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[redacted]
General Manager
Policy and Frameworks
Policy and Advice Division
Australian Prudential Regulation Authority

Via email: PolicyDevelopment@apra.gov.au

Dear [redacted]

APRA Governance Review – Draft Prudential Standard CPS 510 Governance

COBA welcomes the opportunity to provide feedback on APRA's Draft Prudential Standard – CPS 510 Governance (the **draft Standard**) and the Governance Review Consultation Paper. Strong governance is essential to maintaining a resilient financial system and delivering the best outcomes for consumers. COBA members understand the importance of trust and confidence and as the industry association representing Australia's customer-owned banks (mutual banks and credit unions), we have worked with our members to review the draft Standard and provide feedback.

COBA is generally supportive of the new draft Standard and recommends its adoption subject to our comments below, which mostly relate to APRA developing appropriate guidance to assist customer-owned banks with implementation and compliance.

Director tenure

While the director tenure provisions of the draft Standard achieve APRA's desired outcomes in setting 12-year term limit with the option of a 12-month extension in exceptional circumstances, COBA believes additional clarity is needed on three elements:

- What constitutes an exceptional circumstance?
- What transitional arrangements is APRA providing to institutions that have directors that exceed the limit?
- How will APRA treat the tenure of directors that have served on predecessor entities following mergers?

Exceptional circumstances

COBA recommends that the guidance outline examples of both what APRA considers to be an "exceptional circumstance" and what it does not consider to be an "exceptional circumstance". By providing practical examples, APRA will greatly assist regulated entities in understanding its expectations. It will also help entities to identify those edge cases where it is appropriate to discuss further with APRA's supervisory team.

Transitional arrangements

COBA calls for APRA to continue working with regulated entities as they transition their boards to meet the new Standard. We especially seek continued engagement with those customer-owned banks that may have multiple longer serving directors that exceed the tenure limit when it comes into force.

Suite 403, Level 4, 151 Castlereagh Street,
Sydney NSW 2000

Suite 4C, 16 National Circuit,
Barton ACT 2600

Customerownedbanking.asn.au

Those COBA members who are currently working through their succession plans are looking for a smooth transition to their new board compositions and APRA providing further guidance or transitional arrangements to assist these customer-owned banks would be welcomed. These customer-owned banks are seeking clarity on what will occur when the new Standard commences for those servicing directors that have already exceed the 12-year tenure limit and are partway through their current term. For example, it will be helpful if APRA were to confirm:

- whether the director may complete their existing term;
- whether any earlier transition is expected;
- how the 12-month exceptional circumstances provision applies where the director already exceeds the tenure limit at the commencement of the Standard; and
- whether any specific notification or approval processes will apply during the transition.

Predecessor entities and mergers

COBA seeks clarification on how the tenure limit will be calculated with regards to predecessor entities. This is an important question for the customer-owned banking sector due to the significant consolidation within the sector which has seen 184 customer-owned banks in 2004 consolidate into 48 in August 2026, with consolidation expected to continue.

Due to this consolidation over the last 22 years, it can be expected that a significant number of potential directors may have previously served on the board of a predecessor entity. The challenge can be illustrated in the following hypothetical example where a director:

- served on the board of predecessor entity;
- left the board several years before the merger;
- was not a director of either entity when the merger occurred; and
- was only appointed to the successor entity's board some years later.

COBA's concern is that if strictly interpreted the draft Standard could lock out potential directors, such as in this example, from being able to serve on the boards of our members due to their having previously served on a predecessor entity. We note that due to the scale of consolidation an argument can be made in many cases that the current entity is substantively different from its predecessor entities. We also would raise the question of the relevance of the earlier service where it ended a significant period before the merger, for example, more than 10 years earlier and where there is no continuity of board service through the merger process.

The examples highlight why COBA seeks flexibility from APRA and we ask that it work with customer-owned banks on a case-by-case approach to answering these questions. Flexibility on this issue is important to ensuring that the customer-owned banking sector can continue retain talent and experience within the sector. It may be helpful for APRA to confirm in guidance the factors it will weigh when considering these questions, for example, the length of the break in service, whether the director was serving at the time of the merger, and the timing of any later appointment to the successor board.

We also seek clarity from APRA on how APRA assesses director tenure following a merger. Specifically, we seek guidance on whether pre-merger board service on a legacy entity counts toward tenure limits for directors appointed to the merged board. COBA recognises that APRA's position may vary depending on the merger structure – such as a merger of equals versus the absorption of a smaller entity. We believe it would be appropriate for APRA to clearly outline its approach on this issue in the guidance.

Delegation

COBA believes that further clarity could be provided in the guidance on the delegation of authority. In particular, the guidance could seek to provide clearer boundaries on what can and cannot be delegated. This could potentially be addressed through a non-exhaustive list of examples, while noting that any delegation needs to be within the risk appetite of the board which may differ between entities.

Director independence

While conceptually supportive of there being independent directors on boards, COBA seeks further clarity on the criteria for measuring and evidencing director independence in the context of customer-owned banks. Due to their mutual structure, there can be different approaches to how directors are selected due to the one-member one-vote ownership model. We think this could be made clearer either in the Standard or through the guidance.

Board skills and capability

COBA is supportive of a requirement to maintain a robust skills matrix, noting that it is appropriately used to assess whether a board collectively possesses the skills and experience required, recognising that directors will contribute different capabilities and levels of proficiency. We believe that behavioural attributes operate differently. Attributes such as judgement, diligence, integrity or character should be demonstrated by each director and, we believe, should be considered through the fit and proper regime. Requiring behavioural attributes to be included in the skills matrix may lead to mixing collective board capability with the minimum requirements to be expected of each director.

More broadly, paragraphs 48 and 49 are quire prescriptive in their drafting. We would ask that APRA consider removing behavioural attributes from the skills matrix requirement, and that they be addressed through the fit and proper framework. Additionally, some of the more prescriptive elements of the proposed requirements could be included in guidance, allowing boards the flexibility to determine how they assess the collective capabilities of their directors.

Fit and proper

COBA welcomes the removal of duplication in the draft Standard that currently exists between the existing Standards and the Financial Accountability Regime. However, we note that many customer-owned banks utilise their fit and proper policies as a catch-all for obligations under multiple regulatory regimes, such as anti-money laundering and counter-terrorism financing and AFSL asset requirements. We ask that any changes made by the draft Standard should not be construed so that it prevents customer-owned banks from continuing this practice.

COBA seeks clarification in the guidance on how the “all reasonable steps” threshold will be expected to scale for differently sized entities. For example, what are the differing depths of assessment and evidence that may be required between MSFIs, SFIs and non-SFIs. This is particularly pertinent for non-SFI entities which tend to have relatively small responsible person population compared to the MSFI and SFI entities.

Conflicts of interest

APRA has committed to outlining in the guidance its expectations on “perceived” conflicts of interest. COBA believes that this is appropriate due to the challenges arising from subjective over objective assessments of the conflicts of interests. However, as perception is important to many customer-owned banks we will examine with interest what APRA chooses to include in the guidance. This will be key for those customer-owned banks that may wish to reflect perceived conflicts in their internal conflicts of interest policies.

Regulatory impact

COBA’s assessment of the regulatory and cost impact of the new draft Standard is neutral. Some changes in the draft Standard, such as to Fit and Proper and Board Committees, are welcomed by our sector. However, we believe that any savings made will likely be absorbed by the additional upfront compliance costs required by other parts of the draft Standard. This includes updating board skills frameworks, managing the succession for long serving directors and in building new AI risk oversight mechanisms.

COBA welcomes the efforts by APRA to introduce more proportionality into its draft Standard. We note that the ability for non-SFIs to merge their Audit and Risk Committees is a welcome development. However, this change is tempered as we believe it is unlikely that many non-SFI customer-owned banks would take on this change. This is because it is likely that the cost of implementing this change will be greater than the benefit gained. We note that the ability to have a merged committee is most likely to be of assistance for new entrant ADIs.

Artificial intelligence governance

Given rapid technology adoption, Government AI policy developments and recent incidents involving AI tools, COBA believes that it is appropriate for APRA to consider providing formal guidance on model oversight, reporting structures and accountability. Guidance would assist industry to respond to APRA's letter of 30 April 2026 that called for a step-change in how industry manages AI-related risks.

COBA does not have a firm view on the best mechanism for this guidance; however, we do believe it is appropriate for APRA to consider what assistance it could provide to industry on this issue. Guidance issued by APRA should clearly define how boards can effectively demonstrate appropriate oversight, set risk appetites, and maintain continuous oversight for AI models and other emerging financial technologies.

COBA looks forward to continuing engaging closely with the APRA. We note our appreciation for the consultative approach that APRA has taken throughout its review of the Governance standards, and we look forward to this approach being adopted for future Standard reviews by APRA.

We thank APRA for taking our views into account. Please do not hesitate to contact [redacted] if you have any questions about our submission.

Yours sincerely

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