Australian Banking Association

New *CPS 510 Governance*

Submission to APRA

28 August 2026

Australian Banking Association

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Key Recommendations

- The ABA acknowledges the significant work APRA has undertaken to develop a draft new *CPS 510 Governance*, and supports the consolidation of governance requirements into this revised standard.
- The refinements made in October 2025 to APRA's governance proposals have resulted in a significantly more workable package of changes. In particular, the ABA appreciates APRA's recognition that good governance outcomes did not require the proposed level of prescription in relation to:
    - mandatory early engagement on appointments;
    - ten-year tenure limits; and
    - restricting independent directors from serving on multiple entities within a corporate group.
- The ABA supports APRA's objectives for good governance as reflected in the draft CPS 510. The ABA notes, however, that the draft in several places takes a more prescriptive approach than the current version of CPS 510, and that this may unnecessarily restrict entities' flexibility in how they arrive at desired outcomes. The ABA recommends APRA adopt a less prescriptive drafting approach, so that entities are able to achieve good governance outcomes in ways that are most appropriate for their size, complexity, corporate structures and business models.
- At the same time, while the ABA recognises that a new CPG 510 is expected by the end of 2026, considering the new draft standard in the absence of accompanying guidance leaves some areas where APRA's expectations remain unclear. The ABA recommends that APRA take the opportunity, through guidance, to ensure provisions in the standard are not given an inappropriately prescriptive interpretation, for example in relation to:
    - the application of the skills matrix to collective board capability (rather than individual director scoring);
    - the scope of performance assessments and governance framework reviews; and
    - the extent to which existing artefacts (or a combination of existing artefacts) can evidence newly defined requirements.

Policy Lead: [redacted]

About the ABA

The Australian Banking Association advocates for a strong, competitive and innovative banking industry that delivers excellent and equitable outcomes for customers. We promote and encourage policies that improve banking services for all Australians, through advocacy, research, policy expertise and thought leadership.

Australian Banking Association

ABA submission to APRA

The Australian Banking Association (ABA) appreciates the opportunity to respond to APRA's consultation on the proposed new *Prudential Standard CPS 510 Governance*.

Strong governance is fundamental to the resilience of ADIs and to confidence in the banking system. Boards and senior management must have clear roles, effective accountability, appropriate information flows and the skills and judgement required to oversee complex financial institutions. The ABA supports APRA's objective of ensuring governance requirements remain contemporary and fit for purpose.

The ABA also acknowledges APRA's constructive engagement with industry through the governance review. APRA has made important refinements to its initial proposals informed by the feedback it received, and we appreciate this consultative approach. The ABA particularly welcomes APRA's decisions not to proceed with mandatory early engagement on appointments, not to proceed with the proposed requirement that two independent directors sit only on the regulated entity board, and to extend the proposed tenure limit for non-executive directors from ten to twelve years. Those changes have materially improved the proportionality and workability of the governance package.

The announcement (made jointly with ASIC on 16 June 2026) that the fit and proper requirements and Financial Accountability Regime (FAR) requirements will be streamlined is also welcome progress toward a more coherent regulatory framework. The ABA looks forward to further details of this streamlining, and encourages APRA to continue its collaboration with other regulators, including through the Regulatory Initiatives Grid's coordination principles, to avoid duplication and minimise regulatory burden.

This collaboration is particularly important when it comes to governance, where multiple regulators have an interest and there is a risk of inconsistent expectations as a result. In general, we suggest APRA avoid setting standards on specific matters where the expectations of ASIC or another framework (e.g. the ASX Corporate Governance Principles and Recommendations) are already a key focus for regulated entities.

On 21 July 2026 the ASX began public consultation on a draft 5th Edition of the *ASX Corporate Governance Principles and Recommendations* ('draft 5th Edition'). The draft 5th Edition seeks to simplify corporate governance for ASX-listed companies. The ABA notes that a range of areas covered by the draft CPS 510 – such as director independence, the skills matrix, director succession and performance evaluation – are also covered by the draft 5th Edition. In several areas, the draft CPS 510 provisions conflict with the draft 5th Edition. We strongly encourage APRA to align CPS 510 to the 5th Edition, to the extent possible, and to address (ideally in the prudential standard itself) how ASX-listed entities are to resolve conflicts between the final versions of CPS 510 and the 5th Edition.

Framework design

The ABA is broadly supportive of the shape of the draft standard. The consolidation of governance, fit and proper requirements and conflicts management into one standard should improve coherence of the regulatory framework. The clearer ability for boards to delegate non-core obligations is particularly welcome, helping boards to direct their attention to the matters that most require their judgement.

The ABA encourages APRA to ensure the drafting adopted in the proposed new CPS 510 reflects a principles-based approach to the prudential framework. The objective of the standard is changing from "[setting] out minimum foundations for good governance" in the current CPS 510, to "[setting] minimum governance requirements" in the new draft, indicating a shift towards specific obligations. The impact of this is evident in the new draft where some requirements appear more detailed, process-orientated or operational than is necessary. While the prudential objectives underlying those provisions are sound, strict prescription risks driving more black-letter compliance than good governance outcomes.

A valued feature of APRA's prudential framework is that the standards tend to set clear desired outcomes, with guidance explaining how those outcomes may be achieved in practice. However, several provisions in the draft CPS 510 appear to prescribe as minimum requirements matters that would be better framed as good practice guidance. This is particularly the case where the standard prescribes artefacts, internal processes or evidence on matters that are inherently judgement-based, such as: the effectiveness of a governance framework; the quality of management information; the operation of a skills matrix; the assessment of behavioural attributes; the appropriateness of director performance objectives; or the effectiveness of conflicts management. Many of these artefacts and processes can be described in guidance, as examples of how an entity may evidence a particular outcome. Prescribing these in the standard itself risks increasing the regulatory burden, blurring the distinction between directors and management, and leading to 'hindsight review' of board practices and information flows.

A more principles-based standard, supported by clear guidance, is likelier to achieve APRA's objectives and have a proportionate impact on entities. It would give boards and management flexibility to adopt governance arrangements that are effective for their business, structure and risk profile, while still holding them to appropriately high prudential standards. Relocating more operational and process-orientated requirements into guidance, supported by illustrative examples, would preserve flexibility without weakening governance outcomes.

Interaction with other prudential standards and regimes

The ABA supports APRA's objective of consolidating governance requirements and providing a clearer cross-industry standard. However, APRA should make clear how CPS 510 interacts with other prudential standards where those standards contain specific board notification, approval, reporting or oversight requirements. This is particularly important because CPS 510 is intended to create a clearer delegation framework (discussed further below), which should be framed in such a way that it clearly prevails over specific requirements in other standards.

APRA should also avoid unnecessary duplication between CPS 510 and CPS 511. Several provisions in the draft appear to reproduce or overlap with remuneration-related concepts already addressed in CPS 511. A more streamlined approach to the prudential framework would include cross-references to CPS 511, rather than risking inconsistency by attempting to replicate its provisions.

The same principle applies to the interaction between CPS 510, FAR, CPS 220, the Corporations Act and ASX corporate governance settings. The final standard and guidance should distinguish between circumstances where CPS 510 is intended to impose additional prudential obligations, and where entities may rely on other existing governance processes to meet APRA's requirements. In general, we consider that CPS 510 should seek to align with other governance regimes, avoid duplicating them, and impose additional or varied requirements for APRA-regulated entities only where specifically necessary for prudential purposes.

Board governance

Governance framework – documentation and effectiveness

Paragraph 11 of draft CPS 510 would require entities to have an "effective governance framework". The ABA supports the objective that entities should be able to articulate their governance arrangements clearly. While we do not take APRA to be prescribing the format of the governance framework, as drafted the standard can be read as implying that the framework must be contained in a single standalone document.

Banks already maintain extensive governance documentation, including board and committee charters, governance statements, delegation instruments, fit and proper policies, conflicts management policies, risk management frameworks, accountability statements, board skills matrices and corporate

governance disclosures. For listed entities, there may also be interaction between the APRA governance framework and ASX corporate governance expectations.

The guidance should make clear that the governance framework may be evidenced through a suite of documents, provided those documents collectively describe the entity's governance arrangements, decision-making structures, delegations, accountabilities and oversight mechanisms. Existing corporate governance statements, board charters, committee charters and delegation documents should be capable of forming part of the framework where they satisfy the substance of the requirement.

Further, APRA should clarify that the scope of the governance framework is as defined in paragraph 11 of draft CPS 510, and not defined by reference to the actions and artefacts listed in Attachment B to the Consultation paper (which extend beyond the corporate governance framework and into the risk management framework). This is particularly relevant to considering the effectiveness of the governance framework, as discussed in the next section.

Effectiveness

APRA should clarify the intended scope of the annual assessment of the "effectiveness and appropriateness" of the governance framework under draft paragraph 51(d), in particular to avoid the possible interpretation that it requires an annual independent assurance review. An assessment of the holistic enterprise governance framework could be a significant exercise if interpreted broadly, potentially extending across board and committee structures, management committees, delegations, policies, decision-making processes, reporting, assurance and accountability arrangements. It could also duplicate existing processes, including the annual reviews of the risk management framework under CPS 220 and the remuneration framework under CPS 511.

A more proportionate approach would be to narrow the focus of paragraph 51(d) to an assessment of the board's governance policies and practices (not the regulated entity's entire governance framework), which is a more reasonable and pragmatic scope for annual board performance reviews. However, if APRA intends paragraph 51(d) to impose a much broader obligation to assess the effectiveness of enterprise governance frameworks on an annual basis, we note this could significantly increase CPS 510 compliance costs for all regulated entities. To address this, we strongly encourage APRA to clarify its expectations in guidance and allow regulated entities to rely on their existing board evaluation, internal review, risk management framework review, assurance and governance processes, with the depth of assessment calibrated to the nature and materiality of any changes or issues identified as well as the size and complexity of the regulated entity or group. This could be achieved through moving the more operational provisions in the draft standard, such as clarifying the nature of factors to be considered in an assessment, to guidance, allowing flexibility in application across regulated entities.

The effectiveness of a governance framework should be assessed by reference to whether it supports clear decision-making, accountability, oversight, escalation and prudent management.

Board role and delegation

The ABA strongly supports APRA's proposal to clarify the core prudential responsibilities of the board and to permit delegation of other board obligations to board committees or senior managers.

Delegation is an important element in a board's toolkit. Boards of ADIs must consider a large number of matters across prudential standards and other legal and regulatory frameworks. Without a clear ability to delegate, boards can be drawn into compliance and process matters that are better addressed by committees or management. This can reduce the time available for strategic oversight, risk judgement and challenge.

The ABA supports draft paragraph 15, which permits delegation of board obligations imposed by prudential standards, subject to the non-delegable matters in draft paragraph 13. While it would be useful for other prudential standards to be clear, on their own terms, about which board obligations are

delegable, this overarching provision is an important part of the prudential architecture. We encourage APRA to emphasise in its guidance and in other communications that the general power in paragraph 15 prevails over any strict reading of a board's obligations in another standard, even in standards made or amended after the new CPS 510 commences. When in future other standards are open for consultation, APRA should take the opportunity to consider whether board obligations in those standards can be reframed to recognise the general power to delegate.

Some non-delegable matters in paragraph 13, however, may benefit from further refinement so boards are clear about APRA's minimum expectations. For example, paragraph 13(f) requires the board to set board, committee and director performance objectives. In banking groups with multiple regulated entities, this requirement may create uncertainty about whether the board of each regulated entity must separately set and monitor objectives for each board, committee and director, or whether this can be addressed through group-level board evaluation, nomination and renewal processes, with appropriate entity-level consideration. The final standard should avoid requiring duplicative performance objective-setting processes where existing board evaluation arrangements are already appropriate.

Further, it is not clear what APRA considers a director's performance objectives should be beyond the standard expectations of a director derived from other sources (e.g. Corporations Act directors' duties, individual FAR accountability statements, etc). Similarly, the expectation in paragraph 13(g) that boards ensure that senior managers collectively have the skills needed for effective and prudent operation may also blur the distinction between the board's oversight role and the CEO's responsibility for management capability. In addition, the reference to constructive challenge of senior managers may be more appropriately included in the introductory words to paragraph 13, as a general expectation of boards, instead of listed as a non-delegable responsibility in paragraph 13(h) (particularly as directors on board committees will also challenge senior managers on matters within committee responsibilities).

The final guidance could recognise that boards may calibrate delegations according to their entities' structure, risk appetite, operating model and maturity. Whether it is more appropriate to delegate a particular function to board committees or to senior management (with clear escalation thresholds) will depend on a variety of circumstances which the entity will generally be best placed to judge. The guidance could give practical examples of matters that may be retained by the full board, delegated to a board committee, or delegated to management with appropriate reporting and escalation, so long as these are not taken as prescribed delegations or a default delegation map. In the same way the criteria in paragraph 17, that the board must ensure are met when delegating any authority, may be more appropriately framed as guidance for boards to consider when determining appropriate delegation arrangements, with the level of formality and evidence calibrated to the nature, materiality and risk of the delegation.

Senior managers

Draft CPS 510 introduces requirements relating to senior managers, management information and collective senior management capability. The ABA supports clear expectations for senior management, but submits that the FAR should be the primary mechanism for regulating senior executive responsibility and conduct. We are concerned that the draft standard does not adequately consider or explain how it is intended to interact with the FAR.

Redefining "responsible person" to include "accountable persons", without explaining how this interacts with the definition of "senior managers", results in potentially overlapping definitions that increase complexity. Opportunities should also be found to consider streamlining the definition of "senior manager" in CPS 510 and the Banking Act with the definition of "accountable person" under the FAR, to the extent practicable. If the overlapping definitions are retained, guidance would be useful to explain how the concepts are intended to interact, and the final standard should confirm that senior managers who are not otherwise responsible persons are not subject to Part C fit and proper assessment

requirements merely because they are senior managers for the purposes of Part A. That clarification will ensure APRA's streamlining of the responsible person cohort operates as intended.

The board's role in relation to senior management capability should also be framed carefully. Boards should satisfy themselves that senior management is capable of operating the entity prudently. However, boards should not be required to duplicate the CEO's role in managing the performance, capability and deployment of individual senior executives.

For Australian entities with substantial offshore operations, the standard should also allow flexibility under draft paragraph 23 where it is appropriate for a senior manager with responsibilities relating to both business in Australia and business overseas to reside overseas if that would support effective governance and oversight.

Management information and decision-making records

The ABA supports APRA's objective of ensuring boards receive timely, clear and relevant information. Effective board oversight depends on management providing information that supports informed and risk-based decision-making.

However, the draft requirements relating to management information and board reporting may be too prescriptive. For example, draft paragraph 20 requires a policy setting out the board's expectations for management information, including expected content, quality and frequency. This requirement then appears to cascade through other obligations, including the requirement for information to be "succinct and relevant" and for the quality of management information and board interactions to be independently assessed under paragraph 54. While this appears to be an example of good governance practice (which the ABA supports), prescribing these matters as minimum requirements may limit entities' ability to tailor processes to their particular contexts or, for example, to adopt different approaches to management information for more urgent decision-making. In practice, entities use a range of artefacts in setting board paper expectations and the frequency and type of regular committee reporting. These arrangements are necessarily dynamic: the appropriate content, quality and frequency of information will vary depending on the matter, the decision required, the urgency of the issue and the entity's circumstances at the relevant time.

The final standard should retain the outcome that boards must receive information sufficient to support informed, risk-based decision-making. APRA's guidance should confirm that entities may use existing governance artefacts, including board workplans, committee agendas, reporting templates, escalation protocols and management reporting standards, to support the outcome, rather than require the creation of a standalone policy.

Similarly, the ABA is unclear on the intended scope and impact of draft paragraph 21, which seeks to ensure certain matters are considered and recorded in decision-making. This paragraph seems unnecessary, given that regulated entities are subject to extensive requirements under the Corporations Act relating to directors' duties and formal meeting minutes. If paragraph 21 is retained, it should be amended to clarify that it applies to board decisions only (not management decisions), and in a manner that is proportionate to the significance of the decision. Any guidance should avoid creating an expectation of formulaic minutes or checklists across a broad range of decisions. For board and committee decisions, minutes and board papers may be sufficient where they show the substance of the decision, key considerations, risks, conflicts and escalation points. For senior management decisions (if APRA intends these to be captured), existing decision papers, risk assessments, approvals, committee minutes and workflow records may satisfy the requirement. The extent of record-keeping should depend on the relative materiality, complexity and risk involved in the decision.

Board committees

Draft CPS 510 includes detailed requirements for board committees. The ABA supports clear expectations for committee responsibilities, but several of these requirements could be refined in the standard to preserve flexibility in the allocation of responsibilities (rather than prescribing what each committee *must* do on an inflexible or exclusive basis).

Firstly, and most significantly, the draft appears to assign overlapping responsibility to both the board audit committee and board risk committee for objective oversight of the risk management framework (compare paragraphs 41(a) and 45(a)). This creates uncertainty about the intended allocation of responsibilities between the two committees. For many ADIs, and particularly larger organisations, primary oversight of the risk management framework would ordinarily sit with the board risk committee, while the audit committee's role would be directed more to financial reporting, external audit, internal audit and assurance. APRA should preserve a meaningful distinction between these roles. One workable approach would be to retain the distinction from the current standard, under which the audit committee provides objective review of the effectiveness of financial reporting and assurance arrangements, while the risk committee oversees implementation and operation of the risk management framework.

This overlap is compounded by draft paragraph 13(c), which identifies oversight of the risk management framework as a non-delegable board responsibility. APRA should clarify how this non-delegable board responsibility interacts with the proposed audit and risk committee obligations, so that committee responsibilities support board oversight without duplicating or obscuring the board's ultimate role. The proposed requirement for the board risk committee to monitor and advise the board on risk culture under draft paragraph 45(d) is another good example, noting that oversight of culture will remain non-delegable under paragraph 13(b). In significant and most significant financial institutions, boards may appropriately rely on the expertise of multiple committees to review and report on different aspects of organisational culture. The final standard should allow flexibility for the board to continue to do so, provided the respective role of each committee is clear and the overall arrangements are effective.

Secondly, the board audit committee requirement to oversee compliance with all APRA reporting requirements (paragraph 41(b)(i)) is broad. It would be preferable for this provision to refer only to financial reporting to APRA, preserving flexibility for the board to allocate oversight of other reporting obligations across committees according to committee charters, subject matter expertise and the entity's governance structure.

Thirdly, in groups with multiple regulated entities, the requirements for board audit committees to endorse and oversee the appointment and removal of the auditor and Head of Internal Audit (paragraph 41(c)) may be administratively burdensome if each regulated entity committee must separately endorse or oversee the same appointment or removal. Oversight may be more appropriately led by a group audit committee, with other committees receiving timely information and retaining rights to escalate concerns. The same principle applies to annual auditor engagement and auditor independence reviews, and to remuneration committee arrangements in groups with multiple regulated entities. APRA should allow group-level processes where they are appropriately designed, transparent to and endorsed by regulated entity boards and capable of escalation where entity-specific issues arise.

Board skills and capability

The ABA welcomes APRA's important clarification that it does not intend entities to define requisite skills for each individual director role, and suggests that this be reflected clearly in the final standard and guidance. Boards should maintain a credible and documented view of the collective skills and capabilities needed for effective and prudent governance, including if relevant any skills that all directors should have.

Board skills matrices can be useful collective capability tools. Their purpose should be to support board renewal, appointment decisions, succession planning and capability assessment, not to operate as a mechanism for scoring each director against a prescribed set of skills or behavioural attributes (and not to generate automatic adverse fit and proper outcomes as a result). The desired outcome is that the board, as a cohort, has access to the skills, knowledge and expertise required to make informed decisions, whether through its directors, management, board committees or appropriately qualified external advisers.

There is a risk that the draft requirements for skills matrices are more detailed than necessary to meet this outcome, and may be impractical to implement. In particular, the mandatory inclusion of behavioural attributes in a skills matrix may be difficult to apply meaningfully and may raise privacy concerns, especially if they are expected to be measurable and verifiable under draft paragraph 48 (though we assume APRA is not expecting an external verification process or behavioural or psychological testing). Behavioural attributes such as open-mindedness, constructiveness, independence of thought or willingness to change one's mind are important, but they are not readily assessed through a matrix or rating scale. They may be better considered through fit and proper assessments, chair feedback, board performance reviews, succession planning and board effectiveness processes.

Draft paragraph 58 specifically requires that the board renewal plan include individual succession plans. The practicalities of developing and maintaining succession plans for individual directors may be significant. Board succession is not necessarily a process of replacing one director with another who has an equivalent set of skills and attributes. The appropriate profile for a future appointment will depend on the board's composition, strategy and collective capability needs at the relevant time. A key risk is that individual succession plans may operate as a *de facto* individual skills matrix, despite APRA's clarification that entities need not define requisite skills for each individual director role. The better approach may be for the issue of director succession to be addressed through the board renewal policy and plan, which should identify anticipated vacancies, renewal priorities and the collective capabilities the board expects to require over time, and which may but need not include individual director succession plans.

We also note that the ASX has transferred the requirement for a board skills matrix from the Recommendations to its Explanatory Materials in the draft 5th Edition (see page 11 of the ASX consultation draft ('Annexure A')), taking a different approach to APRA's.

Board, committee and director performance assessments

The ABA supports regular assessment of board, committee and director performance. We note that APRA's approach is stricter than the draft 5th Edition (see page 9 of the ASX consultation draft) in mandating triennial independent external reviews. Performance reviews are important tools for continuous improvement, board renewal and accountability. APRA should clarify the intended purpose and consequences of individual director performance objectives. As outlined above, the desired outcome is that the board, as a cohort, has access to the skills, knowledge and expertise required to discharge its responsibilities as directors. The board (and individual director) responsibilities are already articulated in board and committee charters, Corporations Act directors' duties and individual FAR accountability statements. We query the value added in overlaying individual director performance objectives on regulatory and governance mechanisms already in place. If these requirements are retained, they should be framed around the desired governance outcome rather than appearing to prescribe a separate performance management process for directors.

The ABA is concerned that the detailed requirements in draft paragraphs 50 to 56 will make board performance reviews more costly and process-driven, without necessarily improving their quality. Board reviews are most useful when they are candid, tailored to the board and focused on practical

improvement. If the prudential standard prescribes too closely the matters that must be assessed and evidenced, there is a risk that annual reviews become more compliance-driven and less tailored to the particular board and its operating context, including other regulatory expectations of the board. APRA's requirements should be framed in a way that complements, rather than duplicates or displaces, existing ASX corporate governance expectations and related disclosure obligations concerning board performance evaluation.

Annual performance assessments should also be capable of being scoped by reference to recent external assessment outcomes, material developments during the year and progress against accepted recommendations. This would allow annual reviews to remain meaningful and proportionate, without duplicating the triennial external assessment process. We also request that APRA align the triennial assessment process with the language used in the draft 5th Edition, which refers to an "external facilitator" instead of "independent" (see page 9 of the ASX consultation draft).

We note that there may be circumstances where entities may not be in a position to conduct their external triennial review (e.g. substantive board changes). An appropriately flexible approach would be to replace the requirement in draft paragraph 53 that the assessment take place "at least every three years" with a requirement that it take place "regularly", with guidance indicating that a triennial review is recommended as best practice. Alternatively, we request that APRA's guidance indicate circumstances in which entities can request extensions of time to conduct their triennial external reviews.

The draft standard would require boards to set, monitor and review director performance objectives. This may imply that each director must have agreed and documented individual objectives, with assessment against those objectives each year. It is unclear whether APRA expects this to be accomplished via a standalone document and process, or if it may be evidenced through existing documents and processes that overlap with (or may replicate entirely) a director's performance objectives, including directors' duties, FAR accountability statements, board charters, committee responsibilities and fit and proper requirements.

A better approach would be for APRA to recognise that boards may assess directors against expectations applicable to all directors, including attendance, preparation, contribution, challenge, committee responsibilities, conduct, capacity and adherence to legal and prudential obligations. Board and committee objectives should likewise be capable of being set through board charters, committee charters, annual workplans and board evaluation frameworks.

The external performance assessment requirement for significant financial institutions should also be practical and proportionate, and recognise the sensitivity of the information potentially subject to assessment. If APRA expects independent assessors to review board and committee packs to assess the quality of management information, this should be stated clearly and framed in a way that preserves confidentiality, legal privilege and appropriate information handling. There should be flexibility in how the assessments are conducted, for example by reviewing sample materials rather than requiring wholesale provision of all board and committee papers for decision-by-decision review. We note that the requirement for an independent assessment every three years, as currently drafted, may create challenges in maintaining assessor independence, continuity and comparability over time.

APRA should also consider guidance on its expectations for demonstrating progress against accepted recommendations from board performance assessments. The ABA would not support routine reporting of board performance recommendations to APRA, as this could reduce the candour and usefulness of those reviews. A better approach would be to evidence progress through supervision. APRA should also clarify the concept of "accepted recommendations" – in particular, whether boards will be required to justify recommendations they do not adopt.

Group governance, independence and international banking groups

The ABA supports robust independence requirements and recognises the importance of assessing actual or potential conflicts of interest in group structures. We recognise the steps APRA has taken to adjust its initial proposals in relation to independent directors within groups. Nevertheless, the removal of the assumption that a director assessed as independent at parent level is automatically independent on a regulated subsidiary board may still be burdensome for some entities to the extent they would be required to revisit independence assessment papers, director confirmations and group governance arrangements.

APRA guidance would be welcome on how intra-group structural, funding and remuneration relationships are expected to be considered, and how materiality should be assessed. The existence of an intra-group relationship does not automatically preclude independence. We note that the draft 5th Edition does not identify service by an independent non-executive director on the board of a subsidiary within the same group as a factor that, of itself, calls the director's independence into question. Rather, the relevant question is whether the relationship is sufficiently material, direct or influential to compromise the director's capacity to exercise independent judgement in the interests of the regulated entity. It may be simply an instance where an actual or potential conflict of interest may arise when the interests of two entities differ, which would be managed through conflict management mechanisms.

The group governance provisions should also operate clearly for locally incorporated ADIs that form part of international banking groups. APRA should ensure the definitions of "Group" and "Head of Group" in CPS 001 do not unintentionally bring an offshore parent entity within scope, where APRA's intended focus is the Australian regulated entity or Australian group. This is particularly important where an Australian ADI forms part of a global banking group and relies on global or regional policies, frameworks or functions. The final standard and guidance should not result in an expectation that the local board will review and approve all group policies and functions. A proportionate approach would require the local board to understand, oversee and (where appropriate) approve the local application of material group arrangements relevant to the Australian regulated entity's prudential obligations.

In a group scenario, we are concerned that the effect of paragraph 31 is to remove the presumption that a director who serves as an independent director in a group is also independent on the group board. The draft 5th Edition is silent on independent non-executive directors being appointed on a subsidiary company, which may imply that ASX does not consider independent non-executive directors being appointed on more than one entity in a group as presenting an independence issue. Emphasising that the existence of an intra-group relationship does not automatically preclude independence, the relevant question should be whether the relationship is sufficiently material, direct or influential to compromise the director's capacity to exercise independent judgement in the interests of the regulated entity. We consider that the change is unnecessary since conflicts of interest may only arise when the interests of the two group entities differ and may be managed through conflicts management mechanisms as required under the Corporations Act. APRA can also address concerns with intra-group conflicts on a case-by-case basis using its existing powers, as it has done in recent years.

We encourage APRA to ensure its independence assessment requirements are consistent with the draft 5th Edition, as the current CPS 510 was consistent with the 2nd Edition (see footnote 24 of the current CPS 510).

Conflicts management

The ABA supports robust conflicts management. Conflicts must be identified, assessed, managed and, where appropriate, avoided or disclosed.

Draft paragraph 75 would require regulated entities to have a conflicts management policy. Entities should be able to use existing group policies and processes, where they are effective. Many banking groups already have group conflicts policies that apply to directors, officers, employees and relevant entities. In practice, entities address conflicts through a suite of policies tailored to different contexts – such as board conflicts policies, related entities policies, contagion risk policies, and audit and assurance independence policies – rather than a single standalone document. APRA should not require the creation of new standalone board-specific or regulated entity-specific policies where a combination of existing documents, appropriately adapted (if necessary), can satisfy the substance of the requirements.

Draft paragraph 74(a) requires identification and assessment of conflicts "arising from structural, funding or remuneration arrangements (including intra-group arrangements)". These are broad concepts capable of varying interpretation, and APRA's guidance on their intended scope would be welcome. In particular, the guidance should avoid implying that every intra-group funding, structural or remuneration arrangement creates some conflict requiring mitigation. Rather, the assessment should always turn on the question of whether the arrangement creates an actual or potential conflict between duties or interests that could reasonably affect decision-making. Where an actual or potential conflict is assessed as existing, as outlined above, it can be managed through various conflict management mechanisms.

We also query the intention of including reference to 'depositors' in the definition of 'conflict' in draft paragraph 8(f)(ii), and how this is to align with existing overriding directors' duties. It would assist ADIs to have guidance on APRA's expectations regarding this concept, as well as illustrative examples, particularly in the context of draft paragraphs 74(b) and (c).

We welcome the flexibility for the annual review of conflicts management policies (draft paragraph 74(j)) to be conducted as part of a regulated entity's other review processes. This flexibility should be clearly extended to circumstances where a group policy applies to multiple entities. Annual review by an operationally independent, appropriately trained and competent person should be capable of being performed at group level, with entity-level consideration where local circumstances require it. The guidance should avoid prescribing a single reviewer model; rather, it should confirm that the requirement may be met by internal audit, compliance, risk, another suitably independent internal function, or an external reviewer, provided the reviewer is sufficiently independent of the operation of the policy and has the necessary competence. The guidance should also explain the difference between a compliance review and an effectiveness review, and should recognise the practical limits on management monitoring of non-executive director interests.

Fitness and propriety

Fit and proper streamlining

The ABA welcomes APRA's proposal to streamline fit and proper requirements and reduce duplication with FAR. Removing routine fit and proper reporting is a sensible reform that should reduce administrative burden and allow entities to focus on substantive suitability and accountability outcomes.

The ABA also supports narrowing the responsible person cohort. We would welcome guidance indicating the roles that remain within scope notwithstanding the narrower cohort, including whether roles currently subject to fit and proper requirements, such as lead audit partner and lead engagement partner, are intended to remain captured.

The revised fit and proper framework should also be clearly distinguished from fit and proper requirements under other legislation. APRA's entity-specific considerations, including board composition and skill needs, should not be treated as equivalent to general fitness and propriety requirements that

may have consequences under AFS licensing or other regimes. A director may no longer fill a particular collective board capability need, but that is not the same as being generally unfit or improper.

Annual fit and proper validation and reassessment

Draft CPS 510 requires annual validation of responsible persons' fitness and propriety following appointment (draft paragraph 81). For directors, annual validation must have regard to directors' performance objectives and the board skills matrix. The draft also includes trigger-based reassessment requirements where new or adverse information arises.

The ABA supports ongoing oversight of fitness and propriety, with annual validation that operates as a lighter-touch process than a full reassessment. It should simply confirm whether any material changes or concerns have arisen, drawing on existing declarations, board review processes and relevant assurance. A full reassessment should only be expected for re-appointment, material role changes or other significant trigger events.

A director should not automatically fail a fit and proper assessment merely because the board's skills needs have evolved or because the director does not fill a particular skill gap identified in the collective skills matrix. Boards manage capability needs through recruitment, training, development, succession planning, committee composition and access to supplementary expertise. A skills gap at the collective board level should not, of itself, imply that an individual director is no longer fit and proper.

The draft standard also shifts the reassessment threshold from circumstances where an entity "becomes aware" of relevant information to where an entity has "reasonable grounds to believe" that relevant matters have arisen. This lower threshold, accompanied by more prescriptive trigger events, could mean that reassessment is required on the basis of unverified allegations, rumour or media reporting, materially increasing the frequency of reassessments, requiring new escalation criteria and monitoring processes, in turn increasing compliance costs.

Fit and proper criteria, evidence and timing

The ABA supports entities undertaking appropriate enquiries in applying the fit and proper criteria (draft paragraph 87). However, the level of rigour of enquiries and evidentiary requirements should be applied proportionately. Entities should be able to take a risk-based approach to verifying information, having regard to the role, the person's history, the nature of the information and materiality. Paragraph 87, as drafted, implies that "reasonable enquiries" are only one element of the work that should be undertaken, as it states that a rigorous process "includes making all reasonable enquiries", without indicating what further work may be required. We would welcome amendments to paragraph 87, or alternatively clear guidance, to indicate that what constitutes a rigorous process will be assessed proportionately and based on risk.

For example, the requirement to consider a person's education and technical qualifications (draft paragraph 84(b)) should not be read as creating a formal credentials-based test. Many directors and senior executives demonstrate suitability through experience, judgement, performance and leadership rather than formal qualifications, and those factors may themselves be sufficient evidence of suitability. Similar flexibility is appropriate in considering a person's time and capacity to perform his or her duties. No single methodology (including proxy adviser frameworks) should be considered determinative, but entities may consider a range of factors including existing commitments, availability, role complexity, board calendars and other relevant matters. Finally, we would welcome further guidance on what is meant by "professional references", given an entity *must* consider these under paragraph 86, including how APRA expects entities to evidence that those references have been considered.

The addition of "care" as a fit and proper criterion in draft paragraph 84(a) also introduces a subjective assessment element that is better addressed through performance assessment. Fitness and propriety assessments are intended to evaluate whether individuals possess the requisite integrity, competence,

experience and character to perform their roles, whereas “care” relates to how a role is discharged in practice. If this criterion is retained, further APRA guidance will be essential to support consistent evaluation.

Implementation, guidance and other matters

The ABA notes that the new arrangements are intended to operate from 1 January 2028. Whether this provides a sufficient transitional period will, of course, turn on how soon the final standard and guidance are settled, how clear entities’ obligations are in the final standard and guidance, and how significant any expected uplift in requirements is (in particular, whether substantial new artefacts will be required). At a minimum, time will be required to allow entities to review their governance frameworks, board and committee charters, delegation instruments, board reporting processes, fit and proper policies, conflicts management arrangements, board skills matrices and performance review processes.

Guidance

The ABA encourages APRA to issue draft CPG 510 as early as practicable and to consult on it with sufficient time for entities to implement changes before commencement. The guidance will be an important complement to the standard, especially if APRA adopts the more principles-based approach to the standard we recommend. The guidance should explain how the requirements can be met through existing artefacts and processes where appropriate, and should provide practical examples without implying that those examples are mandatory.

The guidance should identify areas where APRA expects substantive uplift in response to the new standard, as distinct from areas where existing governance arrangements that are accepted as meeting the current CPS 510 may continue without significant modification. This should avoid the possibility of regulated entities’ adopting unnecessarily conservative approaches to implementation.

Artificial intelligence

APRA’s consultation paper asks whether the draft standard adequately supports the oversight and use of AI and related technologies. The ABA does not consider that either CPS 510 or CPG 510 should include bespoke AI-specific governance requirements or expectations. The standards are appropriately technology-neutral. The governance of AI and related technologies can be addressed through existing and proposed expectations relating to board skills and capability, management information, risk governance, operational risk, model risk, data risk and technology risk oversight. Any guidance on AI should remain principles-based and avoid creating technology-specific obligations that may quickly become outdated or duplicate other regulatory expectations.

Conclusion

The ABA supports APRA’s objective of modernising governance requirements and welcomes the substantial refinements APRA has made in response to industry feedback. The draft CPS 510 is a broadly well-balanced package of proposals that should help boards focus on matters that most require board-level judgement.

We encourage APRA to ensure the final standard remains principles-based, proportionate and workable. Some of the draft provisions are more detailed, operational or process-orientated than may be necessary, and may be better framed as examples in guidance. Moving those elements into guidance would preserve flexibility, reduce unnecessary compliance burden and support governance arrangements that are effective in practice.

The ABA and its members would welcome further engagement with APRA as it finalises CPS 510 and develops the associated guidance.