Guerdon Associates
Executive Pay & Board Governance

23 October 2019

General Manager
Policy Development
Policy and Advice Division
Australian Prudential Regulation Authority

Dear General Manager

Submission: CPS 511 draft and accompanying discussion paper

Guerdon Associates appreciates the opportunity to provide its submission on the *"Strengthening prudential requirements for remuneration discussion paper"* (the discussion paper) and draft CPS 511.

Guerdon Associates supports a separate prudential regulatory standard on remuneration that will focus entities on remuneration that needs to be:

1. Sufficient to attract and retain individuals with the competencies essential for sound prudential management
2. Variable to an extent that it can be reduced for all employees so as to preserve the financial soundness of the entity
3. Contingent on achievable outcomes that focus key individuals on growing the financial capabilities of the entity to withstand financial and economic shocks, and facilitate a growing economy
4. Aligned with the entity's business cycle so that through-the-cycle sustainability is considered by all key individuals in conceiving and executing business strategies
5. Discourage undue risk-taking and misconduct.

To these ends, this submission describes our firm, recognises positive aspects of the proposed regulation, identifies areas for improvement, and makes suggestions for improved effectiveness where appropriate.

About Guerdon Associates

Guerdon Associates is an independent[1] executive remuneration and board governance consulting firm. Our clients include a significant proportion of companies in the ASX 300, large private companies and pre-IPO companies. Offices are located in Melbourne and Sydney, with affiliate offices in London, Paris, Zurich, New York, Los Angeles and Beijing. The firm has worked with the boards of many of Australia's listed companies including banks, insurers and other financial services providers, as well as superannuation funds.

[1] Independence is defined as a specialist provider of consulting services to boards to minimise conflicts of interest that may otherwise result from being a supplier of multiple services to both management and boards.

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The firm's submissions were among the most cited in the Productivity Commission's review of executive remuneration and, over the years, it has contributed to Treasury, Australian Taxation Office and CAMAC consultations on numerous Corporations Act and taxation legislation changes, as well as regularly engaging with APRA on remuneration matters.

As a provider of remuneration and governance advisory services and an expert observer of the impact of executive remuneration internationally, the firm can provide useful insight into:

- the effects of various remuneration frameworks; and
- alternatives or modifications that may more effectively contribute to sound prudential management.

Objectives of proposed standard and means to achieve it

The APRA Act requires APRA to balance the objectives of financial safety and efficiency, competition, contestability and competitive neutrality, and, in balancing these objectives, promote financial system stability in Australia. In effect, the desired outcomes of APRA regulation and supervision are a thriving, healthy, and safe financial services sector in banking, insurance and superannuation.

We expect other stakeholders would wish for the same outcomes.

Yet, when it comes to remuneration that facilitates these outcomes, there has been no consensus.

The 'two-strikes' law for listed entities has resulted in external stakeholders' prescriptive requirements having precedence over APRA's principles-based standards. That is, the potential for reputational risk from a "strike" has caused listed company board directors to place more weight on their shareholders' requirements than on APRA's principles-based prudential standards and guidelines.

Guerdon Associates suggests an effective counter to the prescriptions of listed companies' external stakeholders would be:

- Better transparency;
- Remuneration effectiveness reviews per paragraph 34 of the draft standard; and
- Application of current APRA powers and the CPS 520 prudential standard.

Better transparency

Better transparency can be achieved by requiring entities to submit, annually, a remuneration report. This would be similar to listed company remuneration reports but extended to cover APRA's additional requirements. APRA regulation would require the report to state the

objectives of the remuneration policy and provide evidence as to how the remuneration framework and its implementation:

- Meet the entity's objectives;
- Are aligned with the entity's business cycle;
- Promote growth, sustainability and resilience[2];
- Encourage today's occupants of "responsible role categories" to develop and maintain a sound legacy for their successors;
- Adequately measures, and rewards for risk-adjusted financial outcomes (i.e. ex-ante measures) and risk management behaviours (i.e. conduct); and
- Applies "consequence management" for less desirable performance and risk outcomes.

Evidence and APRA's current powers

In the absence of evidence, or acknowledging that remuneration objectives are not being sufficiently met, the report will note actions and timeframes for acquiring evidence and/or remuneration changes to meet objectives.

If the evidence of effectiveness is insufficient, or action to acquire evidence or improve effectiveness is lacking, APRA could utilise its power to remove the chair of the remuneration committee, and it members, for failing to meet the "fit and proper" requirements under CPS 520[3] and empowered by various statutes (e.g. section 23 of the *Banking Act 1959*[4]).

APRA has been provided with its power to remove directors for the specific purpose of enabling it to ensure entities are prudentially sound and managed to that end. We believe that directors will recognise that the potential for this power to be used is preferable to APRA prescribing how they should manage the entity.

As we have observed under the "two-strikes" law, the threat of director removal, and subsequent reputational damage, have been sufficient for boards to respond to shareholders' concerns about remuneration.

The APRA threat of director removal would have more substance, given that few "two strikes" have resulted in a board spill and re-election, whereas APRA has the power to direct removal.

The UK, which does not *prescribe* remuneration frameworks to the extent proposed by APRA, nevertheless has achieved desirable outcomes. This has been achieved, partly, by transparency through the publication of a Remuneration Policy Statement, and the threat of removal of the director considered most accountable, the chair of the remuneration committee[5].

In practice, it would probably be sufficient for APRA to provide notice that disclosures of evidence and/or action were inadequate, and it will consider exercising its power if no improvements are made.

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[2] This includes profitability. Despite various comments in the Hayne Royal Commission report inferring an excessive focus on profitability was a reason for misconduct, it is an essential requirement for sustainability.
[3] https://www.apra.gov.au/sites/default/files/Prudential-Standard-CPS-520-Fit-and-Proper-%28July-2017%29.pdf
[4] https://www.legislation.gov.au/Details/C2018C00067
[5] See, for example, the latest UK FCA missive to remuneration committee chairs at https://www.fca.org.uk/publication/correspondence/2019-letter-remco-chairs-our-approach.pdf

The transparency of disclosures, and evidence provided, should find support among listed entity shareholders.

The threat of director removal would leverage other aspects of CPS 511, including:

- The annual remuneration compliance review required under paragraph 33[6]
- The remuneration committee's response to triennial remuneration effectiveness review required under paragraph 34[7]
- The competence requirements of the board remuneration committee required under paragraph 23(b).

An underlying assumption is that, as a supervisor, APRA would make a judgement based on the evidence reported. Critics may say that APRA has not exhibited any significant leverage on remuneration frameworks in the past, even though entities did not follow PPG 511 guidelines in their continued heavy reliance on relative TSR, and little reliance on ex-ante measures of risk-adjusted performance. Better expertise on remuneration and culture, which APRA is now addressing[8] should enable APRA to apply judgement on these matters with more confidence. In addition, enhanced transparency requiring evidence of effectiveness and action would make it easier for APRA, and other stakeholders, to exercise judgement.

Guerdon Associates' Recommendations:

1. *Require transparent reporting that:*
    a. *states remuneration objectives;*
    b. *describes the remuneration framework; and*
    c. *provides the evidence that the framework works as intended, including regard for effective prudential and risk management.*

2. *APRA to assess board remuneration committee competence under paragraph 23(b) of CPS 511 utilising:*
    a. *the transparent remuneration report;*
    b. *the remuneration committee's response to CPS 511's annual compliance reviews; and*
    c. *the remuneration committee's response to triennial effectiveness reviews.*

3. *Utilise existing powers and prudential standard 520 to remove remuneration committee directors who do not demonstrate competence requirements.*

[6] For example, if two or more (depending on materiality) consecutive annual reviews found no improvement in compliance

[7] For the purposes of director removal under CPS 520, APRA would assess the remuneration committee response to the review and whether this was effective. It is also important for these reviews that they be independent for this purpose. See our suggestions in this submission.

[8] Found to be in need of improvement under a Treasury sponsored capability review https://treasury.gov.au/sites/default/files/2019-07/190715_APRA%20Capability%20Review.pdf, acknowledged by APRA as well as a commitment to strengthen its capability https://www.apra.gov.au/apras-response-to-capability-review-report

A prudential standard to accommodate differing circumstances and avoid unintended consequences

Various enquiries[9] have indicated that many entities have failed in the design of their remuneration framework, or in monitoring it to ensure the design operates as intended. In addition, some have indicated that the institutional shareholders and their own advisers have been remarkably short-sighted. In fact, shareholders and their advisers, with prescriptive guidelines for how remuneration should be structured, provide ready examples why a prescriptive approach has been suboptimal. For example, a significant proportion of shareholders and their advisers prescribe a reliance on total shareholder return (TSR) measures, contrary to preferences made clear in APRA guidelines[10].

It is understandable that APRA proposes a "counter-prescription" to the prescriptive approaches promulgated by proxy advisers and institutional investors. However, this is itself risky, and could suffer from being as unsuited to an entity's unique circumstances. And, as we have observed for listed entities, it is easy to meet a prescriptive requirement yet end up with a remuneration framework that is totally unsuitable.

Complying remuneration frameworks that do not encourage sound prudential management and sustainable long term health

Consider, for example:

- A bank incentive plan could be contingent on 12-month TSR performance only, and to be eligible for payment the executive has to pass through a conduct gateway of 3 measures requiring that they not misbehave in that 12-month period. The gateway means that 100% of the incentive is initially contingent on "non-financial" measures. This incentive's performance requirements fully meet the proposed CPS 511 prescriptions, yet it fails (abysmally) in encouraging sound prudential management and long-term sustainable health.

- A life insurer could reconfigure pay to attract talent to provide 95% as fixed pay, and 5% as an incentive that meets the variable remuneration prescriptions of the proposed CPS 511. The variable pay component does not effectively encourage sound prudential management and long-term sustainable health because it is immaterial. The pay structure leaves little room for ex-post adjustments.

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[9] These include the following:

- Retail banking Remuneration Review at https://www.betterbanking.net.au/wp-content/uploads/2018/01/FINAL_Rem-Review-Report.pdf
- Prudential Enquiry into the Commonwealth Bank of Australia at https://www.apra.gov.au/sites/default/files/CBA-Prudential-Inquiry_Final-Report_30042018.pdf
- Remuneration Practices at Large Financial Institutions at https://www.apra.gov.au/sites/default/files/180328-Information-Paper-Remuneration-Practices.pdf
- Self Assessments on Governance, Accountability and Culture at https://www.apra.gov.au/sites/default/files/information_paper_self-assessment_of_governance_accountability_and_culture.pdf,

[10] See paragraph 52 of PPG 511 at https://www.apra.gov.au/sites/default/files/PPG511_REM_revised-Dec-09_0.pdf

- A fintech provides RSUs and share options subject to service requirements only. They are not specifically performance contingent, and are not variable remuneration. This is fully acceptable under the CPS 511 standard as drafted, yet fails to encourage sound prudential management and prevent misconduct.

- A listed entity provides executive key management personnel (KMP) with substantial variable remuneration opportunity that meets all the requirements of proxy advisers and institutional investors, and all the requirements of CPS 511, but can only attract and retain second rate management because fixed pay cannot be increased to accommodate the reduced "value"[11] of long term and uncertain variable remuneration deferral because of threats to vote against the remuneration report. Second rate management would not enhance financial health and long term sustainability of Australia's most important regulated entities.

Guerdon Associates suggests that CPS 511 prescriptions may not meet the objectives and key requirements of the Prudential Standard as stated on page 1 of the standard.

Regulated entities need flexibility not permitted under the draft standard

The situation facing an APRA-regulated entity at any point in time varies with each entity. Prescribing a universal pay framework does not allow entities to effectively respond to each specific situation. For example:

- An entity in dire financial straits has to attend to financial performance to survive[12]; or

- An entity under threat from non-regulated entities has to respond competitively, whether this be in terms of service pricing, customer experience, and/or technology investment; and

- An APRA regulated global entity with specified role category personnel employed outside Australia needs to, firstly, recruit and, secondly, retain the competence for a healthy, growing and sustainable business. Market practices outside Australia will vary from the requirements under draft CPS 511.

Remuneration frameworks complement strategies to achieve these various ends. Flexibility is needed to be suitably agile and responsive, and cater to the situation.

The need to be flexible and responsive also applies to executive positions that fall within the discussion paper's "responsible role" categories.

[11] Known in behavioural economics as hyperbolic discounting, whereby people would choose a "smaller sooner" reward over a "larger later" reward. See a simplified explanation at https://en.wikipedia.org/wiki/Hyperbolic_discounting. Unlisted entities will probably respond to the current version of CPS 511 by increasing fixed pay and reducing variable remuneration. This avenue would be denied listed entities due to institutional investor and proxy adviser guidelines. This also, in effect, impedes competitive neutrality.

[12] It is noted that APRA, despite prescribing an even split between financial and non-financial measures in CPS 511, gives pre-eminence to financial measures in its discussion paper (p.33), yet CPS 511 does not recognise this flexibility:
"APRA's view is that these issues can be managed through sound remuneration design, such as by limiting the weighting of non-financial measures in scenarios with adverse financial outcomes."

Some positions will need to focus more on non-financial risk and controls, others will need to focus more on customer outcomes, and others will need to focus more on generating sufficient financial margins within an acceptable risk appetite and protect capital integrity. It is highly unlikely each position will have a 50/50 focus on financial and non-financial measures, nor that every one of these positions will have a time focus of 6 to 7 years.

Guerdon Associates' Recommendations

Draft CPS 511 be modified to:

4. *Remove paragraph 38*
5. *Insert in its place drafting along the lines of the UK PRA Rule 15.4*[13] *which reads as follows:*
   *"An entity must ensure that where **remuneration** is performance-related:*
   1. *the total amount of **remuneration** is based on a combination of the assessment of the performance of:*
      a) *the individual;*
      b) *the business unit concerned; and*
      c) *the overall results of the entity; and*
   2. *when assessing individual performance, financial as well as non-financial criteria are taken into account."*

Emphasis on variable remuneration

Both the proposed CPS 511 and the discussion paper place much emphasis on *variable* remuneration. However, the definition at CPS 511 paragraph 16(n) may be confusing and so create compliance concerns.

An alternative is to remove references in the standard to *variable* remuneration, and instead require remuneration to have an appropriate balance of *curren*t and *deferred* remuneration.

The following discussion explains the problem, and the rationale for Guerdon Associates' recommended solution.

In the UK some entities provide for time vested deferred remuneration[14]. For listed entities this is usually in equity. If this is subject to malus, is it contingent on achieving objectives, and hence variable remuneration? It is. This would permit conservative remuneration frameworks, that may be appropriate for example to non-profits, that have lower risk thresholds, and do not necessarily want to encourage risk taking evident in other incentive frameworks.

It would be a concern if this example was not considered to be *variable* remuneration, as it would have the unintended consequence of delivering more pay as fixed remuneration without consequences for misconduct or unacceptable risk.

An alternative is to remove references in the standard to variable remuneration, and instead require remuneration to have an appropriate balance of current and deferred remuneration. The *deferred* remuneration, or a component of it, would be subject to malus. This would be suitable to not for profit entities. It may also feature in a remuneration framework for difficult-to-acquire talent who could be employed in other industries. These individuals could be provided with

[13] See http://www.prarulebook.co.uk/rulebook/Content/Chapter/292181/21-03-2019
[14] See page 68 of the 2018 RBS annual report, for example CEO received £1m pound as a 'Fixed Share Allowance'

deferred remuneration that would only be reduced in instances of undue risk-taking or misconduct.

Notwithstanding this, there is the prospect of some pressure from bank employees for higher fixed pay as the uncertainty of variable remuneration increases. Given our emphasis on transparency, reporting and evidence, APRA may wish to consider inserting an additional requirement that *"fixed and variable components of total remuneration are appropriately balanced"* (this is similar to UK PRA Rule 15.9(1)). It would be a requirement that remuneration reports justify the proportions, and provide evidence.

Guerdon Associates' Recommendations

Draft CPS 511 be modified to:

6. *Define variable remuneration as remuneration contingent on performance (including risk performance), rather than conditional on achievement of objectives[15];*
7. *Define fixed remuneration as remuneration being contingent on service[12]; and*
8. *Inserting an additional requirement similar to UK PRA Rule 15.9(1) that "fixed and variable components of total remuneration are appropriately balanced".*

Operational independence and conflicts of interest

Paragraph 34 of the proposed CPS 511 requires a triennial review of remuneration effectiveness by "operationally independent" persons. It is not clear what is meant by "operationally independent".

An inference could be that such a review can be undertaken internally by functional persons not in "operations", providing the reviewers are also experienced and competent. This could include HR and risk and control personnel. However, these functions are also subject to remuneration policies of the entity, and CPS 511 compliance requirements.

In addition, they report to individuals who are likely to be subject to CPS 511 compliance requirements, and who are also likely to be conflicted. Career earnings potential associated with reporting relationships make them conflicted and not independent (even if, operationally, they are, independent). Such vested interests could not make them free of conflicts of interest.

Guerdon Associates' Recommendations

It is suggested that draft CPS 511 modified to:

9. *Remove the words "operationally independent" from paragraph 34 of the proposed standard, and replace those words with either "independent" or "free of conflicts of interest".*

[15] Both these definitions would not capture remuneration contingent on time. For example, an agreed sum that would vest over time despite service or performance, say as a sign-on incentive. These are rare. They would also not capture remuneration that is discretionary (what the Americans would distinctly label a "bonus" under regulation S-K disclosure requirements).

Remuneration committee charters

Paragraph 28 of the proposed CPS 511 requires the remuneration committee charter to reflect the remuneration objectives of the entity.

Most charters do not currently reflect remuneration objectives, although several state the purpose of the committee.

Remuneration objectives may vary for subsidiaries, functional units and roles. They will vary from time to time to reflect business priorities. It would therefore be better to ensure committee charter longevity and improve organisation resilience, responsiveness, and sustainability if instead charters require a statement of committee purpose, with the review of remuneration objectives conducted on a regular basis. The remuneration objectives would then be the basis upon which effectiveness reviews are undertaken in accordance with paragraph 36(a) of the proposed standard.

Guerdon Associates' Recommendations

It is suggested that draft CPS 511 be amended to:

10. *Remove the words "The charter must reflect the remuneration objectives of the entity" from paragraph 28 of the proposed standard, and replace those words with "The charter must reflect the committee's requirement to review the remuneration objectives on a regular basis and ensure they reflect the entity's needs and that the effectiveness of the remuneration framework is tested against the objectives", or similar.*

Responses to consultation questions

Table 1. Responses to consultation questions

Remuneration framework	**Is triennially an appropriate frequency for conducting independent reviews of the remuneration framework?** Yes: • An elapsed period of time is necessary to discover, and measure, instances of misconduct or risk outcomes after remuneration may have been paid. Three years would be a minimum period for this to occur, and assess the extent that the entity's framework is able to respond. • Entities will employ an external reviewer to meet competence and independence requirements. Given some entities are small, and the cost of a valid review could be relatively high, 3 years is better than more frequent reviews. **What areas of the proposed requirements most require further guidance?** • Transparent reporting upon which APRA and external stakeholder assessment can be made.

	• The standards of evidence required for transparent reporting. • Transition timing and requirements to comply with the standard
Board oversight	Are the proposed duties of the Board appropriate? • Yes. They are consistent with existing standards. Are the proposed duties of the Board Remuneration Committee appropriate? • Yes. They are consistent with existing standards.
Remuneration design	APRA is proposing that financial performance measures make up at least 50 per cent of variable remuneration measurement and individual financial performance measures are limited to 25 per cent. Is this an appropriate limit, if not what other options should APRA consider to ensure non-financial outcomes are reflected in remuneration? • According to the draft standard, APRA does not require at least 50% of variable remuneration be determined by financial performance measures. The wording says "must not comprise more than 50 per cent". Hence to comply, financial performance measures could be zero percent of assessment. • The proposed limits are inappropriate, because they fail to consider organisational context. • It should be sufficient to replace paragraph 38 to require remuneration frameworks to take into account "financial and non-financial performance", as in the UK's PRA Rule 15.4, and then require transparent reporting providing evidence that these have been incorporated, balanced in a way suited to the organisational context, measured, rewarded, and that consequence management has been applied rigorously and consistently (see recommendation 5 above). • Alternatively, the requirement could be re-worded to require an entity to *"consider and demonstrate an appropriate balance of financial and non-financial performance measures, including, but not limited to, the money weighted average across all those in responsible role categories."* What would be the impacts of the proposed deferral and vesting requirements for SFIs? • As drafted, SFIs are defined on the basis of size. An assumption is that the underlying rationale for SFIs is sound. The Discussion Paper did not provide this. In its absence, it is suggested that SFIs be domestically systemically important institutions. Among ADIs for example, this would cover the largest 4 banks and the 2 largest regional banks. But it would not cover the 20 ADIs that are captured in the current sizing criteria. • All else being equal, it is expected that most SFIs will reduce variable remuneration and increase fixed remuneration to an extent that CPS 511's effectiveness in mute. This will be necessary in order to attract and retain critical and mobile skills from non-APRA regulated industries. The

exception will be KMP executives in listed SFIs due to shareholder prescriptions. As these are the most systemically important institutions an unintended consequence may be that the best talent will not end up running these institutions.

- The prescribed deferral and vesting requirements may not be appropriate in some contexts. For example:

  - the larger general insurers focus on short tail products with little longer-term exposure. For them, an appropriate vesting period may be 3 years (to reflect the business cycle), with clawback provision for misconduct risk extending to 7 years post vesting.

  - The top investment manager in a large superannuation fund may oversee a portfolio mix that includes illiquid infrastructure investments and derivatives, cash, bonds and equities of varying liquidity over a cycle. Longer vesting periods may be applicable to cover an economic cycle of, say 7 years, that tests the portfolio's abilities to meet member needs over a cycle.

  - Global SFIs, for example, may appoint someone locally from their global talent pool for a secondment period of 3 to 5 years. It may be difficult ot enforce clawback in their home country or next country of domicile.

  - Global SFIs may have to curtail offshore operations because their frameworks will be less competitive

  This could be addressed by removing the prescription, but requiring that vesting and deferral periods address the entity's business cycle and risk context. For example, UK PRA Rule 15.6 requires, firstly, that:

  "A *firm* must ensure that the assessment of performance is set in a multi-year framework in order to ensure that the assessment process is based on longer-term performance and that the actual payment of performance-based components of *remuneration* is spread over a period which takes account of the underlying business cycle of the *firm* and its business risks."

  And secondly UK PA Rule 15.19 requires that:

  "the length of the deferral period must be established in accordance with the business cycle, the nature of the business, its risks and the activities of the *employee* in question."

  - Once explicit in the regulation, the entity must provide evidence in its report that the vesting, deferral and clawback periods are aligned. If evidence is insufficient, APRA would require it be produced and, if inadequate, exercise its power to remove directors.

- For ADIs, what would be the impact of implementing these requirements in addition to the BEAR requirements?
- The impact would be significant in terms of administrative cost and complexity due to misalignment of definitions, deferral periods, applicability, eligibility and other factors. It would also be unnecessary, given that the extent of overlap would permit a degree of alignment with changes to the standard and/or changes to the BEAR.

- Would the proposals impact the industry's capacity to attract skilled executives and staff?

  Yes.

  - Many senior jobs are difficult to fill from domestic labour markets. Australia's current and proposed requirements are not a feature of US executive remuneration. This makes it very difficult for entities to attract suitable people from that market, yet because of skills acquired though 15 years of the Sarbanes Oxley Act, it is the world's best market for risk, finance and control expertise. For example, a holding lock on deferred STI is insufficient to defer tax for a US citizen or resident and vesting periods beyond 4 years are unknown. Canadian bank executives, while subject to reasonably long deferral, focus largely on financial and market measure outcomes.

  - The arguments above apply to regulated entities with responsible role category personnel domiciled in offshore markets, or entities that would otherwise consider growth into offshore markets to diversify risk, but for the need to pay competitively and cost effectively.

  - The larger superannuation funds are building in-house investment management capability. They compete with fund managers for talent, which typically reward on the basis of exceeding benchmarks, with no deferral.

  - Global insurers source talent usually from within their global talent pool, but will now face greater inward mobility constraints as their global remuneration frameworks do not accommodate the proposed standard.

  - These issues may be overcome to an extent by paying higher fixed remuneration and little or no variable remuneration. This would be an unintended and undesirable consequence of the standard.

Remuneration outcomes

What practical hurdles are there to the effective use of clawback provisions and how could these be overcome? Would requirements for longer vesting where clawback is not preferred address these hurdles?

- Misconduct, fraud or malfeasance could be a valid basis for contractual clawback. To continue to attract and retain employees, longer vesting periods will need to be offset by higher fixed remuneration, given lower cash flow and higher uncertainty.

- There will be difficulty complying as some incentive arrangements are "hard-wired" into existing employment agreements. It may take years to comply as it will depend on executive turnover.

What transitional provisions may be necessary for particular components of the new standard or for particular types of regulated entities?

	• There will be a cash flow impact for employees in special role categories impacted by longer vesting periods. There are various ways to address this, but it may mean that during the transition the proposed proportions for deferral for some categories are not met. • Clawback for some entities will not be possible under current employment agreements. Hence compliance would need to accommodate transitions over time to accommodate the appointment new employees under new contracts.

Transparency	What disclosures would encourage a market discipline in relation to remuneration practices?
	
	• Transparency is critical to Guerdon Associates' suggested approach. It would include a detailed description of policy and practice for responsible role categories. This will be accompanied with evidence for how the policy and practice is:
	  • Is aligned with the business cycle
	  • Promotes growth, sustainability and resilience
	  • Encourages today's occupants of "responsible role categories" to develop and maintain a sound legacy for their successors
	  • Adequately measures and rewards risk-adjusted financial outcomes (i.e. ex ante measures), risk management behaviours (i.e. conduct)
	  • Applies "consequence management" for less desirable performance and risk outcomes

Concluding remarks

Guerdon Associates trusts that our observations and suggestions are of value.

We would be pleased to respond to any queries you may have in relation to this submission.

Yours faithfully