Draft Prudential practice guide

CPG 510 Governance

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About this guide

Prudential practice guides (PPGs) provide guidance on APRA's views of sound practice in particular areas. PPGs discuss requirements from legislation, regulations or APRA's prudential standards, but do not themselves create enforceable requirements.

Effective governance is fundamental to the safety and resilience of APRA-regulated entities and the stability of the Australian financial system. Sound governance supports prudent decision-making, effective oversight and accountability, and helps regulated entities manage risks in a manner that protects depositors, policyholders, beneficiaries and the broader community.

This PPG supports APRA-regulated entities to comply with Prudential Standard CPS 510 Governance (CPS 510). It is not a comprehensive guide to effective governance and does not prescribe all practices that a Board or APRA-regulated entity may adopt. The application of CPS 510 differs between entity types, and APRA-regulated entities should have regard to the guidance that is relevant to the requirements applying to them.

Proportionality

CPS 510 applies to all APRA-regulated entities, although the requirements that apply differ according to entity type and, for some requirements, whether an entity is a significant financial institution. All APRA-regulated entities, regardless of size, are exposed to governance risks that can arise and harm depositors, policyholders or beneficiaries.

An APRA-regulated entity's approach to implementing CPS 510 should be proportionate to its size, complexity, business mix, risk profile and role in the financial system. Proportionality affects how an APRA-regulated entity implements an applicable requirement, not whether it must comply with that requirement. Governance arrangements would typically develop as the APRA-regulated entity grows, changes or becomes more complex.

Glossary

Accountable person	An accountable person as defined in section 10 of the *Financial Accountability Regime Act 2023.*
Board	Board of directors of an institution or, for an RSE licensee, the Board of directors or group of individual trustees of an RSE licensee, as applicable.
CPS 001	*Prudential Standard CPS 001 Defined terms.*
CPS 510	*Prudential Standard CPS 510 Governance.*
Non-executive director	A director who is not a member of the regulated entity's management.
Non-SFI	A non-significant financial institution as defined in CPS 001.[1]
Responsible person	As defined in CPS 510 (including FAR accountable persons, auditors, actuaries and, for RSE licensees, the RSE secretary; and other persons determined by APRA in limited circumstances).
RSE	Registrable superannuation entity as defined in section 10(1) of the *Superannuation Industry (Supervision) Act 1993*.
RSE licensee	RSE licensee as defined in section 10(1) of the *Superannuation Industry (Supervision) Act 1993.*
SFI	A significant financial institution as defined in CPS 001.[2]
SIS Act	*Superannuation Industry (Supervision) Act 1993.*

[1] Effective from 1 January 2028, CPS 001 will define SFI and non-SFIs for all APRA-regulated entities including RSE licensees.
[2] Effective from 1 January 2028, CPS 001 will define SFI and non-SFIs for all APRA-regulated entities including RSE licensees.

Part A – Board governance for locally incorporated regulated entities[3]

Governance framework

1) A prudent entity would document and communicate its governance framework so that directors and staff understand their roles, responsibilities, authorities, reporting lines and escalation obligations. Governance documents would typically be maintained in a central location. Induction, training and regular communication would support directors and staff to understand and access the documents relevant to their responsibilities.

2) A governance framework need not be contained in a single document. It may be reflected across Board and committee charters, delegation instruments, accountability frameworks and other governance policies, processes and reporting arrangements.

3) One way to assess whether the governance framework operates effectively is to review how it operated during a material decision or risk event. The review may consider whether responsibilities and accountabilities were clear, the matter was escalated to the Board in a timely and appropriate manner, recommendations and associated risks were presented clearly, appropriate challenge and scrutiny occurred, insights from relevant functions were considered, and the APRA-regulated entity's strategy and risk appetite were taken into account.

The Board and delegation of authority

The Board's prudential responsibilities

4) Board committees, senior management and external experts may support the Board in carrying out its prudential responsibilities, but this does not reduce the Board's responsibility to exercise its own judgement and form its own view.

5) The Board's consideration of strategy, business planning and risk appetite should be integrated. The Board should monitor whether implementation remains consistent with the approved strategy and risk appetite and respond where performance, risks or changing circumstances call the strategy or its execution into question.

6) Effective oversight requires active inquiry and informed judgement. The Board may test material assumptions, forecasts, risks and trade-offs, consider alternative views and what could reasonably go wrong, and seek further information or assurance. Constructive challenge may lead the Board to require changes to proposals, decline a decision or record dissenting views.

[3] While Part A is directed to locally incorporated regulated entities, certain governance principles discussed in this Part may also be relevant to entities subject to Part E of CPS 510.

Case study: Constructive challenge and the annual risk management declaration

The Board is preparing to make the annual risk management declaration required under *CPS 220 Risk Management*. Management recommends that the Board make the declaration without qualification, advising that the risk management framework remains appropriate and effective.

The Board is not satisfied that this recommendation reflects the information it has received during the year. Internal audit has identified control weaknesses, several remediation actions are overdue, and a significant risk incident has raised concerns about whether existing controls are working as intended.

The Board challenges management's assessment and seeks further information from management, risk and internal audit. The additional information does not give the Board sufficient confidence that the identified weaknesses have been fully addressed. The Board therefore qualifies its declaration to reflect the outstanding concerns. It also requires clear accountability for the remediation actions, with agreed timeframes and regular reporting to the Board until the issues are resolved.

Illustrated principle: Constructive challenge means the Board does not simply accept management's recommendation. Where information calls management's assessment into question, the Board should test that assessment, reach its own view and ensure any remaining concerns are addressed through clear actions, accountability and follow-up.

Culture

7) The Board influences the entity's culture through the expectations it sets, the decisions it makes and the conduct it demonstrates and accepts. It should communicate behaviours expected throughout the entity, including prudent risk taking, ethical conduct, accountability and identifying and escalating concerns promptly.

8) Effective oversight involves assessing whether these expectations are reflected in practice. The Board would typically draw on a range of information, including employee and risk culture surveys, conduct and consequence data, complaints, incidents, breaches, whistleblowing reports, audit and assurance findings, remuneration outcomes and engagement with employees. Considering information from different sources can help the Board identify trends and differences between actual behaviours and stated expectations.

9) Governance, remuneration and people practices should reinforce the desired culture. The Board would typically consider whether incentives, performance management, appointments, promotions and consequence management encourage prudent behaviour and accountability and whether employees can raise and escalate concerns without fear of inappropriate consequences. Where conduct or cultural concerns arise, the Board should satisfy itself that the entity responds in a timely, proportionate and consistent manner and addresses any underlying causes. The Board would typically monitor whether agreed actions are implemented and whether they are producing the intended change.

Further guidance: Entities may have regard to APRA's *Risk Culture 10 Dimensions* as an additional resource to support Board oversight and assessment of risk culture.

Role of the Chair

10) The Chair plays an important role in enabling the Board to discharge its responsibilities effectively. The Chair should promote an environment in which directors can express differing views, test assumptions and engage in open and constructive debate. This includes encouraging contributions from all directors, managing dominant voices and the risk of groupthink, and ensuring the Board has appropriate access to relevant management

perspectives and expertise. The Chair should ensure meeting agendas and the allocation of time reflect the significance and complexity of the matters before the Board. Before bringing a material matter to a decision, the Chair would typically test whether directors have had sufficient opportunity to consider and discuss it and whether the Board requires further information, analysis or assurance.

Delegation[4]

11) CPS 510 permits the Board to delegate an obligation imposed on it by another prudential standard, to the extent not prohibited by any applicable legislation. This applies even where other prudential standards state that the Board must perform, approve or determine the relevant matter.

12) Delegation does not remove the Board's accountability for the obligation or its responsibility to oversee how the delegated authority is exercised. In determining whether delegation is appropriate, a prudent Board would consider the nature and significance of the matter, the entity's strategy and risk profile, and the expertise, authority and capacity of the proposed delegate. Delegations must be clearly documented and may be documented in role descriptions, accountability statements, charters or other governance documents.

13) The Board's oversight should be proportionate to the significance, complexity and risk of the delegated matter. Reporting should enable the Board to understand whether delegated authority is being used as intended, applicable prudential requirements are being met and material matters are being appropriately escalated. Reporting may include management reports or attestations, compliance and assurance findings, and information on incidents, exceptions and breaches.

14) Escalation arrangements should combine defined criteria with appropriate judgement. A matter may need to be escalated because of its nature, potential impact, complexity, novelty or strategic significance, even where it falls within the delegated authority or does not exceed a quantitative threshold. Delegation arrangements should be reviewed as the entity's strategy, risk profile, operating environment or organisational capability changes. The Board may need to limit, suspend, vary or withdraw a delegation, or increase reporting, assurance or Board involvement, where the significance or risk of the matter increases.

Case studies: Delegation

Delegation supporting effective decision-making

The Board delegates approval of the service provider management policy, required under CPS 230 Operational Risk Management, to the Board Risk Committee. The Board also delegates authority to management to approve individual service provider arrangements within defined limits, including approval thresholds and requirements relating to the location and materiality of the service.

Management approves individual service provider arrangements within the limits of the authority delegated. The Board Risk Committee receives regular reporting on the performance of critical operations, business continuity testing results, material incidents and service provider performance, while breaches of critical operation tolerances, significant incidents and other material matters are escalated to the Board as required. Over time, management exercises the delegated authority within approved limits, material issues are escalated appropriately, and decisions remain consistent with the entity's strategy, risk appetite and governance framework.

[4] Similar principles may be relevant to the delegation of obligations by a senior officer outside Australia under Part E of CPS 510, having regard to the specific requirements applying to that role.

Illustrated principle: Delegation can support effective decision-making by enabling matters to be considered by those with appropriate expertise and information, while the Board retains accountability and maintains oversight through reporting and escalation arrangements.

Delegation arrangements responding to a change in risk profile

The Board approves a major technology transformation program and delegates day-to-day implementation decisions to management, supported by regular reporting and escalation arrangements. Initially, the program operates within approved risk tolerances, budget parameters and delivery timeframes, and the delegation functions as intended.

As the program progresses, implementation delays emerge, costs increase and key controls are found to be ineffective. Management advises that the potential impact may exceed the entity's risk appetite. In response, the Board increases the frequency and depth of reporting and assurance and narrows management's delegated authority so that specified decisions, milestones and risk treatments require Board consideration. The Board continues to review the delegation as remediation progresses.

Illustrated principle: Delegation arrangements should be reviewed and adjusted as risks and circumstances change. The Board may need to increase its oversight or retain greater decision-making authority where the significance or risk of a matter increases.

Senior managers and management information

15) The Board and its committees should determine the information they need to discharge their responsibilities. They should receive information from senior management, control functions, assurance activities and other relevant sources that enables them to test management's assessments and form their own views.

16) Reporting should be timely, balanced and focused on material matters. It should clearly identify key risks, uncertainties, trade-offs and significant limitations in the information presented. Excessive detail and reporting focused primarily on process completion can make important matters harder to identify. Entities should guard against reporting that focuses predominantly on positive outcomes and does not adequately identify emerging risks, systemic concerns or adverse developments.

17) Senior management should promptly escalate matters requiring Board awareness, direction or oversight, whether or not they are formally reserved for the Board. Papers seeking a decision should clearly state the decision sought, management's recommendation and the key assumptions, risks and alternatives. For an RSE licensee, this should include consideration of members' best financial interests, where relevant.

18) The Board should set expectations for the content, quality, frequency and presentation of management information, including where artificial intelligence is used in its production. These expectations may be documented in a management information reporting policy or another appropriate governance document. The Board should periodically assess whether reporting continues to support effective oversight and decision-making. This may include reflecting at the conclusion of Board or committee meetings.

19) Minutes should provide an appropriate record of material discussions, challenge and decisions. When reviewing minutes, the Board and its committees should consider whether the record appropriately reflects material matters considered, significant challenge and the basis for decisions.

Further guidance: Entities may have regard to the Australian Institute of Company Directors and Governance Institute of Australia *Joint Statement on Board Minutes* for additional guidance on Board minute-taking practices and the use of technology in minute preparation.

Board composition and independence

20) A Board should periodically assess whether its size remains appropriate. In determining the appropriate number of directors, a Board would typically consider the regulated entity's size, complexity and risk profile, the skills and experience required on the Board, the mix of executive and non-executive experience, and the effective operation of Board committees.

21) A Board should be able to exercise judgement independently from management and constructively challenge management. To support this, CPS 510 requires banking and insurance Boards to have an independent Chair and a majority of independent directors. CPS 510 does not impose these requirements on RSE licensees, recognising that many RSE licensee Boards are subject to the equal representation requirements in the SIS Act. A prudent RSE licensee Board should nevertheless consider whether its composition and governance arrangements enable it to exercise judgement independently from management and, where it forms part of a group, other group entities.

22) Not all interests, positions or relationships will necessarily prevent a director from being independent. In assessing independence, the Board should consider whether the interest, position or relationship could affect, or reasonably be perceived to affect, the director's capacity to bring independent judgement to bear on matters before the Board. A prudent Board would document the basis for its assessment of whether the director is independent.

23) The Board should reassess a director's independence where a change in the director's interests, duties or circumstances may materially affect, or reasonably be perceived to affect, their independence. The assessment should include consideration of whether a director's tenure within a group may affect, or reasonably be perceived to affect, their independent judgement.

Board committees

24) In addition to the matters prescribed by CPS 510, a prudent Board would ensure that a Board committee's charter sets out its reporting and escalation arrangements and its relationship with the Board and other Board committees. It would also typically ensure that each Board committee maintains a forward work plan and would periodically consider rotating members to support director development and balance continuity and experience with fresh perspectives.

25) Board Risk, Board Audit and Board Remuneration Committees may obtain advice or other input from external experts, including through standing advisory arrangements. External experts must not be members of, and consequently must not have voting rights on, these Board committees.

26) A Board Committee Chair should maintain appropriate engagement with senior managers and control functions relevant to the committee's responsibilities. The Chair should report material matters to the Board, including matters requiring Board awareness, direction or decision.

27) Board agendas should allow sufficient time to consider material matters arising from Board committees. Board committee minutes should be made available to all directors in a timely manner to support informed Board oversight.

28) CPS 510 permits a non-SFI to combine its Board Audit and Board Risk Committees. APRA considers separate committees to be better practice where the nature, scale and complexity of the entity warrant the additional focus. Where these committees are combined, the Board should be satisfied that the combined committee has sufficient time, expertise and capacity to discharge both sets of responsibilities effectively.

Internal audit

29) The Head of Internal Audit, or equivalent, should be free from undue influence by management and independent of the activities being audited. To support this independence, CPS 510 requires internal audit to have a functional reporting line to the Board Audit Committee. A secondary reporting line may be appropriate, provided it does not compromise internal audit's independence or access to the Board Audit Committee and CEO.

30) Internal audit should have sufficient standing, capability, and authority. Its mandate, position, reporting relationships, authority and access would typically be documented in an internal audit charter approved by the Board Audit Committee. Internal audit should maintain sufficient understanding of the regulated entity's activities, emerging risks and governance issues to inform its assurance work.

31) The Board Audit Committee should satisfy itself that internal audit provides adequate coverage of the entity's material risks and operations, major remediation or transformation programs, material outsourced services and other activities required of internal audit under APRA's prudential framework. Internal audit plans should also provide appropriate coverage of governance-related areas, such as delegations, conflicts management, fit and proper processes and the quality of management information.

32) Internal audit reporting should explain the significance and broader implications of material findings and their underlying causes. Relevant cultural or accountability factors may form part of this analysis. Significant findings should be escalated promptly.

33) In overseeing the management and rectification of audit findings, a prudent Board Audit Committee would pay particular attention to repeated findings, recurring control weaknesses and long-outstanding actions, as these may indicate broader weaknesses in governance, risk management or accountability.

34) The Head of Internal Audit, or equivalent, should establish and maintain a quality assurance and improvement program covering all aspects of the internal audit function. Better practice includes obtaining an external quality assessment at least every five years and having the results reviewed by the Board Audit Committee.

Further guidance: To the extent it does not conflict with CPG 510, entities may have regard to the *Global Internal Audit Standards* issued by The Institute of Internal Auditors for additional guidance, examples and better practice relating to the internal audit function.

Board skills and capability

35) CPS 510 requires a Board to take reasonable steps to ensure that it has the collective skills and experience necessary to fulfil its responsibilities. This is not limited to technical skills or experience. A prudent Board would

also consider behavioural attributes that support its effectiveness, such as constructive challenge, openness to different views and the ability to engage in effective discussion and debate.

36) The skills matrix must identify the skills and experience needed by the Board and its committees. The matrix should enable the Board to identify current and future skills gaps. Depending on the regulated entity's circumstances, skills and experience needs may be satisfied by external expertise that the Board draws upon to supplement its capability. Where this is the case, the skills matrix should distinguish between the skills and experience held by directors and supplementary capability available through external sources.

37) There are a range of ways a Board can address identified skills gaps. Depending on the nature of the gap, actions may include engaging external expertise, director development, succession planning, appointments or changes to Board committee composition. In drawing on external expertise to supplement its capabilities, a Board may choose to establish an advisory committee to provide it with access to specialist skills or experience independent of management.

38) The Board should not rely solely on director self-assessments to inform its assessment of its capabilities and gaps. It should apply appropriate verification and review the collective results for consistency.

39) The Board should consider how changes in the entity's strategy, risk profile and operating environment may affect its future capability needs. The skills matrix should be updated following material changes in these matters or in Board composition.

40) The Board skills matrix should inform the nomination and appointment process, including engagement with shareholders, nominating bodies and others involved in director appointments. For example, the Board may use the matrix to identify skills or experience that may be lost through expected director departures. A prudent Board would consider whether its nomination and appointment arrangements enable it to address identified needs for particular skills and experience, having regard to applicable constitutional, shareholder or representative appointment arrangements.

Board, committee and director performance

Annual performance assessment

41) The annual performance assessment should be sufficiently rigorous to identify strengths, areas for improvement and practical actions. It may draw on relevant papers and minutes, surveys, interviews, meeting observations, stakeholder feedback and previous findings. Clear ownership and timeframes for accepted recommendations can support effective implementation and monitoring. Repeated findings without meaningful action may indicate that the assessment process is not effective.

42) The Board Chair should support an effective assessment process by setting clear expectations, promoting candid participation, facilitating discussion of the findings and monitoring agreed actions. A Board committee Chair would typically perform a similar role for the relevant committee.

43) In assessing an individual director's performance against their objectives, relevant considerations may include the director's contribution to the Board and relevant Board committees, continuing commitment to the position, preparedness, participation, constructive challenge, openness to different views and contribution to effective decision-making.

44) A prudent Board would ensure that the assessment of the Board Chair is conducted in a manner that supports an objective assessment of their performance, including by ensuring that the Chair does not control their own assessment.

Independent performance assessment

45) While CPS 510 does not require a non-SFI to undertake an independent performance assessment, APRA considers periodic independent performance assessments to be better practice for these entities.

46) An independent performance assessment would typically include a combination of document review, interviews, surveys or other feedback activities, and observation of Board and Board committee meetings. Depending on the circumstances, it may also include benchmarking against appropriately selected peer organisations or relevant industry or international practices.

47) In considering whether an external expert is sufficiently independent to conduct the independent performance assessment, relevant considerations include whether the expert has interests, relationships or other circumstances that could affect, or reasonably be perceived to affect, the objectivity of the assessment. A prudent Board would also consider the expert's governance expertise, relevant industry experience and capability to conduct the assessment.

48) A prudent Board would consider whether repeated use of the same external expert creates familiarity risks that could affect the independence or objectivity of the assessment, and whether rotation would be appropriate to manage those risks.

Continual improvement

49) A prudent Board and its Board committees would reflect regularly, openly and constructively on their performance throughout the year rather than relying solely on formal assessments. This may include considering the quality of discussions and decision-making, identifying development needs and agreeing improvements to Board and committee practices.

Board renewal and non-executive director tenure

Board renewal and succession planning

50) CPS 510 requires an entity to maintain a Board renewal plan that includes anticipated director retirements and a plan for individual director succession, having regard to the Board skills matrix. A prudent Board would also draw on the outcomes of director performance assessments and consider continuity of Board committee capability and the orderly transfer of institutional knowledge when planning for Board renewal.

51) Succession planning should also include the Board Chair. The Board should determine who will oversee succession planning for the Chair to support an objective process.

52) The Board renewal policy, Board renewal plan and individual director succession plans need not be maintained as separate documents. They may be incorporated into related governance documents, provided the entity can demonstrate how it meets the relevant CPS 510 requirements.

Non-executive director tenure

53) CPS 510 permits the Board to approve an extension of up to 12 months beyond the 12-year tenure limit in exceptional circumstances where certain conditions are satisfied. These circumstances would generally involve an unforeseen event that could not reasonably have been addressed through ordinary renewal and succession planning, such as an unexpected director departure or an unforeseen delay in appointing a replacement.

54) Where the Board approves a 12-month extension, its notification to APRA should explain the circumstances, the period of the extension, and the succession or transition arrangements for addressing such circumstances.

55) A 12-month extension beyond the 12-year tenure limit does not, of itself, prevent an independent director from continuing to be assessed as independent. The Board should consider the director's tenure together with other relevant circumstances, including whether the director's tenure could affect, or reasonably be perceived to affect, the director's capacity to exercise independent judgement.

56) CPS 510 requires time served by an alternate director in the capacity of a non-executive director to count towards the tenure limit. An entity should maintain records that enable it to identify and calculate relevant periods of service accurately.

57) CPS 510 requires tenure to include service with the immediate predecessor entity. Depending on the entity's circumstances, service with any earlier predecessor entities may be relevant to the Board's broader consideration of director renewal.

Group governance

Entity-level accountability within a group

58) Group structures, policies and shared resources can support efficient and consistent governance. They should not prevent the Board of a regulated entity from exercising effective oversight of matters affecting that entity. The Board should not assume that a matter has been adequately addressed solely because it has been considered by a parent entity or group Board or Board committee.

59) A group governance framework should clearly allocate responsibilities and decision-making authority between the Head of the group, regulated entity Boards, Board committees, senior management and group functions. The framework should reflect the group's size, complexity and risk profile, including the extent to which directors, senior managers, services and functions are shared. Where roles or decision-making authority are shared, accountability for decisions affecting each regulated entity should remain clear. The regulated entity should be able to identify who is responsible for a decision, how relevant trade-offs were considered and how accountability is maintained.

Use of group policies and frameworks

60) A locally incorporated regulated entity may adopt group policies and frameworks. In approving a group policy or framework, the Board is approving its use by the regulated entity, rather than its use across the broader group. In considering whether it is appropriate to approve a group policy or framework for use by the regulated entity, a prudent Board would consider whether it:

    a) reflects the entity's business, risks and operating environment;

b) addresses applicable local legal or regulatory requirements;

c) provides appropriate authority and implementation arrangements; and

d) supports reporting of material deviations, exceptions and compliance outcomes affecting the entity.

Entity-level oversight and information

61) Where a regulated entity operates within a group, a prudent Board would consider whether the group arrangements enable it to exercise effective oversight of matters affecting the entity. Depending on the group arrangements, this may include entity-specific reporting, access to relevant senior managers and control functions, clear reserved matters and escalation rights, and sufficient time to consider entity-level implications.

62) Reporting should enable the Board to understand the regulated entity's risks, dependencies and relevant trade-offs including those arising from intra-group exposures, shared services, conflicts and remediation and group-wide decisions. Where control functions or assurance activities operate across the group, reporting should identify the implications of their activities and findings for the regulated entity and its prudential obligations.

Part B – Conflicts management

Conflicts management

Identifying and managing conflicts

63) In addition to actual and potential conflicts, a prudent entity would consider perceived conflicts. A perceived conflict may arise where a reasonable person, with knowledge of the relevant circumstances, could reasonably perceive that a conflict exists. Perceived conflicts can undermine confidence in the objectivity of decisions, even where no actual conflict exists.

64) Group governance arrangements may create conflicts through common directors, shared senior managers, shared services, reporting lines, funding arrangements, remuneration settings or group-wide decisions. The regulated entity must assess these conflicts from its own perspective and consider whether group-level controls adequately address risks to the entity.

65) Depending on the circumstances, controls to manage a conflict may include disclosure, exclusion from relevant discussions or decisions, independent review, information barriers, additional approvals, monitoring or escalation. A prudent entity would also consider whether multiple conflicts that can be managed individually may, when considered together, impair effective governance, oversight or decision-making.

Conflicts management policy and training

66) The conflicts management policy should align with related governance arrangements, which may include fit and proper, delegation, remuneration, procurement, outsourcing, gifts and benefits, whistleblowing, risk management, group governance and auditor independence arrangements.

67) Directors, senior managers and employees should receive conflicts management training as part of induction and thereafter as appropriate to their roles. Training should use realistic scenarios to support practical identification, disclosure, escalation and management of conflicts.

Operationally independent review

68) For the purposes of the operational independence review requirement in CPS 510, the reviewer should not be responsible for developing, maintaining or overseeing the conflicts management policy. Internal audit would generally satisfy this requirement, and a risk or compliance function may also conduct the review where that function is operationally independent from the policy owner.

RSE licensee registers

69) An RSE licensee's registers of relevant duties and interests should reflect the nature and complexity of its operations. Examples of relevant duties may include those owed to another RSE, a parent entity, an employer sponsor, a related body corporate, a service provider, an investment vehicle, a product issuer, an adviser, a client or another person. Relevant interests may include ownership interests, investments, gifts, hospitality, remuneration arrangements, referral arrangements, personal financial interests, interests held through

associates, interests in service providers or advisers, and interests arising through group or related-party arrangements.

Further guidance: To the extent it does not conflict with CPG 510, entities may have regard to ASIC Regulatory Guide 181 *Managing conflicts of interest* for additional guidance and examples relating to conflict identification, assessment and management.

Part C – Fit and proper

Fit and proper assessment and criteria

Conducting the assessment

70) In applying the fit and proper criteria in CPS 510, examples of relevant skills, qualifications and experience include industry experience, regulatory understanding, financial literacy, risk management and leadership capability.

71) The nature and extent of enquiries and verification undertaken as part of a fit and proper assessment may vary depending on the information being considered. A prudent entity would maintain records explaining how the fit and proper criteria were applied and how material or inconsistent information was considered.

72) When considering information about a person's character, diligence, honesty, integrity and judgement, an entity should assess its relevance, reliability and significance. Conduct in a current or previous role may be relevant where it provides insight into the person's capacity to meet the fit and proper criteria.

73) CPS 510 requires a regulated entity to be satisfied that a director or senior officer outside Australia has the time and capacity to properly perform the duties of the role. In assessing time and capacity, relevant considerations include the person's other roles and commitments, the expected workload, Board committee responsibilities and their capacity to perform the role during periods of stress, crisis or significant change. A Chair would generally be expected to have capacity to meet the additional demands of that role. An entity may also require a person to notify it before accepting an additional appointment or commitment that could reasonably affect their capacity.

74) In conducting a fit and proper assessment, information indicating that a person may be subject to coercion, manipulation, undue influence or other external pressure may be relevant where that pressure could compromise their honesty, integrity or judgement. Nationality, ethnicity, citizenship or lawful associations should not, of themselves, be treated as indicators of such risk.

75) The entity should maintain clear governance, controls and escalation arrangements for fit and proper assessments. Written agreements may require responsible persons to provide relevant information and cooperate with assessment processes and actions arising from identified concerns.

76) A regulated entity may have regard to a fit and proper assessment undertaken by a parent entity or another entity within the group. It remains responsible for satisfying itself that the assessment meets CPS 510 requirements and addresses the person's fitness and propriety for the specific position.

77) Where a responsible person is also an accountable person under the *Financial Accountability Regime Act 2023*, relevant information obtained through the fit and proper assessment may be used to inform the entity's assessment of the person's suitability under that Act.

Appointments and interim appointments

78) For senior appointments (directors and senior executives), better practice is to notify APRA of a proposed appointment before it is finalised. This can help the entity identify and consider any regulatory or prudential

concerns relevant to the person's fitness and propriety before committing to the appointment, and is consistent with obligations under the Financial Accountability Regime to deal with APRA in an open, constructive and cooperative way.

79) Where an entity makes an interim appointment to a responsible person position before completing the fit and proper assessment, it must complete the assessment within the period specified in CPS 510 and should apply controls appropriate to the circumstances until the assessment is completed. These may include additional oversight or limits on decision-making authority.

Ongoing fitness and propriety

80) In undertaking the annual validation required by CPS 510, an entity would typically consider whether information supporting the previous assessment remains current and whether new information affects the person's fitness and propriety. Verification may draw on performance assessments, conflicts management, breach and complaints reporting and other assurance activities, in addition to declarations by the responsible person. For a director of a locally incorporated regulated entity, annual validation may be coordinated with the annual director performance assessment.

Reassessment of fitness and propriety

Assessing new information

81) The fit and proper policy should support the escalation of other material concerns. Other information that may warrant consideration includes accountability failures, new or emerging conflicts or the management of existing conflicts, material performance concerns, serious breaches of internal policies or material changes in the person's responsibilities or circumstances. This information may not, of itself, trigger a reassessment. The entity should determine whether it gives rise to a material fitness or propriety concern having regard to the criteria in CPS 510 and the responsibilities of the position.

Reassessment process and interim controls

82) In conducting a reassessment, the entity should consider applicable employment, procedural fairness, contractual and other legal obligations. These matters may affect the process followed, including how information is tested, how the person is given an opportunity to respond and how conclusions are reached. These considerations should not prevent timely action.

83) Where a concern may affect a responsible person's capacity to perform their position properly, the entity should consider whether interim controls are appropriate while the matter is assessed. Depending on the circumstances, these may include enhanced oversight, changes to decision-making arrangements, temporary restrictions on particular duties or the person stepping aside from some or all aspects of the position. Interim controls should be proportionate, should not prejudge the outcome and should not delay a reassessment required by CPS 510.

84) The entity should document how it considered material new information and the basis for determining whether a reassessment was required. Records should identify the information considered, enquiries made, verification undertaken, the basis for determining whether a material concern existed, any opportunity provided to the person to respond, and any interim controls or other actions taken.