



Elevating Governance: A new era of accountability

APRA's proposed changes to strengthen corporate governance practices

April 2025

Executive Summary

On 6 March 2025, the Australian Prudential Regulation Authority (APRA) released a discussion paper outlining proposed enhancements to governance standards for banks, insurers, and Registrable Superannuation Entity (RSE) licensees.

APRA recognises the vital role that effective governance plays in managing risks and maintaining stability. The need for stronger governance has become more pressing due to recent high-profile governance issues in Australian companies. Further, APRA has pinpointed ongoing weaknesses in areas such as director skills, board assessments, and conflict management, noting that 80% of entities under APRA's intensified supervision have governance-related challenges ¹.

The introduction of the Financial Accountability Regime (FAR) has required APRA regulated entities to define accountabilities, helping to clarify roles and responsibilities at senior executive and board levels. However, the process of identifying reasonable steps has prompted entities to reconsider the effectiveness of their governance arrangements.

APRA's discussion paper includes eight proposals aimed at strengthening governance, with a focus on setting clear expectations and prescribing requirements to tackle identified industry issues. It suggests that entities adopt a proportionate approach to governance, tailored to their size, complexity, and operations. This approach differentiates between Significant Financial Institutions (SFIs) and non-SFIs.

The Discussion Paper focuses on eight key areas:



Skills and
capability



Fitness and
propriety



Conflicts
management



Independence



Board
performance
review



Role clarity



Board
committees



Director tenure
and Board
renewal

APRA is seeking feedback from entities by 6 June 2025, with stakeholder roundtables planned for April and May 2025. APRA anticipates releasing the final standards and guidance in 2027, to take effect in 2028.

¹ *APRA Chair John Lonsdale's speech to AFR Banking Summit, 18 March 2025*





Key proposed changes and next steps

Topic area	What is currently in place	The changes being proposed	What can organisations start to do?
Skills and capabilities	Boards must collectively have the necessary skills, knowledge, and experience, but there is no explicit requirement for individual directors.	The proposal requires entities to document necessary skills and capabilities, evaluate existing skills, and address gaps to ensure boards are equipped to support their strategy.	<ul style="list-style-type: none">Document the necessary skills and capabilities for board members and assess current board composition to identify gaps via Board Skills Matrices, Diversity and Fit and Proper policies.
Fitness and propriety	Entities must have policies to assess the fitness and propriety of responsible persons, but practices vary widely.	The proposal sets higher minimum requirements and emphasises outcomes over process compliance, ensuring responsible persons are fit and proper.	<ul style="list-style-type: none">Review and enhance existing fitness and propriety policies to align with good practice, focusing on skills, experience and integrity.Strengthen Board appointment and verification processes by incorporating independent checks and reducing reliance on self-assessments to ensure responsible persons meet the higher standards.
Conflicts management	Banks and insurers have different conflict management obligations compared to RSE licensees.	The proposal extends conflict management requirements to banks and insurers, ensuring proactive identification and management of conflicts.	<ul style="list-style-type: none">Review existing Conflicts Management policies and practices to confirm the extent that actual, potential and perceived conflicts are covered.
Board performance review	Boards must assess performance annually, but the scope and depth of reviews vary.	The proposal requires SFIs to commission independent third-party performance assessments every three years to ensure thorough evaluations.	<ul style="list-style-type: none">Develop or review existing Board Performance Review processes to ensure they are sufficiently robust to address the requirements (including scope and extent of independent involvement).

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Independence (Banks and Insurers only)	Boards must have an independent chair and a majority of independent directors, but criteria for independence are limited.	The proposal strengthens independence by requiring at least two independent directors not to serve on other boards within the group and amends independence criteria.	<ul style="list-style-type: none"> Review existing conflicts management policies and practices to understand the extent to which intra-group conflicts are covered. Review Board composition requirements (skills, experience and independence) and consider transition plans to incorporate independence requirements.
Role clarity	APRA standards provide limited guidance on board and chair roles.	The proposal defines core expectations for boards, chairs, and senior management, clarifying responsibilities and delegation.	<ul style="list-style-type: none"> Review and where required, clarify the Board roles and responsibilities described within FAR Accountability Statements, Charters and Delegations of Authority to management.
Board committees	Banks and insurers must have separate risk and audit committees, but RSE licensees are only required to have an audit committee.	The proposal extends the requirement for separate committees to SFI RSE licensees and allows flexibility for non-SFI banks and insurers.	<ul style="list-style-type: none"> Review existing Board Committee structures in light of the size of the organisation to ensure there is a sharpened focus on both risk and audit related matters.
Director tenure and Board renewal	Boards must have a formal policy on renewal, but tenure limits are not consistently applied.	The proposal imposes a 10-year tenure limit for non-executive directors and requires robust board renewal processes to promote diversity and fresh perspectives.	<ul style="list-style-type: none"> Review processes for managing director tenure and board renewal to comply with proposed limits and promote diversity. Develop or uplift Board Appointment Policies and Succession plans to start to incorporate changes.

Bridging governance and the FAR

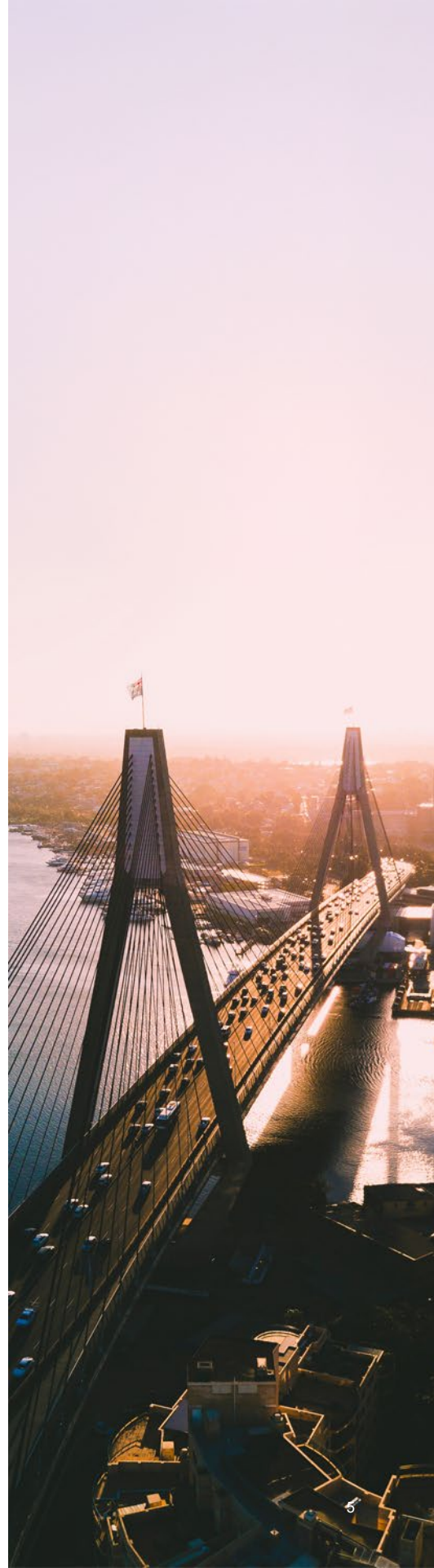
Governance reform has been included within the regulatory agenda, with the FAR playing a key role. Specifically, it is acknowledged in the Discussion Paper as being another part of APRA's regulatory framework which applies to regulated entities and their directors.

The FAR, jointly administered by APRA and ASIC, strengthens the responsibility and accountability framework for regulated entities, including banks, insurers, and RSE licensees. It came into effect for banks in 2024 and commenced for insurers and RSE licensees on 15 March 2025.

As the FAR emphasises the need for entities and Accountable Persons to demonstrate reasonable steps, this process has brought to light necessary improvements to address governance concerns. Numerous accountable entities have recognised opportunities to enhance governance arrangements, intra-group memorandums and delegations of authority. They are now initiating efforts to improve these areas and align them with the accountabilities set forth under the FAR.

Entities under the FAR can begin to consider the following:

- Road-test reasonable steps through scenario workshops at the board and executive levels, with a focus on identifying strengths and weaknesses in governance arrangements, adequacy of management information and delegations of authority.
- Review Board, Committee and management level charters and delegations of authority schedules to confirm alignment to FAR accountabilities.
- Review effectiveness of governance channels from the management level to the Board. This should include consideration of the purpose, membership and reporting/ escalation channels.



Industry reflections

Some industry stakeholders have indicated that the proposed changes may constitute overreach, particularly regarding the increased scrutiny and regulatory burdens that could stifle innovation and flexibility within financial institutions.

Concerns have also been expressed regarding the potential impact on smaller institutions, which may face challenges in managing the financial and operational demands of complying with more complex governance requirements that offer limited or disproportionate benefits.

This highlights the need for industry participants to form a view of what is currently working well and how governance can be improved. From here, industry participants and regulators need to work together to develop a response that focuses on creating governance structures that foster a culture of accountability and are robust enough to prevent future risks without imposing undue burden on institutions.

A way forward

01

Perform a Regulatory Impact Assessment

Conduct a review of existing governance practices to identify areas that align with APRA's proposed changes and areas requiring improvement, to obtain a view of the effort and resources required to uplift.

02

Develop an Action Plan

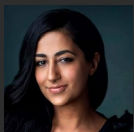
Develop an action plan on back of change assessment for compliance and culture uplift. Identify "no regrets" quick wins and look to introduce these as soon as practical based on good practice.

03

Engage with the Industry

Engage with industry groups to outline any concerns about level/scope of change and share insights on the practical impacts of the recommendations.

Get in touch



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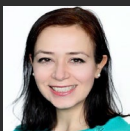
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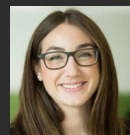
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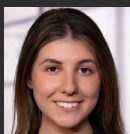
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