Submission to APRA on the Draft Remuneration Standard CPS511

[redacted]

1. Introduction

This submission is based on an assessment of the draft prudential standard CPS 511 Remuneration (CPS 511) recently published by APRA for consultation against core principles of sound remuneration governance and practice as outlined in the submission. The areas considered in this article are the remuneration framework; board oversight and decisions; remuneration foundations; variable remuneration design; and the oversight and assessment of remuneration outcomes.

The observations made about sound remuneration governance and practice are based on extensive experience as a governance, culture and remuneration professional and wide-ranging research on remuneration concepts and practice around the world including consideration of the principles, standards and guidance which have been developed by the Financial Stability Board (FSB) over the last 10 years.

2. Overall assessment

Overall, the proposed standard is an improvement on the minimal requirements contained in the current governance standards (CPS 510 and SPS 510). There are however a number of significant missteps which could worsen rather than improve remuneration governance and practice including a misdirection of the focus of measures used on mix rather than purpose; misapplication of the concept of time horizon of risk; and overreach in the identification of significant financial institutions.

The standard is also silent on some critical areas for prudential management such as: the balance between fixed and variable remuneration and the importance of upfront design of remuneration not just adjustment after the event; the opportunity for remuneration practices to circumvent regulation; and the absence of requirements to support the critical governance concept of ethical conduct. Furthermore, there is an insufficient focus on the criteria which need to be taken into account in determining remuneration outcomes, so appropriate adjustments are made to reflect the realised performance and risk experience.

3. The remuneration framework

The remuneration framework is addressed in paragraphs 17 to 20 of CPS 511 and very briefly in chapter 3 (3.1) of the accompanying discussion paper.

What sound remuneration governance and practice looks like

Entities with sound remuneration governance and practice[1] will have a clearly articulated remuneration framework consisting of policies, systems, processes and procedures for remuneration, applied at both a stewardship and management level. The remuneration framework will form the enclosure within which remuneration structures, settings and decisions will be made and against which remuneration practice is benchmarked and monitored. It will

[1] For example, see M Armstrong and D Brown, *Strategic Reward*. Kogan Page (2006)

also have clear and transparent linkages to systems and codes which govern the achievement of the expected levels of performance, conduct and risk.

At a stewardship level, the board will have a guiding philosophy and objectives for remuneration, which supports the entity's purpose, values and ethical principles and achievement of its strategy and long-term sustainability and success.[2] It will have an end to end view of workforce remuneration structures and arrangements[3] to ensure that they are congruent, consistent, and fit for purpose in achieving the entity's remuneration, performance and conduct objectives for the entire entity. At a management level[4], the focus will be on the application and execution of the remuneration framework through the entity's remuneration structures and arrangements and performance, conduct and risk governance systems. Where functions with a material performance and risk impact are outsourced, the entity will ensure that the same principles and standards apply.

Assessment of the draft standard

Overall, the provisions of the draft standard on the remuneration framework support sound remuneration governance and practice. The provisions could be enhanced by ensuring that the rationale for the policy settings and approach are explicit as this provides an important foundation for reviews and monitoring of policy outcomes. Some clarification is also needed to ensure that the focus of board policy is primarily on stewardship which is then underpinned by other policies procedures and systems executed by management as part of the overall remuneration framework.

One significant omission is the absence of a requirement that the remuneration framework supports ethical standards. Guidance from the FSB[5] notes that boards should promote ethical behaviour and compliance with laws, regulations and internal conduct standards. Also, Australian governance standards[6], already emphasise the importance of ethical standards and this should be reflected in the prudential standards where governance is a consideration. The definition of misconduct is also unnecessarily technical and mechanical, and a better approach would be to adopt the FSB[7] definition which focuses on conduct that falls short of expected standards, including legal, professional, internal conduct, and ethical standards.

4. Board oversight and decisions

Board oversight and decisions are addressed in paragraphs 21 to 36 and paragraphs 46 to 52 of CPS 511 and in chapters 2 (2.2) and 3 of the accompanying discussion paper.

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[2] See *FSB Principles and Standards on Sound Compensation Practice* (2009) Principle 1 and Standard 1, and *FSB Supplementary Guidance to the FSB Principles and Standards on Sound Compensation Practice* (2018) Recommendations 1 and 2.
[3] See the *UK Corporate Code* (2018) Principle E and Provision 33.
[4] See *FSB Supplementary Guidance to the FSB Principles and Standards on Sound Compensation Practice* (2018) Recommendations 3 and 4.
[5] See *FSB Supplementary Guidance to the FSB Principles and Standards on Sound Compensation Practice* (2018) Recommendations 1.
[6] ASX Corporate Governance Council, *Corporate Governance Principles and Recommendations*, 4th edition, (2019). See Principle 3: Instil a culture of acting lawfully, ethically and responsibly. Also, the Banking and Finance Oath requires 'pursuit of ends by ethical means' as a key component of the Oath.
[7] See *Supplementary Guidance to the FSB Principles and Standards on Sound Compensation Practice* (2018) Footnote 2.

What sound remuneration governance and practice looks like

Entities with sound remuneration governance and practice[8] will have clearly identified role accountabilities for the development and execution of the remuneration framework. As steward, the board will have an oversight role over the remuneration framework. It will also have direct accountability for remuneration decisions for senior management and oversight of roles and categories which have a material impact on the entity's performance and risk portfolio and its long-term soundness and success. The role of board committees, including remuneration and risk committees, in supporting board oversight and decision where relevant and pertinent, and the role of management in applying the framework throughout the entity will be clearly defined and monitored. There will be an expectation that all parties will undertake and exercise appropriate and relevant due diligence in carrying out their roles.

The remuneration framework will be regularly reviewed[9] for both compliance and effectiveness. Regularly assessing that the framework is operating as intended and taking corrective action where this is not the case is critical and requires leadership and direction from the board committee responsible for remuneration and through it the board.

Assessment of the draft standard

The proposed standard provides for a reasonable structure for oversight of the remuneration framework by the Board, and where required, the making of direct remuneration decisions. However, the provisions could better and more clearly define the roles of the board, board committees and management in executing the remuneration framework and making remuneration decisions to achieve sound remuneration governance and practice.

The provisions on effectiveness reviews are a major step forward but could be further improved by explicitly requiring that the board committee responsible for remuneration provides directional leadership for the review, ensuring accountability for the review cannot be abrogated and passed on. The role of experts and practitioners should be clearly focused on the execution of the tasks required to carry out the review with the remuneration committees, and ultimately the board, determining whether the remuneration framework is fit for purpose and operating as intended.

5. Remuneration design foundations

Neither CPS 511 or the accompanying discussion paper address the requisite foundations for remuneration design.

What sound remuneration governance and practice looks like

Sound remuneration governance and practice starts with sound remuneration design to ensure that all remuneration structures and arrangements support the entity's purpose and long-term success[10]. By starting with the end in mind, the need for subsequent ad hoc and unexpected

[8] See *FSB Principles and Standards on Sound Compensation Practice* (2009) Principle 1 and Standard 1; *FSB Supplementary Guidance to the FSB Principles and Standards on Sound Compensation Practice* (2018) Recommendations 1 to 4; Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (the Royal Commission), *Final Report* (2019) Recommendation 5.3.

[9] See *FSB Principles and Standards on Sound Compensation Practice* (2009) Principle 2 and the Royal Commission (2019) Recommendations 5.3 and 5.4.

[10] See WorldatWork, *The WorldatWork Handbook of Compensation, Benefits and Total Rewards*, Wiley (2007) Chapters 2 and 6.

adjustments impacting the efficacy of the remuneration arrangements can be minimised. Sound remuneration design will involve clearly articulating the purpose and objectives of both the structure and components of remuneration and determining an appropriate balance between them[11] so that the remuneration arrangements do the best possible job of rewarding the right people, the right amounts, for doing the right things[12].

Fixed remuneration, including benefits, will primarily reflect the value of professional experience and organisation responsibility as set out in the job description or employment terms. Variable remuneration will be discretionary and may vary in amount from one performance period to the next. It will be subject to conditions and forfeiture and the achievement of specified targets and objectives. As a minimum[13], variable remuneration will be:

- variable with performance and risk, and not guaranteed;
- targeted to support superior performance, conduct and risk management;
- fully funded and preferably self-funded so it has a net benefit to the entity and is not just a cost;
- subject to discretion to ensure variable remuneration operates as intended and is sustainable.

It will be well understood that there is a wide range of potential designs for variable remuneration which measure a range of objectives and timeframes. These include target-based incentive plans, profit share plans, bonuses, retention incentives (including deferred cash and deferred share plans), long-term incentive plans, and integrated short and long-term plans. Selection of the right variable remuneration plan requires a clear understanding of the plan design and business objectives to ensure the variable remuneration is fit for purpose.

A key consideration in getting the right balance between fixed and variable remuneration is to ensure that the remuneration is symmetrical with performance and risk at all levels (entity, business, team and individual). Remuneration, which is entirely fixed is potentially as open to moral hazard as variable remuneration if performance and risks are not monitored and managed on a sustained basis. At its worst, it can provide immunity from performance and risk outcomes and convert a variable cost into a fixed one. Also, if the only consequence of poor performance and risk failures is being fired, then this creates a significant impetus to hide poor performance and emerging risks rather than proactively address them. Entities adopting sound remuneration governance and practice[14] also take care to ensure that special arrangements such as sign-on bonuses, buyouts and non-cash benefits are not excessive and undermine the remuneration objectives set.

Assessment of the draft standard

The proposed standard is silent on the role of remuneration, and its components and the appropriate balance required between components [15] to ensure sound remuneration

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[11] See *FSB Principles and Standards on Sound Compensation Practice* (2009) Principle 7 and APRA PPG/SPG 511 paragraph 69.

[12] D Jensen, I McMullen, and M Stark, the Manager's Guide to Rewards, Hay Group (2007) p7

[13] European rules go as far as to specify that variable remuneration should reflect performance in excess of that required to fulfil a job description and terms of employment and be subject to performance adjustment. See European Parliament, *Capital Requirements Directive* (CRD IV) Article 92(2)(g).

[14] See *FSB Principles and Standards on Sound Compensation Practice* (2009) Standards 11 and 12 and commentary in APRA Information Paper*: Remuneration Practices at Large Financial Institutions* (2018) p23.

[15] e.g. fixed vs variable, cash vs equity, performance vs retention.

governance and practice notwithstanding that these issues were highlighted in both APRA's own research[16] and in observations from the Royal Commission[17]. This means that important foundations for sound remuneration governance and practice are missing from the proposed regulation.

6. Variable remuneration design

Variable remuneration design is addressed in paragraphs 37 to 40 of CPS 511 and chapter 4 of the accompanying discussion paper.

What sound remuneration governance and practice looks like

The design of sound variable remuneration governance and practice starts with a clear understanding of the reward objectives; the measures to be used and the time frame of measurement; and, the criteria and payout schedules to be applied (both the levels of performance required and the rate of payment applicable). Selection of the measures and criteria used will start with the business strategy, the drivers of value creation, and time frames[18] to deliver sustainable long term performance and long term soundness and success. It will be about the future, not the past. Based on this foundation, the measures used will also reflect the following dimensions[19] on both a quantitative and qualitative basis:

- sustained operating income;
- return on investment;
- future value which is driven by factors such as innovation, customer, community and employee engagement, safety and the like; and
- the risks assumed and effective management of those risks.

Taking into account all these considerations will produce a set of objectives which are a holistic representation of the business performance and risk management required, encompassing both financial and non-financial measures and criteria[20]. The mix of measures will be a product of this focus rather than its driving force. The measures and criteria used will then be shaped by the contribution of participating roles to those objectives and the context in which the roles operate. In applying measures and criteria on this basis, they must also be transparent, contextual, reliable and consistent[21].

Consideration will also be given in shaping the remuneration design, to the application of appropriate variable remuneration design tools including balanced and other types of scorecards; gateways; modifiers; distributive pools; and the application of discretionary judgement, as well as the setting of appropriate terms so that the objectives of the remuneration are not compromised by subsequent events such as termination and significant risk events.

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[16] See APRA Information Paper: *Remuneration Practices at Large Financial Institutions* (2018) Chapters 2 and 3.
[17] See Royal Commission Final Report (2019) chapter 6 and Interim Report (2019) chapters 9 and 10.
[18] See M Harris and B Tayler *Don't Let Metrics Undermine your Business*, Harvard Business Review (September-October 2019) p63 and M Hodak, Finding and Avoiding Perverse Incentives, NACD Directorship (2017).
[19] See RN Ericson, *The New Standards: Methods for Linking Business Performance and Executive Incentive Pay,* Wiley (2010) p19, and Investor Responsibility Research Center (IRRC), The Alignment Gap between Creating Value, Performance Measurement, and Long Term Incentive Design (2014) p61.
[20] See R Resch, *Effectively Setting Performance Targets*, Canadian Institute of Company Directors (2013) p20.
[21] See UK Financial Reporting Lab, *Performance Metrics- Principles and Practice* (2018)

In designing variable remuneration, entities adopting sound remuneration governance and practice embed the following core principles:

- remuneration takes into account[22] all types of risk, including prospective risks and risk outcomes already realised, which impact performance. This will include difficult to measure risks such as liquidity risk, reputation risk and cost of capital/funding.
- Remuneration design must[23] deliver outcomes which are symmetrical with risk and performance outcomes. High variable remuneration will be matched by high-performance while poor performance will result in variable remuneration being diminished if not forfeited.
- The time horizon of risks[24] assumed in achieving the required performance over the relevant business and investment cycle and the management of associated risks must be built into variable remuneration design. Variable remuneration should not be delivered over short periods where risks are realised over long ones. This provides an opportunity for outcomes to be validated through the holding of payments or delivery[25] of variable remuneration given that while income is recognised annually, the risks assumed in a financial services environment can have an impact well into the future potentially resulting in asymmetrical pay and performance outcomes.

The time horizon of risks can be considered through a range of mechanisms. Remuneration can be deferred by determining the outcomes and potential payments, taking into account intrinsic risk during the measurement period (ex-ante adjustment), and then holding the remuneration, subject to adjustment, to take into account subsequent events and the crystallisation of specific risk events (ex-post adjustment). This is the approach taken for most short-term variable remuneration plans which recognise the time horizon of risks in some form. The remuneration can also be deferred by measuring the outcomes over a multi-year timeframe with adjustments made within the period set (ex-ante adjustment). This applies to most performance based long term incentive plans[26]. Remuneration can also be held by determining the outcome and retaining the remuneration in a bank or in the form of convertible instruments (e.g. shares or bonds) subject to further ex-post adjustment. While the term deferral is often used to describe these mechanisms, it would be more accurate to describe the range of options available as the 'holding' of remuneration.

Taking into account the time horizon of risks using these mechanisms, therefore, involves setting the assessment of performance and risks in a multi-year framework which supports sustainable performance and long term soundness and success and then determining an appropriate holding period and vehicle to address the risks involved. Payment or vesting of variable remuneration (if it is in the form of convertible instruments) will then be spread over a period which reflects the

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[22] See *FSB Principles and Standards on Sound Compensation Practice* (2009) Principle 4 and Standards 3 and 4, and *FSB Supplementary Guidance to the FSB Principles and Standards on Sound Compensation Practice* (2018) Recommendation 5.

[23] See *FSB Principles and Standards on Sound Compensation Practice* (2009) Principle 5 and Standards 5 to 14, and *FSB Supplementary Guidance to the FSB Principles and Standards on Sound Compensation Practice* (2018) Recommendations 6 and 7.

[24] See *FSB Principles and Standards on Sound Compensation Practice* (2009) Principle 6 and Standards 6, 7 and 9.

[25] Where the variable remuneration is provided in the form of equity or convertible instruments.

[26] Some long term variable remuneration plans will also provide fur a further holding period for payment or vesting at the end of the measurement period.

underlying business and investment cycles and the associated risks of the business activities undertaken[27].

Assessment of the draft standard

The proposed standard does recognise the importance of risk and the alignment of payout and vesting schedules with the possible range of risk and performance outcomes. The focus on prescribing a set mix of measures is; however, misplaced and is as likely to result in poor remuneration practice as it will support sound practice. Focusing on a quota of measures rather than the purpose and rationale for those measures in driving performance and managing risks is likely to result in the adoption of easy measures and soft targets which do not reflect sound remuneration practice. Contrary to the view expressed in the discussion paper[28] that there is no clear consensus on the most appropriate balance of financial and non-financial measures, there is, in fact, a clear and self-evident view that the balance should reflect the business strategy and long-term soundness and success of the entity and ultimately it purpose.

The application of the principle that the time horizon of risks needs to be reflected in variable remuneration design is also incomplete and needs further articulation. There is only oblique reference[29] to the concept for application as a general principle with specific provisions limited to particular institutions and management levels. There is also an implication in the accompanying discussion paper[30] that the application of tools such as deferral to address the time horizon of risk and the deferral obligations under the BEAR legislation[31], which are designed to ensure that a portion of remuneration held against potential failures of are in conflict. There should not be any conflict where the concept of the time horizon of risks is comprehensively applied as it has a broader scope than just addressing failure of accountability.

The specific provisions which relate to the deferral of variable remuneration for senior managers and highly paid material risk takers in Significant Financial Institutions are themselves fatally flawed. The timeframes envisaged are appropriate for the largest and most complex organisations which could have a material impact on their industry where seven to eight years roughly represents the bottom end of the investment time horizon which needs to be taken into account. This period, however, is too long for the smaller organisations which will be captured by the very deep dive into capitalisation/funds under management. At this level, it would be better to focus on requiring entities generally to demonstrate how they have reflected the time horizon of risks relevant to their business portfolio in their variable remuneration design rather than set a prescriptive timeframe.

The focus on deferral is also limiting and problematic, and the adoption of a broader concept of ‘holding’ would provide significantly greater flexibility and an opportunity to focus on a wider range of circumstances across entities. The formula for calculating the quantum of remuneration to be held needs further consideration as short-term incentives, where there is the greatest risk the time horizon for validation is too short, may not be captured, or only partially captured, if there is a mix of short and long-term incentives. A better approach would be to adopt the UK

[27] See European Parliament, *Capital Requirements Directive* (CRD IV) Article 94(1)(l).
[28] See APRA Discussion Paper, *Strengthening Prudential Requirements for Remuneration* (2019) p31
[29] See CPS 511 paragraph 37(d)
[30] See APRA Discussion Paper, *Strengthening Prudential Requirements for Remuneration* (2019) p16 and p36-37.
[31] Reference to the BEAR legislation is to the Banking Executive Accountability Regime set out in *Treasury Laws Amendment (Banking Executive Accountability and Related Measures) Act 2018*

formula[32] which requires that an entity must not amend, pay or provide a variable remuneration component unless a substantial portion is held for a requisite period. This ensures that all components of variable remuneration, both short and long-term, are captured and not missed through aggregation.

There are also definitional issues which need to be addressed so that entities can be confident that they are calculating the held/deferred amount correctly. For example, the formula for calculating the held amount and its relationship to the BEAR legislation Deferred Remuneration Obligation needs clarification if a fixed amount is going to be specified even for only some entities. Alternatively, broader parameters could be set for holding sufficient variable remuneration on a component by component basis that allows the entity to demonstrate that it is taking into account the time horizon of risks in its portfolio.

7. **Oversight and assessment of remuneration outcomes**

The oversight and assessment of remuneration outcomes are addressed in paragraphs 41 to 45 and paragraphs 56 to 59 of CPS 511.

What sound remuneration governance and practice looks like

Entities with sound remuneration governance and practice[33] will ensure that variable remuneration practice is commensurate with risk and performance outcomes. Variable remuneration will only be delivered if it is:

- funded and contributes to the entity's long-term soundness;
- justified on the basis of the achieved performance and risk outcomes: and
- meets the objectives set for the remuneration structure and components put in place.

Variable remuneration will be adjusted[34] through the application of the following adjustment tools: in-period adjustments; malus; clawback; and the application of overriding discretion and judgement. These adjustments will:

- ensure that remuneration outcomes are aligned with the business strategy and objectives, values and requisite culture of the entity;
- protect the entity's long-term soundness;
- respond to significant unexpected and unforeseen consequences; and
- ensure that remuneration outcomes are consistent with an assessment of the quality of the performance and risk outcomes achieved in the application of overall sound remuneration governance and practice

The correct application of these tools is recognised as critical. Malus (ex-post adjustment before payment or vesting of convertible instruments) will primarily be focused on adjustments for realised performance and risk. Clawback, post payment or vesting, will be primarily focused on adjustments to variable remuneration to address circumstances where if the facts now known had been evident at the time the payment or vesting occurred, the payment or vesting would not have occurred or would have been reduced. In all cases, overriding discretion and judgment will be applied. Misconduct by participants or knowingly allowing misconduct to occur will be a bar to any payment or vesting of variable remuneration at any stage.

[32] See UK Prudential Regulation Authority (PRA) *Rulebook* 15.17
[33] See *FSB Principles and Standards on Sound Compensation Practice* (2009) Principle 5 and Standard 5.
[34] See *FSB Supplementary Guidance to the FSB Principles and Standards on Sound Compensation Practice* (2018) Recommendation 6.

The assessment of outcomes will also be supported[35] by the entity's performance management system, code of conduct, and consequence management processes addressing:

- the identification of specific quantitative and qualitative criteria to assess performance and conduct;
- the chain of control and responsibility to be considered in the assessment of performance and conduct across the entity at all levels;
- setting of indicative criteria for the adjustment of remuneration based on performance and conduct;
- the application of clear procedures to govern remuneration adjustments based on performance and conduct including any investigative procedures required to address specific adverse circumstances and consequences; and
- the provision of relevant information and evidence as part of these processes to be able to make effective and prudent remuneration decisions.

Assessment of the draft standard

The proposed standard does by and large address the key considerations which need to be taken into account in assessing outcomes. It also identifies the tools available for making those adjustments. There is, however, insufficient focus on the delivery of quality outcomes tied to the business strategy and sustainable success. A requirement for funding of variable remuneration is also missing, which could result in variable remuneration producing outcomes which are detrimental to the overall health and soundness of the entity. Better practice could be reinforced more effectively by requiring that entities generally must be able to demonstrate that they have appropriate adjustment mechanisms, including clawback, in place supported by effective performance and consequence management processes to ensure that remuneration outcomes are symmetrical and commensurate with performance and risk outcomes. Furthermore, entities need to be able to demonstrate that they actively apply these mechanisms and processes in making remuneration decisions in relevant circumstances.

The specific provisions for senior managers and high-paid material risk takers in significant financial institutions are appropriate, but in terms of this very specific provision, it captures too large a basket of entities. Only the largest and most complex entities with the greatest risk of systems impact should be captured by this provision with other entities able to design adjustment mechanisms, including the use of clawback, in a more flexible way which best suits their circumstances and business environment.

The proposed standard also does not make it clear that for the clawback provisions to be sustainable, they need to be set up as part of the terms of the variable remuneration at the design and offer stage. Appropriate transition provisions also need to be put in place to facilitate this. Trying to implement clawback after the event, particularly where variable remuneration is poorly designed and not clearly designated as being totally discretionary, will reinforce the view[36] that clawback has practical difficulties. These difficulties only occur if clawback is not built into variable remuneration terms upfront, or the variable remuneration is fully or partially

[35] See *FSB Supplementary Guidance to the FSB Principles and Standards on Sound Compensation Practice* (2018) Recommendation 7.
[36] See APRA Discussion Paper, *Strengthening Prudential Requirements for Remuneration* (2019) 41.

guaranteed and not subject to absolute discretion by the entity in the making of any determination about it.

8. In conclusion

CPS 511, as proposed, falls short of expectations for a relevant and effective framework which will embed sound remuneration governance and practice in Australian financial services at a world-class level as outlined in this assessment. The following areas need particular attention:

- Remuneration framework – further enhancements and development of minimum requirements for a remuneration framework which supports sound remuneration governance and practice and a clearer focus on promoting ethical conduct and not just reducing misconduct.
- Board oversight and decisions – clearer provisions on the role of boards, board committees and management in the execution of the remuneration framework including better specification of the role of the board committee responsible for remuneration in providing directional leadership for reviews of the effectiveness of the remuneration framework.
- Remuneration design foundations – provisions need to be developed to address the role of remuneration and its components (including any special arrangements), the appropriate balance between components, and their application. The role of remuneration design in setting up an appropriate foundation for adjustment of remuneration outcomes also needs to be better articulated to improve the overall efficacy of the remuneration provided.
- Variable remuneration design – reworking of the proposed provisions to better support measures which reflect the purpose of the remuneration in delivering the business strategy and long term soundness and success; ensuring holding/deferral periods which provide for a range of options reflecting the time horizon of risks over the business and investment cycles involved are in place; and further consideration of whether a set formula should be prescribed or a broader principles based approach be taken to ensuring entities take into account the time horizon of risk in their portfolio.
- Remuneration outcomes – reworking of the provisions to ensure that they support quality and funded outcomes underpinned by adjustment mechanisms including clawback and the embedding of effective performance and consequence management processes, which are not only in place in advance, but are actively applied to ensure remuneration outcomes are symmetrical with performance and risk.
- Significant financial Institutions – these provisions should be focused on large and complex entities which are likely to have a material and systemic impact on their industry.

In addressing these issues and others which emerge from the consultation process, it is hoped that in the final standard there will be a greater focus on clearly articulating the expectations of entities in embedding sound remuneration governance and practice and less reliance on formulaic prescription, which at best are tangential to and at worst detract from, the achievement of sound remuneration governance and practice. In finalising the framework for prudential regulation, principles should continue to be the guiding star in setting minimum requirements and providing guidance. These guiding principles, which have been set out briefly above, need to be better articulated and embedded in the final standard.
