



# Corporate Governance in Financial Institutions

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- Should governance standards for financial institutions be higher than for others?
- How does a prudential regulator seek to promote good governance?
- Are prudential requirements for governance a burden?

## (i) Governance and the prudential framework



- Role of prudential regulation
- Primary responsibility of the board
- Unique circumstances of banks



**“Minimum standards of corporate governance for banks should therefore be more ambitious than for non-financial firms.”**

**Basel Committee on Banking Supervision  
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- *Core Principles* expect active regulator engagement
- Limited role of business laws
- Long-standing involvement of prudential regulator



- **Statement of key principles on governance**
- **Minimum governance requirements**
- **On-going supervisory reviews**



## Eight key principles:

- Responsibility
- Diligence
- Independence
- Prudence
- Renewal
- Transparency
- Expertise
- Oversight



## Main requirements:

- Majority of independent, non-executive directors
- Independent, non-executive chair
- Board Audit Committee with majority of independent directors
- Board Risk Committee
- Policies on board renewal and performance assessment





## **On-going supervisory reviews:**

- **Fitness and propriety of directors**
- **Collective board expertise**
- **Dominant directors**
- **Involvement in risk governance**
- **Due diligence processes**
- **Conflicts of interest**

# (iii) Prudential requirements and regulatory burden - large entities



Top 25 Entities—APRA Governance Requirements											
	①	②	③	④	⑤	⑥	⑦	⑧	⑨	⑩	⑪
Entity A	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Entity B	Yes	Yes	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Entity C	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Entity D	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Entity E	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Entity F	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Entity G	Yes	No	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes
Entity H	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Entity I	Yes	No	No	Yes	No	Yes	Yes	No	No	Yes	Yes
Entity J	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Entity K	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Entity L	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Entity M	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Entity N	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Entity O	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Entity P	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Entity Q	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Entity R	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Entity S	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes
Entity T	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Entity U	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Entity V	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes
Entity W	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Entity X	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Entity Y	Yes	Yes	No	Yes	Yes	Yes	No	No	Yes	Yes	Yes

# (iii) Prudential requirements and regulatory burden - small entities



Small Entities—APRA Governance Requirements											
	①	②	③	④	⑤	⑥	⑦	⑧	⑨	⑩	⑪
Entity A	Yes	Yes	Yes	Yes	Yes	NA	Yes	Yes	Yes	Yes	Yes
Entity B	Yes	Yes	Yes	Yes	Yes	NA	Yes	Yes	Yes	Yes	Yes
Entity C	Yes	Yes	Yes	Yes	Yes	NA	Yes	Yes	Yes	Yes	Yes
Entity D	Yes	Yes	Yes	Yes	Yes	NA	Yes	Yes	Yes	Yes	Yes
Entity E	Yes	Yes	Yes	Yes	Yes	NA	Yes	Yes	Yes	Yes	Yes
Entity F	Yes	Yes	Yes	Yes	No	NA	Yes	No	Yes	Yes	Yes
Entity G	Yes	Yes	Yes	Yes	Yes	NA	Yes	No	Yes	Yes	Yes
Entity H	Yes	Yes	Yes	Yes	No	NA	Yes	No	Yes	Yes	Yes
Entity I	Yes	Yes	Yes	Yes	Yes	NA	Yes	No	Yes	Yes	Yes
Entity J	Yes	Yes	Yes	Yes	Yes	NA	Yes	Yes	Yes	Yes	Yes
Entity K	Yes	Yes	Yes	Yes	No	NA	Yes	Yes	Yes	NA	Yes
Entity L	Yes	Yes	Yes	Yes	No	NA	Yes	No	Yes	NA	Yes
Entity M	No	Yes	Yes	Yes	No	NA	Yes	Yes	Yes	NA	Yes
Entity N	Yes	Yes	Yes	Yes	Yes	NA	Yes	Yes	Yes	Yes	Yes
Entity O	Yes	No	No	Yes	No	NA	Yes	No	No	NA	Yes
Entity P	No	Yes	Yes	Yes	Yes	NA	Yes	No	Yes	NA	Yes
Entity Q	Yes	Yes	Yes	Yes	Yes	NA	Yes	Yes	Yes	NA	Yes
Entity R	Yes	Yes	Yes	Yes	Yes	NA	No	NA	NA	NA	Yes
Entity S	Yes	No	No	Yes	No	NA	Yes	No	No	NA	Yes
Entity T	Yes	Yes	Yes	Yes	Yes	NA	Yes	No	No	NA	Yes
Entity U	Yes	No	No	Yes	No	No	Yes	Yes	No	NA	Yes
Entity V	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Entity W	Yes	No	Yes	Yes	Yes	No	Yes	No	No	NA	Yes
Entity X	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Entity Y	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	NA	Yes

