



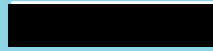
**BOARDPARTNERS**

IMPROVING BOARD PERFORMANCE

# APRA

Submission on the  
March 2025 Governance  
Review Discussion Paper

PREPARED BY:



Board Partners Pty Ltd  
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# APRA Submission on the March 2025 Governance Review Discussion Paper

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# Executive Summary

We are pleased to provide APRA with this Submission in response to its Governance Review Discussion Paper.

We broadly endorse the findings of the APRA review and its recommended Proposals. We do, however, make some suggestions regarding the implementation of the Proposals. We have prepared a response in relation to five proposals, where we feel that the benefit of our experience will be useful to the Authority. Our suggestions are summarised below, and detailed in the following pages:

## Proposal 1 – Skills and Capabilities

- ◆ We support this proposal – a more robust process is needed to assess and address board skill gaps
- ◆ We propose that APRA should set out ‘better practice’ guidelines for these board functions
- ◆ Board Skills Matrices could benefit from:
  - Periodic independent review, verification and calibration, in order to improve the reliability and validity of the data
  - The development of a more comprehensive rating scale – with level definitions for each skill in the Matrix

## Proposal 2 – Fitness and propriety

- ◆ We support the higher minimum requirements for fitness and propriety, and the proposal for SFIs and non-SFIs under supervision to engage proactively with APRA on potential appointments
- ◆ However, it is our experience that APRA would need to ensure that this engagement process does not unnecessarily delay board appointments
- ◆ We recommend that if engagement on potential appointments is required, APRA should commit to providing a response within a reasonable period of time (for example, within 3 months)

## Proposal 5 – Board Performance Review

- ◆ We support the proposal that SFIs should be required to commission a qualified independent third-party performance assessment at least every 3 years which covers the board, committees and individual directors
- ◆ We propose that a Board Action Plan should be submitted to APRA at the conclusion of the Review
- ◆ We recommend that a **summary** of the triennial review report be submitted to APRA, rather than a copy of the full, detailed Report that the Board receives

## Proposal 7 – Board Committees

- ◆ We have consistently found that Risk Committees are highly effective in ensuring that Risk receives sufficient focus from the Board
- ◆ It is our experience that the establishment of a separate Risk Committee is highly beneficial (including for smaller entities) and that the benefits outweigh any potential burden that the entity may experience in setting up a Risk Committee.
- ◆ Smaller entities should be strongly encouraged (but perhaps not mandated) to establish a separate Risk Committee

## Proposal 8 – Director Tenure and Board Renewal

- ◆ We support the proposal to set tenure limits but the limit should be longer for the Board Chair role, and certain exceptions should be specified and set out in the standards (without needing APRA approval)

It has been our pleasure to prepare this Submission to APRA on behalf of Board Partners, and to meet with the Governance Team to share our perspectives.

We encourage APRA to reach out if the team have any questions, and we would be pleased to be involved in further discussions if that would be helpful.

## Purpose

This Submission provides an overview of our views and response to APRA's Discussion Paper that outlines proposals to strengthen APRA's core prudential standards and provides guidance on governance for banks, insurers and RSE licensees.

Our submission has been prepared following a meeting with members of APRA's governance team, and is provided at their request.

We bring decades of experience in conducting governance and board effectiveness reviews for a wide range of entities across Australia, and have a broad perspective on 'good governance practice'. We also have experience in working with APRA regulated entities, and feel well equipped to provide a valuable perspective on APRA's proposals – particularly those relating to Skills and Capabilities (1), Fitness and Propriety (2), Board performance review (5), Board committees (7) and Director tenure and renewal (8).

## Who we are

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

# Our views on APRA's proposals

## Proposal 1 – Skills and Capabilities

### **We support this proposal – a more robust process is needed to assess and address board skill gaps**

We agree with APRA's problem statement that there is a wide variation on the effectiveness of skill assessment, professional development and board renewal processes. We have observed this variation in both APRA-regulated and ASIC-regulated entities.

### **We propose that APRA should set out 'better practice' guidance for these board functions**

One of the problems we see regularly is that our clients don't know 'what good looks like'. APRA's recommendations for a 'strong board skills matrix' is welcomed by our clients, because it goes beyond the minimum standard and illustrates the 'high water mark'.

We would encourage a continuation of this approach.

In relation to Board Skills Matrices, we commonly use and would recommend the following approach:

- ◆ **Periodic independent review, verification and calibration** of the Matrix, to improve the validity and reliability of Matrix data. This involves:
  - Verification: Having an independent third party discuss the self-assessments with each Director, to collect evidence for the rating. A CV detailing prior experience, supplemented with a discussion would be used to collect evidence to verify the rating.
  - Calibration: Having a non-board director assess the relativities between the Matrix assessments to ensure internal equity. How does a Director's rating compare to others on the Board? (e.g. I would often ask "*would you be the most authoritative source of advice on the board in relation to this skill area? If not, a rating of 'Expert' is probably not appropriate here*")
- ◆ **Development of a more comprehensive rating scale:**
  - It is our experience that many Boards use rating scales that are subjective (e.g. Baseline, Foundation, Applied knowledge and Expert). Often there is no definition of what these levels mean, and where there is, it is usually a high-level statement that applies to all skills and types of experience.
  - We find that this is not particularly helpful, and leads to a wide variability in assessments. We recommend that level descriptors be developed for **each skill** in the Matrix. This provides much clearer guidance to Directors when they complete their self-assessments (e.g. In a large organisation, a Director would use the Level Descriptor to conclude that *I can't rate myself as an expert in Accounting, Audit and Finance unless I have been a CFO or a partner/principal in a medium-large accounting firm*). An example of this type of rating scale has been provided to APRA by Board Partners.

## Proposal 2: Fitness and Propriety

**We support the higher minimum requirements for fitness and propriety, and the proposal for SFIs and non-SFIs under supervision to engage proactively with APRA on potential appointments, but APRA would need to ensure that this step does not unnecessarily delay board appointments.**

The requirement for engagement on board appointments has the potential to negatively impact board effectiveness, where approval of board appointments can become protracted.

We have not observed this problem with APRA, but it is a very common problem for government boards. The delay in approving appointments and re-appointments can have the following adverse consequences:

- ◆ **Loss of talent:** Talented Directors get fed up with the delay and take on other board roles
- ◆ **Lack of clarity:** Current Directors awaiting re-appointment decisions can become demoralised and feel as if they are not valued. This impacts their level of engagement and contribution.
- ◆ **Skill gaps:** Following the retirement or resignation of a Director, the Board may have to operate for a long period while awaiting approval of appointment of a new Director. The Board does not function as effectively when a key skill is missing from the Board (e.g. When the Board does not have an appropriately qualified individual available to chair the Audit Committee)
- ◆ **Impact on Management:** Executives feel the impact when a key skill is not available. They miss out on valuable guidance, support and challenge when putting important decisions to the Board. This means that the quality of decision-making could be negatively impacted.

**We recommend that if engagement on potential appointments is required, APRA should commit to providing a response within a reasonable period (say, within 3 months)**

## Proposal 5: Board Performance Review

**We support the proposal that SFIs should be required to commission a qualified independent third-party performance assessment at least every 3 years which covers the board, committees and individual directors.**

We support this proposal because in our work with clients over many years, we can point to specific improvements in board performance that this independent process has delivered. We can demonstrate how the Board has 'shifted the bar' since the previous review was undertaken. In other words, this is a process that works.

We also agree with APRA's finding that some board assessments ignore the effectiveness of Committees and of individual director contribution. It is our experience that Committee Chairs really value the feedback we are able to provide on how Committee performance can be improved, and Directors are often very eager to receive 360-degree feedback on how they can strengthen their contribution. I have often been told by Directors that they find this the most value part of the process.

**We propose that a Board Action Plan should be submitted to APRA at the conclusion of the Review**

It is our experience that an effective board review is one where:

- ◆ The review culminates in a Workshop with the Board, where the issues are addressed, and recommendations agreed to
- ◆ The recommended actions are documented in a Board Action Plan
- ◆ There is a clear process for ensuring that the actions are implemented. In listed companies, this is driven by the Chair, supported by the Company Secretary. Progress against the Plan is reported to the Board, usually bi-annually.
- ◆ In Government, the Action Plan is submitted to Treasury. This helps to drive accountability for the Plan to be taken seriously and properly implemented.

**We recommend that a [summary](#) of the triennial review report be submitted to APRA**

- ◆ As discussed in our meeting with the APRA governance team, we suggest that if reviewers are required to prepare a report that will be submitted to APRA **in its entirety**, this may lead to reviewers 'watering down' their findings
- ◆ It is important that the Review Report is candid and comprehensive. My reports often include verbatims from Directors and Executives. These can be powerful in driving home a message. However, it would not be appropriate for verbatims to be included in a report to APRA. My concern is that if Directors and Executives know that their comments may be shared with a regulator, they would be far less candid in sharing their views, and this would compromise the quality of the data.
- ◆ We therefore recommend that a **summary report** would be appropriate to be sent to the regulator. This is how we handle reporting to government and to other regulators (e.g. reports to TEQSA – the regulator for higher education).

## Proposal 7 – Board committees

**We have consistently found that Risk Committees are highly effective in ensuring that Risk receives sufficient focus from the Board. Perhaps APRA could recommend a separate Risk Committee for smaller entities (and not mandate it). Our data does not support the proposal to repeal.**

In our work with smaller entities, we have not found that the requirement for a separate Risk Committee is overly burdensome. On the contrary, our feedback has been extremely positive.

We find that Boards with a combined Audit and Risk Committee frequently find that there is insufficient time for a proper focus on risk – audit and financial matters always take precedence. Also, we often find that Boards need to spend more time as a full Board thinking about the most material and/or emerging risks.

A separate committee ensures that these discussions are taking place, and we are in favour of separate Risk Committees.

I'm not sure why they are considered to be overly burdensome. Perhaps they could meet less frequently than the Audit Committee, but we need to ensure that there is a place for Directors to meet with Management to undertake 'deep dives' into particular risk areas.

We support APRA's suggestion to allow for flexibility for smaller entities, but I do feel that they should be encouraged to see the benefits of establishing a separate risk committee.

## Proposal 8 – Director tenure and board renewal

### **We support the proposal to set tenure limits but the limit should be longer for the Chair role, and certain exceptions should be specified (without needing approval)**

Many of the Boards we work with struggle with the question of Chair transition. We are in agreement that good succession planning should effectively address this issue, but circumstances arise when more flexibility is needed for transition, such as:

- ◆ CEO leaving (or planning to leave) at the same time as the Chair
- ◆ Lack of suitably qualified successor – a planned successor may not be available to take on the role due to other board commitments, ill-health etc.

It is my experience that some Chairs contribute to shareholder value in such a way that their retirement from the Board would lead to destruction or deterioration in shareholder value. Investors know that they are 'mission critical' to the stewardship of the enterprise.

It is our experience that flexibility is needed here. Perhaps consider 12-year tenure for Board Chair role and set out the reasons that an exception can be granted, without APRA approval.

I do agree that tenure of more than 12 years can affect independence, and I can cite specific examples of where a Director has 'got too close to Management' to exercise independent judgement.

We also agree that time is needed to implement these arrangements. Chair succession can take some time, and a proper, well-orchestrated process needs to be followed. I would estimate around 2 years at a minimum.

