



Australian regulator asks for input on revised remuneration standard

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The Australian Prudential Regulation Authority (APRA) has released a revised remuneration prudential standard for consultation. Draft Prudential Standard CPS 511 Remuneration responds to industry feedback and proposes a more principles-based approach designed to be risk-based and proportionate, with more comprehensive requirements for larger, more complex regulated entities known as Significant Financial Institutions (SFIs). Input is requested by 12 Feb 2021. The revised standard is expected to be finalized in mid-2021 and would take effect for SFIs that are authorized deposit-taking institutions on 1 Jan 2023, for insurance and superannuation SFIs on 1 July 2023, and for non-SFIs on 1 Jan 2024. APRA stated that it would notify entities of their SFI status by Q3 2021.

Highlights of changes for SFIs

Governance. Boards would have explicit responsibility for an entity's remuneration framework and policies, and effective application would be required to approve remuneration outcomes. Entities must review compliance of the remuneration framework against the requirements of the Prudential Standard every year at a minimum. Every three years at a minimum, entities must ensure a review is conducted by those who are independent, experienced and competent.

Nonfinancial measures. The 50% cap on financial measures for variable remuneration would be replaced with a requirement that material weight be assigned to nonfinancial measures. SFI boards would be required to ensure that short- and long-term incentive arrangements give material weight to nonfinancial measures to encourage a more balanced approach to risk management and financial performance. According to APRA, this proposal would represent the biggest change from current practices.

Risk adjustment. Variable remuneration would have to reflect risk outcomes using tools such as the risk and conduct modifier, malus and clawback. Entities would have to adjust remuneration outcomes of

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individuals — to zero if appropriate — where they were responsible for risk and conduct incidents. Organizations would have to ensure effective and consistent application of these measures.

Deferral. SFI boards across all industries would be required to increase minimum four-year deferral periods to strengthen incentives to focus on the long-term, and pro rata vesting would allow for a gradual distribution of payments. The revised deferral periods would be six years for a chief executive officer (CEO), five years for a senior manager and executive director, and four years for a highly-paid material risk-taker (HPMRT). Pro rata vesting would allow the payment of deferred amounts to commence from year four for a CEO, senior manager and executive director, and from year two for a HPMRT.

Disclosure. To reinforce accountability and transparency, APRA proposes that entities must demonstrate publicly how they satisfy the key principles in the standard. APRA plans to strengthen disclosure requirements and is considering proposals that would require entities to publish aggregated details of remuneration outcomes and adjustments for material risk incidents. The specific disclosure requirements will follow a future consultation process, expected to be conducted in late 2021.

Smaller entities

Non-SFIs would not be subject to a number of elements impacting variable remuneration, including material weight for nonfinancial measures, a risk and conduct modifier, minimum deferral periods and clawback. Also, they would not have to conduct annual compliance checks or triennial effectiveness reviews of their remuneration frameworks.

Relation to other regulatory developments

In early 2020, the Government released a paper outlining proposals to extend the Banking Executive Accountability Regime to all APRA-regulated entities, under the Financial Accountability Regime (FAR). FAR includes proposed minimum deferral requirements and adjustments to the variable remuneration of all “accountable persons” who will also be captured by CPS511. APRA has commented that they are working with the Treasury to ensure there is appropriate alignment with CPS 511 and FAR and, upon finalization of the FAR legislation, APRA will review whether any changes to CPS 511 are required.

Related resources

- [Information on FAR](#) (Treasury)
- [Consultation](#) (APRA, November 2020)
- [Press release](#) (APRA, 12 Nov 2020)

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