scyne ADVISORY

General Manager Policy Development
Policy and Advice Division
Australian Prudential Regulation Authority

Dear Sir or Madam

Governance Review Submission

Scyne Advisory (Scyne) welcomes the opportunity to provide feedback to APRA's discussion paper on governance for regulated institutions. Scyne's purpose is to serve public purpose organisations to build more resilient, equitable and prosperous communities. We support positive reforms to improve the governance of Australian capital markets that protect and advance the interests of all community stakeholders.

We have perspectives on five of your eight proposed changes set out below:

Proposal 1 – Skills and Capabilities

The proposed reforms will strengthen the capabilities of regulated institutions' boards to serve their stakeholders. These are aligned with wider expectations for directors to demonstrate appropriate skills and experience detailed in the ASX's corporate governance principles, Australian Institute of Company Directors' guidelines and other international jurisdictions.

We suggest APRA provide clear guidance on the behavioural attributes that contribute to its view of good governance. This will drive consistency and remove subjective assessment of director's appropriate behaviours.

Proposal 2 – Fit and Proper

Ensuring persons of good character and appropriate skills and knowledge serve as directors on regulated institutions will strengthen Australian capital markets. However, the current proposal creates the following challenges:

- Being prescriptive on director's capacity to serve on boards and providing criteria to assess previous performance in assessing fit and proper character may not be practical to perform consistently; and
- Greater intervention in the director appointment process over higher-risk institutions reduces shareholders' and members' agency in the governance of their organisation and creates higher risk for APRA in potentially moving from the role of regulator into directing operations (outside the regulatory enforcement role) in a regulated institution. This creates a risk in APRA being perceived and directing an institution's operations and performance

Proposal 5 – Board performance review

Steps to require board conduct a triennial, independent board performance review will serve as a mechanism to ensure boards remain formally focused on continuous improvement. The inclusion of proportionality where non-significant financial institutions are exempt from this requirement is positive, although these institutions should be encouraged to also assess their board's performance.

These assessments serve a critical role in informing Board Chairs and directors of opportunities to improve their performance to advance stakeholder interests. Where required, they can be frank and critical of boards', committees' and individual director's performance. Requiring the independent, triennial report to be submitted to APRA reduces the confidentiality of this important work and raises the risk of audience bias where key messages are toned down in the understanding the assessment will be examined by APRA.

Proposal 7 – Board committees

The current requirement for separate board audit and risk committees has materially strengthened regulated institutions' risk management performance since its introduction. In our experience the agendas of combined audit and risk committees are materially weighted towards audit matters at the expense of critical risk considerations.

The removal of this requirement will reduce the effectiveness of non-SFI's risk management practices as there will not be sufficient time for board oversight over risk matters.

Proposal 8 – Director tenure and board renewal

Of the suggested reforms, our view is proposal one's focus on skills and experience will have the most significant impact on institutions' performance. Several of our clients are regionally based and they can find it difficult to recruit local directors who have the expected skills and industry experience.

To address this challenge, we suggest APRA include proportionality in the requirement tenure be limited to ten years. If a non-significant financial institution can demonstrate a long serving director continues to perform and contribute value (potentially through the independent assessment identified in proposal 5), the institution should be able to apply for an extended tenure for that director. This will support regional institutions to have local directors with expected skills and experience continue to serve their communities.

It is important this flexibility be balanced with overall board tenure to ensure regular succession of directors occurs ensuring both newer and longer serving directors to mitigate some level of group think and confirmation bias.

Scyne welcomes the opportunity to discuss our submission further and would be pleased to provide further information or clarity as required. If this is helpful, please contact me at [redacted] or [redacted]

Yours faithfully

[redacted]

[redacted]
Managing Director
Governance, Risk and Compliance