

General Manager
Policy Development, Policy and Advice Division
Australian Prudential Regulation Authority
GPO Box 9836
Sydney NSW 2001
Australia

Date: 04.06.25

Consultation on Governance Review Discussion Paper

We refer to the invitation from the Australian Prudential Regulation Authority (APRA) to comment on the Governance Review Discussion Paper pertaining to core prudential standards and guidance on governance of banks, insurers and RSE licensees. We appreciate the opportunity to provide feedback as APRA develops its draft revisions to governance requirements for consultation in H1 2026.

Norges Bank Investment Management (NBIM) is the investment management division of the Norwegian Central Bank and is responsible for investing the Norwegian Government Pension Fund Global. NBIM is a globally diversified investment manager with AUD2,812 billion invested in over 65 countries as of 31 December 2024, of which AUD33.8 billion was invested in the shares of 318 Australian listed companies, including the listed banks and insurers on APRA's significant financial institutions (SFI) register.

As an investor with around 70 percent of our holdings in listed equity, we need thriving public markets that foster economic value creation. Robust corporate governance is fundamental to resilient public markets and long-term value creation by companies. Understanding board perspectives enhances our investment analysis and over time, this contributes positively to our investment performance. In addition, we believe board effectiveness and the level of minority shareholder protection impact our returns in the long term, and these factors therefore inform our voting decisions.

The ASX Corporate Governance Principles and Recommendations (ASX CGP), applied on an "if not, why not" basis, supports good governance practices in listed banks and insurers, to which we are directly exposed. However, we believe that APRA's efforts to address weaknesses in the corporate governance practices of regulated entities are necessary and welcome for the following reasons:

- Strong governance is a key determinant of long-term viability of banks and increased their likelihood of a positive outcome during the 2008 financial crisis.¹ APRA has also noted that 78% of regulated entities subject to heightened risk-based supervision had underlying governance concerns.
- The failure of smaller banks can cause systemic effects through interbank lending contagion and a loss of confidence in the resilience of the banking system.²
- Banking failure can adversely impact real economy companies, including listed companies of which we are shareholders, through loss of access to bank lending or higher borrowing costs.³

¹ FDIC Office of the Inspector General, "Acquisition, Development, and Construction Loan Concentration Study," Report EVAL-13-001, October 2012, Section "The Aftermath of the Crisis: Lessons Learned for Supervision,"

² Basel Committee on Banking Supervision Oct 2024 - The 2023 banking turmoil and liquidity risk: a progress report A report to G20 Finance Ministers and Central Bank Governors

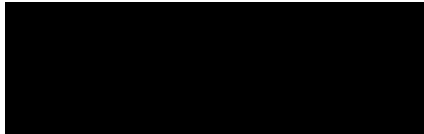
³ Brewer et al (2003). The value of banking relationships during a financial crisis: Evidence from failures of Japanese banks. Federal Reserve Bank of Chicago Working Papers No. 2002-20, 2002

- APRA requirements should be aligned with international governance standards from Basel Committee for Banking Supervision (BCBS) and International Association of Insurance Supervisors (IAIS) and global best practice.

Please find in the annex our comments on the proposals and responses to relevant questions, pertaining only to banks and insurers. We are not shareholders of the RSE licensees and refrain from providing any views on them.

We thank you for considering our perspective and remain at your disposal should you wish to discuss these matters further.

Yours sincerely



Chief Governance and Compliance Officer



Lead Policy Advisor

Annex – NBIM responses to relevant questions and proposals

Impact

Will the proposed changes achieve their goal of strengthening governance?
What is the anticipated impact of the proposed changes (costs and benefits)?

The proposed changes address key governance concerns that enable risky and inappropriate conduct in regulated entities. The mandatory skills assessment, board performance review and forward-looking board renewal process are mutually reinforcing measures that can significantly elevate the quality and effectiveness of boards.

Enhanced governance requirements can strengthen regulated entity safety and soundness, reducing financial instability risk. This protects depositors and shareholders while maintaining financial system confidence, providing a stronger foundation for long-term value creation in the Australian economy.

Transition

What would assist a smooth transition to meet updated requirements?

APRA is already adopting proportionate requirements reflecting entity size and complexity. Given the critical role of governance for the safety and soundness of regulated entities, proposals should be applied promptly to all SFIs, with longer transition periods only for non-SFIs. Where proposed independence criteria cause material disruption, APRA could consider case-by-case exceptions upon application.

Proposal 1 - Skills and Capabilities

Require regulated entities to:

- a. identify and document the skills and capabilities necessary for the board overall, and for each individual director
- b. evaluate existing skills and capabilities of boards and individual directors
- c. take active steps to address gaps through professional development, succession planning and appointments.

We support this requirement as essential for effective board composition and strategic oversight. This aligns with ASX CGP⁴, and reinforces Proposal 7's restriction of voting to full board members rather than relying on external advisers to fill critical skill gaps. However, we are concerned that without explicit guidance, generic skills documentation may undervalue industry-specific expertise. Industry expertise is critical for boards to fulfil their responsibilities for these reasons:

- Independent members with in-depth knowledge of industry drivers of opportunity, risk and profitability are better qualified to set strategic direction.
- Industry experience enables independent board members to form their own opinions and effectively support and challenge management.

⁴ ASX Corporate Governance Principle 2 Recommendations 2.2 and 2.6

- Strong industry expertise provides deeper business understanding, enabling boards to focus on increasing profitability, reducing risk and promoting growth.

As a global investor, we observe varying emphasis on industry expertise across companies. Best-practice codes provide limited guidance, except in the financial sector where financial crisis experience has driven regulatory focus on board expertise. Australia should follow this approach.

We believe that direct industry experience and/or fundamental industry insight gained from other roles can strengthen long-term value creation. We are concerned that a lack of sufficient industry expertise may indicate ineffective board oversight and nomination processes. In addition, boards of larger regulated entities should include directors with material international experience. The larger Australian banks and insurers operate primarily in domestic markets (Australia and New Zealand) and have substantial retail shareholder bases.⁵ These retail shareholders typically lack the specialized sector knowledge needed for effective stewardship oversight. Appointing board directors with international experience would provide valuable insights into global best practices and help these entities stay current with international industry developments.

We recommend that APRA considers including these requirements:

- Industry experience should be explicitly required as a mandatory board competency.
- A majority of independent board members should have fundamental industry insight.
- At least two independent directors should have direct industry experience.
- Boards should explain their criteria for industry expertise and their prioritization of relevant qualifications.
- Boards should have some independent directors with material international experience and exposure.

We recommend that APRA provides guidance for boards of regulated entities to have professional development plans that include the ongoing upskilling of directors on emerging risks such as climate-related financial risks. The Corporations Act requires directors to (i) understand climate-related risks that could reasonably be expected to affect an entity's access to cash flows, access to finance and cost of capital; (ii) use their own skills and judgement even when relying on experts; and (iii) question the appropriateness or completeness of methodologies, inputs and assumptions used to support disclosures on climate-related scenario analysis to assess resilience.⁶ IAIS has also highlighted the need for this competence, and recommends that supervisors encourage insurers to establish a risk committee to identify and address emerging risks, including climate risk. IAIS suggested that board renewal plans could be used to upskill and improve understanding of climate risk.⁷

APRA has noted that regulated entities adopt vague or narrow views of necessary skills and capabilities and has identified climate-related risks in its 2022 Banking Climate Vulnerability Assessment. The Basel Committee for Banking Supervision (BCBS) is prioritizing work on the financial risk implications of

⁵ [Discussion paper - Enhancing bank resilience: Additional Tier 1 Capital in Australia | APRA](#)

⁶ ASIC RG 280.55-56 for entities required to prepare sustainability reports

⁷ IAIS (2025) Application Paper on the supervision of climate-related risks in the insurance sector

extreme weather events⁸, having published principles for the effective management and supervision of climate-related financial risks.

Similarly, APRA noted in its ongoing Insurance Climate Vulnerability Assessment that climate change may impact insurance costs and household incomes. The Network for Greening the Financial System, of which APRA is a member, highlighted the urgency for central banks and financial actors to understand the immediate effects of climate risks on financial stability and economic resilience and developed short-term climate scenarios for this purpose.

Proposal 2 - Fitness and Propriety

Require regulated entities to meet higher minimum requirements to ensure fitness and propriety of their responsible persons.

Require SFIs, and non-SFIs under heightened supervision, to engage proactively with APRA on potential appointments.

We support this proposal, in particular the need for more adequate consideration of fitness in terms of skills, requirements, experience and knowledge, as well as the consideration of time capacity.

Our points on industry experience under Proposal 1 apply to the minimum requirements for fitness and propriety of board directors. Prudential Practice Guide HPG520 states a director should “have a general knowledge of the institution, its business and its regulatory environment” but “each director is not generally expected to have all the competencies that the Board collectively needs if other directors have those competencies or if they are obtained from external consultants or experts”. This could minimize the importance of direct industry experience on boards.

Regarding time capacity for board roles, we believe limits on time commitments and attendance expectations support board effectiveness. Multiple board roles may signal insufficient commitment and reduce boards' capacity to manage unexpected events, which is particularly critical for SFIs.

We recommend that APRA considers including these requirements:

- SFI board members should serve on a limited number of boards (limit to be set by APRA) given the time commitment required for director roles at large financial institutions.
- The chairperson requires significant time commitment for effective leadership and should generally not chair another company's board given their responsibility for leading all aspects of board work.
- Board members must attend all meetings for effective contribution. Individual attendance rates and absence explanations should be disclosed to demonstrate commitment levels.
- Board members should disclose all external board assignments, committee roles and employment to enable evaluation of their capacity to fulfil responsibilities effectively.

⁸ BCBS Press release 12 May 2025 Governors and Heads of Supervision reaffirm expectation to implement Basel III and discuss work on financial impact of extreme weather events

Proposal 3 - Conflicts Management

Extend current RSE licensee conflict management requirements to banks and insurers so they are also required to:

- a. proactively identify actual and potential conflicts of interest and duty
- b. avoid or prudently manage conflicts
- c. take remedial action when conflicts are not disclosed or managed properly.

Require regulated entities to consider perceived conflicts, in addition to actual and potential conflicts.

We support the intention of Proposal 3 to extend conflict management requirements to banks and insurers, and to include perceived conflicts as well as conflicts that may affect their reputation. Reputational risk can lead to a loss of confidence by a bank's clients, market participants, rating agencies and regulators, with disastrous consequences.⁹

Boards must avoid conflicts of interest in a consistent manner through the use of robust conflicts management policies and processes. These policies should address related party transactions (RPT) which may represent conflicts of interest and expose shareholders to potential abuse. To the extent these are not already covered in other prudential standards, we recommend that APRA considers including these as requirements or guidance for the standard on conflicts management for banks and insurers:

- The nomination committee and the board should make a comprehensive assessment of independence, concentrating on the avoidance of conflicts of interest.
- Companies should disclose which board members are considered independent and how each was assessed against independence criteria.
- Board decisions that are particularly vulnerable to conflicts of interest should have additional safeguards.
- The audit committee should have a majority of independent members, and management should not serve on the audit or remuneration committees.
- Individual board members should recuse themselves if they see a potential conflict.
- The board must manage RPT conflicts of interest to ensure market terms and fair treatment of all shareholders.
- Independent board members should approve material transactions, and non-conflicted shareholders should have a vote on extraordinary transactions.
- The board should disclose RPTs, including what constitutes material and extraordinary transactions, especially where jurisdictions do not define materiality or size thresholds relative to company assets.

Proposal 4 – Independence

Strengthen independence on regulated entity boards by:

- a. requiring that at least two of their independent directors (including the chair) are not members of any other board within the entity's group
- b. making minor amendments to the independence criteria, including extending the prohibition on directors who are substantial shareholders in a regulated entity or group from being considered

⁹ BCBS (2023) Report on the 2023 banking turmoil

independent, to include material holdings of any type of security
c. extending the current requirement for bank and insurer boards to have a majority of independent directors to include boards of entities with a parent that is regulated by APRA or an overseas equivalent.

We do not comment on Proposal 4(a). We support Proposal 4(b) and (c). More stringent independence criteria can strengthen conflict management capabilities and practices. Our points in relation to Proposal 3 are applicable here, in particular, the definition and criteria for independence used to assess each board member. We support the proposed definition of independence.

Proposal 5 - Board Performance Review

Require SFIs to commission a qualified independent third-party performance assessment at least every three years which covers the board, committees and individual directors.

We support this proposal and requirements for the chair to be accountable for completing performance assessments and addressing issues raised. We support minimum requirements for external reviews as well-scoped evaluations yield deeper insights into board effectiveness improvements rather than becoming check-the-box compliance exercises. Individual director assessments help directors leverage unique experiences, maximize contributions, and understand their impact on board culture and performance. However, we believe that in order for this requirement to achieve the intended objectives, the assessment should be done on an annual, or at least a biennial basis. This is in line with ASX CGP's recommendation for annual performance reviews of the board, its committees and individual directors¹⁰. In addition, APRA could reiterate the importance of using qualified assessors which have robust conflicts management capabilities.

We recommend APRA requires SFIs to publicly disclose mapping of current board skills and board performance review results (board and board committees), as well as a detailed description of board members' background and specific expertise. Individual director assessments need not be disclosed to address privacy concerns. These constitute material decision-useful information for investors. The BCBS corporate governance principle 12 states that governance of banks should be "adequately transparent" to shareholders, depositors, other relevant stakeholders and market participants. The Hayne Royal Commission's emphasis on governance and the 2023 bank failures in the US and Europe provide a strong rationale for adequate transparency on these areas. Whilst many SFIs are listed, the ASX CGP require disclosure on an "if not, why not" basis of board evaluation processes and not results,¹¹ and skills matrices which can show desired rather than current skills.¹²

Proposal 6 - Role Clarity

Define APRA's core expectations of the board, the chair and senior management.
Provide additional guidance on which APRA requirements may be delegated to board committees and senior management.

We support Proposal 6 which brings the prudential standard in line with the IAIS and BCBS guidance

¹⁰ ASX Corporate Governance Principle 1 Recommendation 1.6

¹¹ ASX Corporate Governance Principle 1 Recommendation 1.6

¹² ASX Corporate Governance Principle 2 Recommendation 2.2

as well as ASX CG Principle 1 Recommendation 1.1 for development and disclosure of a board charter setting out the respective roles and responsibilities of the board and management, as well as matters delegated to management or expressly reserves to the board.

Regulated entities have to navigate increasing geopolitical risk and volatility, with significant changes in the global trade and cooperation framework and the security policy landscape¹³. This turbulence is compounded by increasing climate-related financial risks, recognized by financial authorities who are integrating these risks into financial stability assessments.¹⁴ This environment requires boards to strengthen their focus on strategy and risk management. APRA's governance review found many boards spent less than 30% of their time on these critical areas. Clear role definitions and guidance on delegation of APRA requirements can address insufficient resource allocation and help regulated entities become more resilient.

Proposal 7 Board Committees

Extend the current requirement for bank and insurer boards to have separate risk and audit committees, to apply to SFI RSE licensees as well. Repeal this requirement for non-SFI banks and insurers, allowing flexibility for smaller entities.

Mandate that only full board members can be voting members of APRA-required board committees.

We do not have any comments on the board committee structure. Boards are accountable to shareholders via a fiduciary duty and to APRA as regulated entities. External advisers who supplement board committees with their specialist knowledge should not be allowed to vote as they are not accountable in the same manner.

Proposal 8 - Director tenure and board renewal

Impose a lifetime default tenure limit of 10 years for non-executive directors at a regulated entity. Require regulated entities to establish a robust, forward-looking process for board renewal.

Whilst we do not impose any tenure limits in our own voting guidelines, we support measures to manage conflicts of interest and enhance board effectiveness, particularly for SFIs. The ASX CGP requires boards to assess whether a director with over 10 years tenure is too close to management to be considered independent.¹⁵ While prudential regulators in other jurisdictions have not set term limits, they have the authority to approve appointments and reappointments of board members. Although APRA lacks this specific power, it could effectively strengthen governance of regulated entities through the proposed requirements for entities to have forward-looking board renewal processes with explicit consideration of board and director performance assessments, and proactive engagement and sharing of succession plans and nominations before appointments are made.

¹³ Ida Wolden Bache: Norges Bank's management of the Government Pension Fund Global Introductory statement by Ms Ida Wolden Bache, Governor of Norges Bank (Central Bank of Norway), at the hearing of the Standing Committee on Finance and Economic Affairs of the Storting (Norwegian parliament) on the management of the Government Pension Fund Global, Oslo, 13 May 2025.

¹⁴ Financial Stability Board (2025) Assessment of Climate-related Vulnerabilities

¹⁵ ASX Corporate Governance Principle 2 Recommendation 2.3