28 August 2026

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

By Email: PolicyDevelopment@apra.gov.au

Dear Sir,

APRA Governance Review – Draft Prudential Standard CPS 510 Governance

Dnister Bank welcomes the opportunity to make this submission during APRA's consultation period on Draft Prudential Standard CPS 510 Governance (**Draft Standard**) and the Governance Review Consultation Paper. We understand the importance of trust and confidence and have worked with our stakeholders to review the Draft Standard and provide feedback.

Dnister is generally supportive of the new Draft Standard and recommends its adoption subject to our comments below, which relate to the tenure limit for non-executive directors.

Statement of Recommendation

We recommend that APRA include a transitional arrangement under which any non-executive director who is serving a current term at the commencement of CPS 510, and who would otherwise exceed the 12-year tenure limit at that time, be permitted to complete that term in accordance with the constitution of the relevant regulated entity.

If adopted, this approach would uphold APRA's policy objective of sustainable board renewal while allowing regulated entities to implement the new tenure limit in an orderly, practical manner.

Explanation of Our Recommendation

We support APRA's proposal to introduce a hard tenure limit of 12 years for non-executive directors. We understand and agree that the purpose of the proposal is to support sustainable board renewal by balancing continuity and institutional knowledge with the need for planned renewal, fresh perspectives and evolving skills.

At the same time, we respectfully submit that transitional arrangements should apply to directors who are serving a current term at the time CPS 510 comes into effect. APRA's consultation paper expressly asks whether transitional arrangements are needed in specific areas to support orderly and timely implementation.[1] In our view, director tenure is one such area.

Our recommendation is that where a non-executive director will exceed, or has already exceeded, the 12-year tenure limit at the time of the commencement of CPS 510, that director should be permitted to complete the term they are then serving in accordance with the constitution of the relevant regulated entity.

By way of example, if CPS 510 were to take effect on 1 January 2028, and a non-executive director who will have already served more than 12 years at that time commences a three-year term in June 2027, that director should be permitted to complete that term until June 2030. In our respectful view,

[1] APRA - Governance Review Consultation Paper (16 June 2026) [3.1, Question 1]

this would provide an orderly and practical transition while preserving the policy intent of the tenure limit.

Basis of Our Recommendation

There are three principal reasons for the above-recommended approach to the transitional arrangements.

First, succession planning and board renewal require time and careful implementation. Draft CPS 510 itself contemplates a structured approach to board renewal. It requires a board renewal policy addressing the length of directors' terms, tenure limits, the board's approach to renewal, and management of vacancies, including constitutional requirements relating to director elections and management of disputes. Board renewal is therefore a process which requires active engagement with the directors.

A director who has served for a substantial period is likely to hold significant institutional knowledge and may also be involved in a considered succession process. If that director were required to cease immediately on the commencement date of the new CPS 510 or to rely only on a limited extension, the regulated entity could lose the benefit of an orderly handover and continuity at precisely the point when it is adapting to a new prudential framework. A limited transition period allowing completion of an existing term would better support continuity, succession planning, and implementation of APRA's broader governance reforms.

Secondly, Dnister Bank, as a customer-owned bank, raises the concern that requiring affected directors to cease office on commencement of new CPS 510 may not allow sufficient time to implement the new prudential governance framework or implement current strategic plans.

As a smaller, customer-owned bank operating in a dynamic and competitive market, such a loss of multiple experienced directors could place additional pressure to consolidate in a sector that has already experienced significant consolidation.[2] While we acknowledge the view that, in some cases, consolidation with larger entities is the preferable path in the face of increased regulatory requirements and protection of customers,[3] we consider that where entities are given sufficient time to transition to the new framework, consolidation pressures and costs may be avoided or reduced. Sufficient time for transition will also support determination of compliance costs, [4] possible constitutional changes, and a risk-based approach to the transition to the new prudential framework. This is important because unnecessary consolidation and the abrupt departure of experienced directors who have developed local knowledge and community connections as well as specific skills needed may diminish business continuity and institutional knowledge.

These effects are particularly relevant given that we, as a customer-owned bank, have developed significant expertise and have extensive experience to service groups often excluded by larger financial institutions, including immigrants and refugees over multiple generations.[5] Bonded mutuals that maintain deep relevance to, and connections with, their geographic, industry, employment or speciality sector can effectively compete in a dynamic market and are in a unique position to provide access to much-needed lending and banking services suited to the needs of their customer base. "Big"[6] financial institutions (whether mutual or with profits) are less well placed to respond to customer needs as they are more removed from the communities and customer groups they serve. In effect, the culture that shaped the values and growth of the customer-owned bank will be lost where there is inadequate time and transitional arrangements. For this reason, allowing directors to implement

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[2] Australian Financial Review - Inside mutual bank mergers: 'We are seeing a lot more ... for survival' (3 June 2026)
[3] APRA Member Therese McCarthy Hockey's remarks to the 2026 COBA CEO and Director Forum, "The road to resilience for mutual banks" (17 March 2026)
[4] Office of Impact Analysis - Regulatory Burden Measurement Framework (June 2026)
[5] On the expertise and inclusive practices of customer-owned banks, see: CUInsight - Why alternative identification is the key to unlocking financial inclusion (15 October 2025)
[6] APRA Member Therese McCarthy Hockey's remarks to the 2026 COBA CEO and Director Forum, "The road to resilience for mutual banks" (17 March 2026)

succession plans and effective oversight of strategy suited to the size, complexity, and purpose of their entity, as well as maintain capability throughout the transition, will support sustainable board renewal and a sustainable enterprise.

Thirdly, the recommended transitional approach is appropriate because the Draft Standard already includes broader reforms relating to board capability, performance and independence well as fit and proper requirements. In particular, we note the following in the Draft Standard:

- the requirement for boards to document skill needs through a structured skills matrix and to address capability gaps over time, so that boards collectively possess the capability needed to oversee complex business and risk environments;

- the strengthening of annual board, committee and individual director performance assessments;

- the strengthened independence requirements and APRA's expectation that the board of each regulated entity, including those within wholly owned group structures, exercises independent judgement in overseeing the entity's affairs, particularly where necessary to safeguard safety and soundness; and

- the requirement to take all reasonable steps to ensure responsible persons are fit and proper and the introduction of fit and proper reassessment requirements.

The above standards are guardrails which support the policy objective of the 12-year tenure limit, which is to balance continuity and institutional knowledge with the need for planned renewal, fresh perspectives and evolving skills. Where these strengthened standards are properly applied, additional time served for the purpose of completing an existing term and contributing to proper succession planning should not, of itself, be treated as inconsistent with the objectives of the Draft Standard. In particular, if the director continues to comply with fit and proper, capability, and independence requirements, a short transitional period would be consistent with sustainable board renewal.

We note that APRA already proposes limited flexibility through a board-approved extension of up to 12 months in exceptional circumstances, with notification to APRA. However, this does not appear to fully address the position of directors who are already serving an existing term when CPS 510 commences. For that reason, an express transitional arrangement would provide greater certainty and support more orderly implementation.

Lastly, we note that the recommendation made in this submission is consistent with APRA's greater emphasis on setting principles-based expectations supported by clear minimum requirements. We do not seek a prescriptive approach and welcome APRA's open and transparent approach as we transition to the new prudential framework. Allowing experienced directors to oversee the transition period would support entities to engage with the new framework in practical and considered manner, with the benefit of directors' knowledge who understand the size, risk, complexity, purpose of the entity.

We welcome the opportunity to provide any further information, or clarification APRA may require.

Kind regards,

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