Published on The National Law Review https://natlawreview.com

Australia: APRA Proposes Reforms to Strengthen Governance Standards

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The Australian Prudential Regulation Authority (APRA) has proposed reforms to strengthen core prudential standards and guidance on governance, currently set out in <u>SPS 510 Governance</u>, <u>SPS 520 Fit and Proper</u>, and <u>SPS 521 Conflicts of Interest</u>.

The proposals come after APRA chairman, John Lonsdale, witnessed "entities treating compliance with some requirements, as a box-ticking exercise". Lonsdale also stated that "international best practice on governance has progressed, and we want to ensure that our framework reflects that evolution".

The proposed reforms include:

- Introducing a 10-year tenure limit for non-executive directors at regulated entities;
- Extending the current RSE licensee conflict management requirements to banks and insurers;
- Strengthening board independence, particularly for entities which are part of a larger group structure;
- Clarifying expectations around the roles of boards, the chair and senior management;
- Lifting requirements for boards to ensure they have appropriate skills and capabilities to deliver an entity's strategy;
- Raising minimum standards for the fitness and propriety of responsible persons of regulated entities;
- Requiring significant financial institutions to have separate audit and risk committees; and
- Engaging a third-party performance assessment of the board, committees and individual directors at least every three years.

What's Next?

APRA has confirmed the changes would be applied proportionately, with less complex institutions facing lower compliance expectations. APRA also aims to lift standards without adding undue cost

burden, with Lonsdale stating that "most proposals will involve little change for entities with mature governance practices".

Over the next three months, the industry will have the opportunity to comment on APRA's proposals, with submissions required by 6 June 2025. The regulator intends to release updated prudential standards and guidance for formal consultation in early 2026, with the revised framework scheduled to come into force in 2028.

While noting that APRA's <u>Discussion Paper</u> discloses APRA's preliminary views, we suggest Australian banks, insurers, and superannuation trustees should review their current governance framework in anticipation of the direction of the regulator's future expectations.

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National Law Review, Volume XV, Number 80

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