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

By email: PolicyDevelopment@apra.gov.au

Submission on Draft Prudential Standard CPS 510 *Governance*

Dear Sir/Madam,

Thank you for the opportunity to comment on APRA's consultation regarding the draft Prudential Standard CPS 510 Governance.

We support APRA's objective of strengthening governance arrangements across APRA-regulated entities and recognise the important role effective governance plays in promoting prudential safety, resilience and sound decision-making. We also support APRA's broader objective of consolidating governance, fit and proper, and conflicts management requirements into a single prudential standard to improve clarity and consistency across industries.

We seek clarification regarding the application of the proposed internal audit requirements.

Internal audit function requirements

We seek clarification regarding the operation of paragraph 42 of the draft CPS 510.

Paragraph 42 requires a locally incorporated regulated entity to maintain an internal audit function. However, we have been unable to identify an equivalent requirement applying to foreign ADIs or Category C insurers.

This appears to represent a departure from the existing CPS 510 framework, under which all regulated entities are required to maintain an internal audit function. Accordingly, it is unclear whether the omission of foreign ADIs and Category C insurers from paragraph 42 reflects a deliberate policy decision or an unintended consequence of the drafting.

The distinction is particularly relevant for foreign ADIs and Category C insurers, which commonly rely in part upon group governance, risk management and assurance frameworks maintained by their parent institutions. In the absence of further clarification, affected entities may reach differing conclusions regarding APRA's expectations and the extent to which internal audit activities must be directed towards Australian operations.

We would therefore welcome clarification regarding APRA's intended policy position. In particular:

1. Whether APRA intends to remove the requirement for foreign ADIs and Category C insurers to maintain an internal audit function, or access to an internal audit capability, notwithstanding the existing requirements under CPS 510;
2. Whether APRA considers that internal audit requirements for such entities are intended to be satisfied through home-office, regional or group assurance arrangements; or
3. Whether the draft standard is intended to impose equivalent internal audit obligations on foreign ADIs and Category C insurers and the omission from paragraph 42 is not intended to alter the existing policy outcome.

If APRA intends a different prudential outcome from the existing CPS 510 requirements, we would welcome further explanation of the policy rationale for that change.

Conversely, if no policy change is intended, we respectfully suggest that the drafting be reviewed to ensure the application of the internal audit requirements is expressed clearly and consistently across all regulated entity types.

Clarification of APRA's intent would assist regulated entities in understanding whether a substantive policy change is proposed and would promote more consistent implementation of the final standard.

Thank you for considering our submission. We would be pleased to discuss this matter further should APRA find it helpful.

Yours faithfully,

