addition, must be completed annually for each responsible person.

Submissions argued that institutions' existing staff annual performance review systems made it largely redundant to conduct the ongoing, annual fit and proper assessments, as required under CPS 520 and SPS 520. Submissions also suggested that hiring external parties to perform these assessments made the process unnecessarily costly.

APRA does not prescribe the exact timing of the annual assessments of fitness and propriety, nor does APRA require these assessments to be conducted on a stand-alone basis. The standards do not prohibit institutions from conducting assessments of fitness and propriety as part of their annual performance review process. APRA guidance material over the past decade has explicitly noted that the annual fit and proper review may be conducted as part of the annual staff performance review.²

¹ Unless the exceptions apply under paragraph 37 of CPS 520 or paragraph 29 of SPS 520.

² See paragraph 22 of *Prudential Practice Guide APG 520 Fit and Proper*, paragraph 23 of *Prudential Practice Guide GPG 520 Fit and Proper*, paragraph 23 of *Prudential Practice Guide LPG 520 Fit and Proper* and paragraph 29 of *Prudential Practice Guide SPG 520 Fit and Proper* as relevant.

Furthermore, there is no requirement for these assessments to be undertaken by an external party. APRA would expect that the senior management and board of a regulated institution would normally be able to oversee the annual fit and proper assessment process, without needing to rely on external advisors.

Questions and feedback

Institutions are encouraged to speak to their responsible supervisor should they have any questions regarding their annual fit and proper assessments.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Charles Littrell', is placed on a light-colored rectangular background.

Charles Littrell
Executive General Manager
Policy, Statistics and International