

APRA governance review

Submission by The Conexus Institute

6 June 2025

[REDACTED]

About The Conexus Institute

The Conexus Institute is an independent, not-for-profit research institution focused on improving retirement outcomes for Australian consumers. Philanthropically funded, the Institute is supported by the insights of a high-quality advisory board, who work on a pro-bono basis. The Institute adopts a research-for-impact model and frequently collaborates with researchers from academia, associations, and industry. Where possible research is made open source to assist industry and create transparency and accountability. Further information [here](#).

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

***** The authors are willing and able to participate in further consultation. Please treat this as a public submission. *****

1. Overview

We appreciate the opportunity to provide feedback on APRA's *Governance review: Discussion paper* dated March 2025. Our comments relate only to proposals impacting on RSE licensees, noting that The Conexus Institute is a thinktank that is dedicated to superannuation.

We offer only three pieces of feedback:

1. We are largely supportive of the proposals related to RSE licensees, most of which are sensible. Indeed, our lack of comment on any specific proposal may be read as implicit endorsement.
2. With respect to board committees, we wonder if there would be benefit in APRA going a step further than merely adding a requirement for large RSE licensees to establish a separate risk committee. We suggest that consideration be given to requiring trustee boards to use board committees to round out access to expertise and experience in specialist areas to ensure effective oversight, i.e. have the capacity to critique and approve strategy in more technical areas. We discuss this idea in Section 2.
3. We consider the significant financial institution (SFI) designation as an inappropriate determinant of whether a RSE licensee should be required to have separate audit and risk committees. If such committees are considered by APRA to be an important governance feature to ensure good outcomes for fund members, then the protections should apply to members of all funds. We discuss this issue in Section 3.

2. Incorporating board committees into holistic governance design

Current and proposed requirements

APRA's key proposal in the discussion paper with respect to board committees is to require large RSEs (SFIs) to have separate audit and risk committees, while smaller entities (non-SFIs) would be required to have an audit committee whose responsibilities may include risk. *SPS 510 Governance* says much about the requirements around audit committees, but says little about other committees. However, *SPG 510 Governance* gives some guidance by: referring to 'critical functions'; stating an expectation that larger, more complex RSE licensees would have a risk committee; and noting that *CPS 511* requires establishment of a Board Remuneration Committee. These aspects appear in the passages copied below:

"34. A well-functioning Board will typically consider whether there may be merit in establishing board committees for the purpose of overseeing critical functions. Whilst SPS 510 only requires the establishment of a Board Audit Committee⁹, the Board may find the establishment of other committees beneficial for certain functions and for strengthening the overall governance arrangements of the RSE licensee.

39. SPS 510 does not require an RSE licensee to establish a dedicated Board Risk Committee. However, APRA expects that the Board would have considered the necessity of such a committee and the suitability of arrangements for dealing with risk issues at the Board level. Typically, APRA expects larger and more complex RSE licensees would have a separate Board Risk Committee.

⁹ Prudential Standard CPS 511 Remuneration separately requires establishment of a Board Remuneration Committee."

Source: SPG 510

Problem statement

Our concern is that the current requirements around board committees are insufficient to ensure that RSE licensees have access to sufficient expertise and experience for effective oversight of

specialist areas. Certain areas in which super funds operate that are highly complex and technical could benefit from close oversight by a board committee that provides close attention by experts in the field. Investments are obvious in this regard, and accordingly many super funds have an investment committee. Other areas where access to specialist expertise and experience may be needed is retirement and operational infrastructure, i.e. the systems and processes underpinning administration and member servicing. These are both technical areas where super funds appear to be struggling and a significant uplift is required¹.

While RSE licensees are currently required to formulate their board committee structure with reference to 'critical functions', this does not ask them to address whether a dedicated board committee might be needed to deliver access to the expertise and experience in specialist areas.

Addressing the problem

Consideration should be given to requiring that board committees be formulated with a view to ensuring access to sufficient expertise and experience to provide effective oversight of key capability areas. The aim would be to establish a clear expectation that a board committee would be formed where either (a) oversight by the main board is likely to be ineffectual due to lack of skills on the main board, or (b) there is need for close and dedicated attention from experts in the field. The latter includes areas that require closer scrutiny than can be provided effectively by the main board due to insufficient capacity due to limits on available time or skills.

It is envisaged that specialist committees would be chaired by a member of the main board with expertise and/or experience in the area. This is effectively the model often seen for investment committees. However, there may be other areas where a similar committee structure is appropriate, although the need will depend on organisational structure and business strategy. For example, a retirement committee might be appropriate where an RSE licensee establishes a dedicated retirement function, while retirement expertise might be distributed across the main board and/or other committees where responsibility for retirement is shared across various functional units within the organisation.

Any requirements around the establishment of board committees are probably best based on principles rather than prescription. Nevertheless, APRA may decide to issue guidance on the areas where a board committee may often be appropriate. APRA might also state an expectation of the requirement for expertise and experience in specialist areas be incorporated into skill matrices. For instance, trustee boards could be required to identify the main required skills in specialist areas; assess whether they have sufficient skills and capacity to provide oversight at the main board level; and then decide whether additional resourcing through a committee is required to supply the skills and capacity for effective oversight.

Item 1 converts the concepts expressed above into a framework for consideration. We trust that this or a similar framework could aid regulatory design of appropriate governance structures for RSE licensees, and perhaps other regulated entity types.

¹ We put a case for considering the establishment of retirement committees to help a fund move their retirement income strategies forward in an [article appearing in Investment Magazine](#) on 8 May 2024. Shortfalls in member servicing have lately been under focus by the regulators and in the media. We view these problems as partly due to underdeveloped operational infrastructure, as discussed in Section 4.5 of our [Systemic impacts of 'big' super'](#) report of January 2025.

Item 1: Framework for regulatory design of governance structures for RSE licensees

(1) Determine required key capabilities to populate RSE licensee governance skills assessment:

- a. Board of RSE licensee self-assesses required skills and expresses in a holistic skills matrix
- b. Guided by APRA list of key capabilities, either as minimum standards or prescriptive list

(2) Implementation by trustee board of RSE licensee:

- a. Determines appropriate board and committee structure, considering:
 - i. whether RSE licensee would benefit from board committees to provide more specialised forums for a 'deeper dive'
 - ii. effectiveness of the main board in overseeing functions, e.g. available skillset
- b. Assesses skillset gaps
- c. Populates board and committee membership
 - i. Appoints board member
 - ii. Appoints appropriate board members to committees, including chair
 - iii. Appoints appropriate external committee members

(3) RSE licensee assessment by trustee board against all key capability areas to demonstrate:

- a. Adequate coverage of holistic skills matrix, incorporating board and committees
- b. Assessing the ongoing suitability of the board and committee structures.

Note: The assessment process lends itself to assessment by APRA.

3. SFI status as a determinant of mandatory committee requirements

Current and proposed requirements

APRA requires banks and insurers to establish separate audit and risk committees to help ensure that adequate time, focus, skill and experience are allocated to matters in line with three lines of defence principles. Consistent with contemporary good practice, most large RSE licensees have already established separate risk committees. APRA has observed that in some instances where there is no separate risk committee, there is weaker risk oversight and risk capability.

APRA proposes to extend the requirement for separate risk and audit committees to RSE licensees that are classified as SFIs. Smaller RSEs are excluded from this proposed requirement with reference to *"this may create additional cost and complexity for smaller entities (non-SFIs)"*.

Problem statement

We see the case for continuing to exempt non-SFI RSE licensees from the requirement for a separate risk committee as tenuous for two reasons:

1. We are not convinced that an SFI/non-SFI designation is a strong determinant of RSE licensee complexity and risk. Other important risk factors beyond size include the range of products and services and the degree of risk inherent in the RSE licensee's operating model (e.g. extent of vertical integration).
2. We acknowledge the concern about creating additional costs for smaller funds. However, if the fund has a relatively simple operating model, then the risk and audit committees should be straightforward and can be run at relatively low cost, potentially as an adjunct to board meetings. If the operating model is complex, then a separate risk committee might be viewed as a cost that is necessary to incur.

Addressing the problem

We recommend that the proposal to establish a requirement for separate risk and audit committees be extended to all RSE licensees. If separate audit and risk committees are considered important by APRA, as they contribute to ensuring good outcomes for super fund members, then

we cannot see why non-SFI RSE licensees should be exempted from this requirement. An alternative regulatory approach (to the non-SFI exemption proposed in the Discussion Paper) would be to allow funds to request APRA approval for exemption, thereby affording APRA the opportunity to assess complexity and risk of the operating model.

The level of complexity inherent in the operating model will inform the additional cost of putting in place and maintaining separate risk and audit committees, so there is a natural balance to our proposal.