

23 October 2019

[REDACTED]
Australian Prudential Regulation Authority
By email: PolicyDevelopment@apra.gov.au

Dear Ms Richards

APRA Consultation on CPS511 Remuneration

Thank you for the opportunity to make this submission to the Australian Prudential Regulation Authority (APRA) consultation on *CPS511 Remuneration*.

MyState Limited (MYS) is the Non-Operating Holding Company of a diversified financial services group listed on the ASX and is a leading provider of banking, trustee and wealth management services to customers across the country through our retail brands - MyState Bank and Tasmanian Perpetual Trustees.

MyState Limited was formed in September 2009 following the merger of MyState Financial, an authorised deposit-taking institution, and Tasmanian Perpetual Trustees (TPT), a trustee and wealth management company. On 1 December 2011, MyState Limited acquired The Rock Building Society (The Rock) based in Central Queensland. On October 6, 2014, following APRA authorisation MyState Financial changed its name to MyState Bank (MyState). On 30 September 2015 MyState Bank received regulatory approval to fully transfer all of the business undertakings of The Rock into MyState Bank Limited.

MyState Bank Limited is a member of the Australian Bankers Association (ABA).

Our submission specifically relates to CPS511 from the perspective of a smaller Authorised Deposit Taking Institutions (ADIs). The key points are as follows:

Proportionality of Regulation

Smaller ADI's offer relatively modest remuneration packages when compared to major bank ADI's. The structure of remuneration packages at smaller ADI's do not represent the typical remuneration structure in banking as depicted in APRA's discussion paper. This is reflective of the comparative scope and complexity of roles in a smaller ADI. Consequently the remuneration framework is more straightforward and with the exception of the most senior executives, variable remuneration is entirely made up of short term incentives delivered as a cash reward. These short term incentives represent a low proportion of the overall remuneration package, delivering outcomes typically between 2 and 10 percent.

The Banking Executive Accountability Regime (BEAR) provides deferral obligations for the variable remuneration of Accountable Persons, and adjustment mechanisms that may result in deferred remuneration being reduced or forfeited. MYS would be challenged by deferral and adjustment obligations beyond the scope of the BEAR.

The distinction between significant financial institutions (SFIs) and smaller entities is important proportionality methodology. MYS is encouraged by and supportive of the proposed inclusion of this new category of APRA regulated entity. This threshold assists to contextualise the sophistication and complexity of the small ADI within the Australian banking sector. In the absence of this carve out the cost implications for MyState would be substantial, and our ability to compete for resources, and attract and retain talent would be greatly constrained.

Remuneration Design

The proposed changes to remuneration design emphasise the limited application of financial measures to 50 percent. This prescriptive approach does not take into account the application of mechanisms such as modifiers, gateways and Board discretion. As they are not formulaic in nature, these options are difficult to quantify and apply to the relative weighting. A prescribed allocation to non-financial measures may also place a disproportionate emphasis on measures that are yet to be tested for validity overtime. A principles based approach that takes into account the strategy and priorities for the organisation and is embedded in and draws from the broader human resources framework would provide greater opportunity for the Board to assess *how* results are being achieved and adjust reward accordingly in direct response to conduct related matters.

In closing, MYS support the strengthening of remuneration frameworks with thought and understanding of the implementation impacts on smaller ADIs.

Yours sincerely

