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Policy and Advice Division

BY EMAIL [PolicyDevelopment@apra.gov.au](mailto:PolicyDevelopment@apra.gov.au)

**Re: Consultation on proposed remuneration standard  
Draft Prudential Standard CPS 511**

Pursuant to APRA's call for submissions on the draft prudential standard CPS 511 released on 23 July 2019, RACQ takes this opportunity to provide its views.

**About RACQ**

The Royal Automobile Club of Queensland Limited ("**RACQ**") is a mutual organisation, owned by its nearly 1.8 million members. RACQ was formed in 1905 as a motoring club to advocate on behalf of Queensland motorists. While advocacy on motoring issues remains a core function today, the RACQ group has diversified operations including APRA-regulated insurance and banking services through its wholly owned subsidiaries RACQ Insurance Limited and Members Banking Group Limited (previously QT Mutual Bank). RACQ is the 7<sup>th</sup> largest personal insurer in Australia by premium underwritten, the largest motor vehicle insurer in Queensland by number, and 2<sup>nd</sup> largest home insurer in Queensland. RACQ's banking operations date back to 1965 (through QT Mutual Bank) and while presently comparatively modest in size, they continue to grow significantly year on year.

RACQ is not a 'significant financial institution' under the proposed definitions under the draft prudential standard.

**Overview**

RACQ is broadly supportive of APRA's approach to the development of a prudential standard dedicated to remuneration. It suggests that such approach ought to be principles-based and avoid restrictive prescription which encroach on the private commercial relationship between an organisation and its employees. RACQ notes that regulation must balance the proposed gains against the burden imposed, and consider any possible unintended consequences. As a restriction on individual freedoms and in posing potential sanctions for non-compliance, regulation should go no further than is necessary and justified to redress the mischief in question. In this light, RACQ believes there to be opportunity to refine the draft prudential standard to best meet its objectives, reduce certain prescriptive elements, and moderate the imposition on Boards to enable them to best perform their intended governance functions.



Attached as **Appendix A** are adjustments to the draft standard proposed by RACQ, with explanation, for consideration by APRA. RACQ also provides additional commentary below. Attached as **Appendix B** is a summary of responses to the specific consultation questions raised by APRA.

#### **A. Remuneration Framework and extension to Contractors (paras 18 and 19)**

RACQ acknowledges the extension of the remuneration framework required under the draft standard to all employees of the regulated entity, the head of group and all related bodies corporate. RACQ notes however that under the draft standard the remuneration framework is required to extend to persons retained under contract, and contractors of a related body corporate. RACQ suggests that the extension of the remuneration framework to contractors (other than as provided for in paragraph 19(d) dealing with outsourced risk and financial services or services affecting the long-term soundness of an organisation where payment is based on performance) is onerous and excessive. At a practical level, payments to contractors are not treated as remuneration and are not captured through payroll functions, being dealt with through procurement and accounts payable functions.

RACQ suggests that the engagement of contractors ought to remain a procurement exercise under a procurement risk management framework, rather than falling within the governance of a remuneration framework.

#### **B. Review of the remuneration framework (paras 33 to 36)**

RACQ raises concern regarding the necessity of prescribing an independent review of the effectiveness of remuneration frameworks at least every 3 years, as proposed by paragraph 34 of the draft prudential standard. The complexity of remuneration frameworks will vary greatly across the financial services sector in their size, composition and complexity. A Board (or its remuneration committee) ought to assess the need for review and the regularity of that review having regard to the risks presented and the nature of the organisation and its remuneration framework, under its normal governance activities. It is suggested that a prescribed one-size fits all approach is unnecessary, and the question of how and when a Board informs itself ought to be a matter for the Board.

Ultimately, it is suggested that rather than prescribing an independent effectiveness review in a prudential standard, that such matters be left for the Board to assess and determine, and their manner of doing so could form part of APRA's usual risk supervisory visits.

#### **C. Remuneration Design (para 37)**

As noted by APRA in its discussion paper, variable remuneration in the financial sector organisations may involve long-term incentive (LTI) and short-term incentive (STI) components. RACQ notes however that outside of publicly listed organisations (and, in particular, in the mutual sector), LTI schemes may be rare, with variable reward limited solely to STI based on achievement in the year of performance. While partial deferral of



awarded incentives may be applied to a cohort of executives from a risk management perspective and to facilitate any malus adjustments (and as required by the *Banking Executive Accountability Regime*), the assessment of performance objectives and the award of incentives under an STI scheme is typically over a 1 year time horizon. In this light, RACQ emphasises the importance of the remuneration principles under the prudential standard considering the wide range of organisations that will be governed by it, and accommodate organisations operating without LTI. In this respect, RACQ notes with concern the requirement in paragraph 37(d) of the draft standard that variable remuneration arrangements “*must*” incorporate remuneration objectives being assessed “*in a multi-year framework over the entity’s business and strategic time horizon*”. Such requirements appear on their face to be incompatible with operating an STI only reward scheme which is assessed on achievement of objectives in the year of performance.

#### **D. Caps on Financial Measures (para 38)**

RACQ notes the prescriptive caps on the use of financial performance measures proposed in paragraph 38 of the draft standard. RACQ supports the concept of a balanced scorecard approach to the design of variable remuneration frameworks, consistent with its member focus as a mutual, and believes its current practices are largely consistent with the proposed measures. Nevertheless, it raises the following:

- (a) **Principle:** As a principle, the concept of prescribing how employees should be rewarded in a prudential standard encroaches on the private rights of citizens and the private commercial arrangements between an organisation and its employees. It is ultimately for an organisation and its Board to determine its culture, what it values and how employees ought to be rewarded in order to achieve its objectives. RACQ therefore does not support regulatory prescription as to how an organisation should remunerate its employees, including regulating the types of components used in variable reward programs.

Moreover, RACQ foresees many practical challenges in defining and applying prescriptive rules of this nature, as outlined below.

- (b) **Scope and Threshold:** RACQ suggests that proportional caps on financial measures used in variable remuneration should be limited to variable remuneration above a threshold amount or threshold percentage of salary. Considerations regarding the design of a remuneration framework for a long-term incentive scheme, are very different from considerations in the operation of a back of house bonus, profit share or rewards scheme for staff. The extension of proportional caps to any and all forms of variable remuneration would mean that rewards of an insignificant nature and amount, and which conceptually are perfectly appropriate, would be rendered unlawful.

RACQ would propose a threshold of \$50,000 be utilised in this context, consistent with paragraph 55 of the draft standard and the threshold in s37ED(1)(b) of the *Banking Act* as amended by BEAR. Alternatively, the proportional caps on financial measures



could be expressed as applicable to variable remuneration which equates to 20% or more of an employee's total remuneration.

- (c) **Volume:** RACQ suggests that the term “volume” in sub-paragraph (a) defining financial measures would be better expressed as “customer sales volume” (or something to similar affect) to tie the reference to the sale of products or services to customers. RACQ notes that the term “volume” by itself could apply to any range of non-customer or non-sales related outcomes, such as:
- volume of clicks on an online ad campaign as the determinant of an STI for an internal marketing department of a financial institution;
  - volume of credit checks completed or loan applications processed by back of house staff as the determinant of an STI for processing staff of an ADI;
  - volume of risk assessments undertaken by risk and compliance personnel of a financial institution as the determinant of an STI for the risk and compliance department of a financial institution;
  - volume of home visits to prospective customers made as the determinant of an STI for a mobile banker.

It is suggested that such non-sales related volumes ought properly be considered non-financial measures.

- (d) **Profit and Costs:** It is unclear whether cost control or cost reduction is caught by sub-paragraph (a) given its impact on profit? Conceptually, should operating within a budget or being financially efficient be considered a financial measure, and as a principle ought not that be strongly encouraged as being of benefit to shareholders and ultimately customers? RACQ suggests that revenue alone, without the reference to profit, may be better.
- (e) **Variable Remuneration:** The scope of “variable remuneration” is unclear. The design of paragraph 38 appears based on LTI/STI schemes, where the receipt of a portion of an employee's remuneration is at risk based on achievement of a series of objectives or targets. However, are bonuses also intended to be captured - ie a one-off reward awarded on a discretionary basis *after* a specific achievement rather than pre-set objectives? Are commissions intended to be included? Is profit share included? Does variable remuneration only cover financial remuneration (such as cash and equity) or are non-financial rewards also captured (such as extra annual leave, a gift certificate, points that can be used to purchase goods or certificates, a holiday, a car)? The nature of prescribed rules is such that questions arise as to the precise scope and application of the rules, requiring clarity.

RACQ highlights the following examples:

**Example 1**

*Employee X works in the marketing department of an ADI. The employee does not deal with customers and there is no formal incentive program. After extensive work*



*Employee X secures a long-term advertising contract with a TV channel significantly under budget, reducing previous costs to the ADI which goes straight to its profitability. Employee X's manager wishes to give Employee X a \$500 bonus as a gesture of recognition and reward for the outcome achieved. Is this prohibited as variable remuneration wholly determined on the basis of profit? If so, conceptually why should it be?*

*What if it was the same scenario but instead of a bonus there was an STI program set at the beginning of the financial year and this was the sole objective for the department on which STI was awarded? Is this prohibited as variable remuneration wholly determined on the basis of profit? If so, conceptually why should it be?*

*What if in the above example Employee X was rewarded with a bonus or STI because the marketing campaign designed by the employee reached a broader audience and resulted in a 10% uplift in new mortgages? Is this prohibited as variable remuneration wholly determined on the basis of revenue or volume? If so, conceptually why should it be?*

#### Example 2

*An ADI operates a reward and recognition points program where employees and managers can nominate co-workers for the high standard of their work or behaviours. Points can be redeemed for gift vouchers or goods. Employee X works in the back office of the ADI processing loan applications. The employee is nominated because they processed 20% more loan applications than usual and is awarded points equivalent to a \$500 gift card. Is this prohibited as variable remuneration wholly determined on the basis of volume? If so, conceptually why should it be?*

- (f) **Application to non-customer related financial metrics:** Similarly, RACQ queries more broadly whether financial metrics which are non-customer related, ought to fall in the same category as financial metrics generated from customer dealings. The draft standard appears premised on customer outcomes, or that profit only comes at the expense of customers. There may be a large range of support roles in an organisation which are not customer facing but which contribute to the achievement of an organisation's objectives and are incentivised in some manner.

Illustrations include:

- a support function operating below a budget (profit);
- an audit team undertaking a specific number of audits (volume);
- an insurance recovery officer achieving successful recovery of monies paid to an insured customer from the insurer of an at fault party that caused the loss to the insured customer (revenue; profit)
- a marketing team generating a set number of leads from an advertising campaign (volume)



- a technology team implementing a new system under budget (profit) or redesigning the claims processing system which expedites the time and resources for insurance claims handling (profit),
- a finance team obtaining a favourable tax ruling from the Australian Tax Office (profit) or improving payment terms on accounts payable from major suppliers (profit).

(g) **Application to operations outside of the finance sector:** Paragraph 38 of the draft standard proposes to implement certain restrictions on variable remuneration of an APRA regulated entity, including the head of group. RACQ suggests however that consideration be given to limiting the application of paragraph 38 to the finance sector operations of an APRA-regulated entity (ie regulated activities). Employee rewards in operations outside the finance sector may accord with relevant industry practice and be appropriate, irrespective of those operations taking place within an APRA-regulated entity. Extending such prescriptions uniformly would put diversified organisations at a competitive disadvantage in their non-finance sector operations and jeopardise talent attraction and retention.

A prime illustration of this is the operation of a retail travel business within an APRA-regulated entity or head of group. It is common in the travel industry that travel consultants receive a commission based on sales as part of their remuneration. However, the operation of paragraph 38 would appear to prohibit such commission as being variable remuneration exclusively based on revenue. The inability to remunerate travel consultants consistent with industry practice may limit the ability to operate such businesses effectively and ultimately require either divestment, corporate restructure or cessation, reducing market competition. It may be however that the insertion of a threshold or restriction on what forms of variable remuneration are caught by the provision may alleviate such concerns.

(h) **Conclusion**

The setting of objectives is specific to an organisation and the particular function. While RACQ acknowledges the principle behind the prescription in paragraph 38, concern exists as to the very broad expression of that principle and its highly restrictive nature in practice in areas that may be unintended. While measures appear designed with LTI schemes in mind and are suited to that type of variable reward (which is often of no relevance to mutual organisations like RACQ), the extension to other forms of contingent or variable remuneration is highly problematic and will pose a range of challenges and onerous restrictions which may prohibit conceptually appropriate reward. If retained, RACQ suggests that consideration should be given to the application of a threshold and the scope and definitions of the prescriptions.



## **E. Remuneration Outcomes (paras 41 to 45)**

RACQ supports a principles-based approach to prudential standards. It therefore raises concern as to the prescriptive nature of certain provisions of the draft standard. In particular, the designation of specific minimum criteria for malus in sub-sections (a) to (e) of paragraph 44, and the obligation in paragraph 45 to “appropriately reduce” deferred variable remuneration when any of the criteria specified arise, is considered highly prescriptive. RACQ suggests that the prescriptive nature of the draft standard may interfere with the appropriate discretion to be exercised by a diligent Board<sup>1</sup>. RACQ suggests that the criteria for malus specific to an organisation, and the decision when to apply it, ought to be left exclusively in the hands of Boards, without prescribing mandatory malus requirements.

A related concern arises as to whether it is intended that a Board exercising its discretion as to whether or not to release deferred incentives, or whether to withhold all or part for malus, should be open to review or challenge by APRA or other parties as to whether an appropriate withholding was made under paragraph 45 of the draft standard. Prescribing that certain steps “must” take place to “appropriately reduce” when the specified criteria in paragraph 44 are triggered raises this prospect, and therefore creates uncertainty. It is suggested that such matters ought to be for the Board in its absolute discretion, and ultimately the shareholders to whom the Board answers (or in RACQ’s case, its members).

## **F. Special Role Categories (paras 46 to 52)**

Paragraphs 46 to 52 of the draft standard govern the oversight of remuneration for persons in special role categories. RACQ has concerns regarding the Board requirements for “risk and financial control personnel”. Paragraph 48 of the draft standard provides that the Board Remuneration Committee must assess and make recommendation to the Board annually on the remuneration arrangements and variable remuneration outcomes for risk and financial control personnel on a “collective basis”. RACQ supports this approach. However under paragraph 50 of the draft standard, all variable remuneration of risk and financial control personnel must be “approved” by the Board. As currently expressed, that is irrespective of how junior the employee may be or how immaterial the variable remuneration may be. RACQ suggests that this is onerous and excessive. It would require Board attention and approval for persons where incentives may be insignificant in both amount and as a proportion of their remuneration, and risks turning such matters into a tick box exercise because of volume. Such matters should properly fall within the control of management of the APRA-regulated entity, and in particular the Chief Risk Officer and CEO. Moreover, this level of depth and granularity in an organisation reduces the effectiveness of the review and risks distracting the Board from giving appropriate attention to those whose variable remuneration does warrant careful consideration - in essence, risks missing the wheat from the chaff. RACQ suggests that paragraph 50 ought to be tied to a concept such as “accountable person” or “fit and proper”, or be qualified to refer to risk and financial control personnel where variable remuneration “forms a significant proportion of their

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<sup>1</sup> Akin to mandatory sentencing encroaching on appropriate judicial discretion.



remuneration". Alternatively, a specific threshold dollar amount or percentage could be stipulated.

Paragraph 51 of the draft standard regulates the considerations for the variable remuneration of risk and financial control personnel. In particular, sub-paragraph (c) provides that variable remuneration is "*not influenced by the performance of the business activities they control*". It is a core principle of variable remuneration that the interests of the individual and of the business are tied together. RACQ suggests that while it is appropriate that the Chief Risk Officer's variable remuneration be free from influence based on the performance of the business, extending this to all risk and financial control personnel may be considered unnecessary and excessive, and undermines the purpose of variable remuneration. RACQ suggests that tying a portion of variable remuneration to the "corporate" outcome remains appropriate. If paragraph 51 is to apply to all risk and financial control personnel, RACQ suggests that given its absolute nature sub-paragraph (c) is not appropriate.

Alternatively, RACQ would propose qualification of the restriction to "*not unduly influenced*", which would achieve the regulatory goal while still providing the flexibility to incorporate weighting to corporate outcomes.

Furthermore, RACQ also queries whether risk and financial control personnel actually "*control*" business activities, and would seek guidance as to what is intended.

#### **G. Deferral and clawback for significant financial institutions (paras 53 to 59)**

As noted, RACQ is not a significant financial institution based on current definitions. Nevertheless, RACQ has an interest in ensuring a fair and healthy financial industry, and recognises that the impacts on significant financial institutions will inevitably trickle down to all participants in the industry, including smaller participants. Furthermore, certain provisions of the draft standard (such as the right of clawback) would require explicit adjustment to contracts of employment between the financial institutions and relevant employees, which cannot easily be done with existing employees. As the threshold definition of an SFI may change in the future, or a financial institution which is not presently an SFI may grow to become an SFI in the future and therefore be bound by the additional SFI obligations, this may force all financial institutions to pre-emptively consider contractual adjustments.

RACQ's view is that:

- (a) The onerous obligations on SFIs in the draft standard will have a material adverse impact on the use of variable remuneration in the financial services sector. So much is acknowledged to a degree by APRA on page 8 of its discussion paper. Consequently, such measures are likely to place upwards pressure on fixed remuneration, not just for SFIs directly impacted by the obligations, but in turn all other financial institutions who are competing to attract and retain the same talent pool.





Moreover, the erosion of the benefits associated with the use of variable remuneration are significant as an industry. Variable remuneration serves to put a portion of employees' total remuneration "at risk", tying the interests of the employee to the interests of the organisation and its shareholders. When outcomes are down, including financial performance of the organisation, the reward to employees is reduced through the loss of all or part of their at risk remuneration. Such principles are at the heart of a performance driven culture. The reduction of variable remuneration will limit the levers available to Boards, and limit the consequence of poor behaviours or outcomes. The impact of lessening the use of at risk remuneration will be negative for organisations, for shareholders, and ultimately for consumers. RACQ suggests that this is contrary to the stated objective of aligning remuneration frameworks with the long-term interests of entities and their stakeholders.

Ultimately by imposing prescriptive rules on variable reward to impose greater risk based outcomes, the prudential standard may perversely reduce risk based outcomes by driving a great proportion of fixed remuneration.

- (b) The extension of incentive deferrals is likely to have an inflationary impact on remuneration, given the uncertainty over ultimate receipt. If variable remuneration is maintained but put at greater risk, a risk premium may attach.
- (c) The mandatory lengthening of incentive deferral obligations, and clawback obligations, will likely inhibit, if not preclude, international executive recruitment. This will limit recruitment pools and dampen the benefits experienced through the introduction of new ideas, international best practice and innovation. Alternatively, fixed remuneration will significantly increase for international executives, reducing the ties between the executives and outcomes, and damaging Boards' abilities to moderate remuneration outcomes for underperforming executives. This is ultimately to the cost of shareholders and consumers.
- (d) The use of clawback to paid incentives is fraught with uncertainty. The legal and taxation implications are unclear, in that while on one hand the incentives have vested and been paid, they remain contingent in nature because of the ability to require repayment or forfeiture. Seeking recovery is likely to have significant legal and taxation implications. It will inevitably result in litigation. There would be significant potential for financial hardship given the likelihood that received incentives have been expended and are no longer available for repayment.

RACQ suggests that once money has been paid and taxed, it ought to be considered sacrosanct and not subject to ongoing contingency. Deferral periods prior to payment provide sufficient opportunity for organisations to obtain satisfaction that adjustment is not required. If uncertainty exists in a particular circumstance, an extension of the deferral period is the appropriate recourse until a decision can be made.

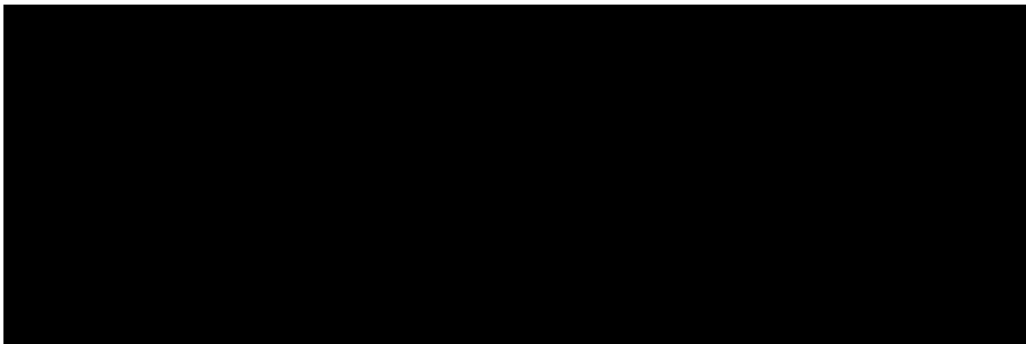
Alternatively, claw back ought to be limited to equity interests.



- (e) RACQ suggests that an entity which is not an SFI, but which grows to become an SFI, should have a transition period (minimum of 2 years) in order to comply with the SFI specific obligations. As noted, there are significant contractual changes required, together with incentive scheme design changes. Immediate application on becoming an SFI would be highly problematic and be likely to result in regulatory non-compliance. The draft provisions may therefore provide a disincentive for growth in the financial sector.

RACQ thanks APRA for the opportunity to express its views on draft prudential standard CPS 511. If desired, we would be pleased to discuss matters with APRA in person or to further elaborate on any of the issues raised. This correspondence is endorsed by the CEO of RACQ Bank and CEO of RACQ Insurance.

Yours sincerely,





## Appendix A: RACQ Submitted Changes to draft CPS 511

Paragraph	Proposed change	Discussion / Rationale
19(b)	Delete	RACQ suggests that the remuneration policy should cover the employees of an organisation, rather than contractual payments to contractors.
19(c)	<i>“employed by, <del>or a contractor of a body corporate (including a service company) that is a related body corporate ...”</del></i>	As per comments above.
24	<i>“<del>The Board must establish a formal process for the Board Remuneration Committee (or a representative thereof) shall to consult the Board Risk Committee and Chief Risk Officer or person in a similar role, to enable risk outcomes to be appropriately reflected in remuneration outcomes for persons in special role categories”</del></i>	RACQ suggests that it is the consultation, rather than the process by which the consultation takes place, that is pertinent.
34	<i>“In addition to the annual review of compliance, an APRA-regulated entity must ensure that the effectiveness of the remuneration framework is subject to a comprehensive review <del>by operationally independent, appropriately experienced and competent persons at least every three years at such intervals as considered appropriate by the Board Remuneration Committee.</del>”</i>	RACQ suggests that the regularity of the review, and the person performing the review, are matters for the organisation and the Board Remuneration Committee.
37(d)	Delete	The prudential standard must accommodate different forms of variable remuneration and differences between listed, non-listed and mutual organisations. RACQ suggests that while sub-paragraph (d) may be relevant for long-term incentive schemes, it is not appropriate for organisations operating solely with short-term incentive schemes



		assessed based on achievement of objectives over a 1 year timeframe.
38	<p>Revise to:</p> <ul style="list-style-type: none"> <li>• Insert minimum threshold for application – variable remuneration of \$50,000 or more</li> <li>• Re-consider the term “volume”</li> <li>• Remove “profit” as relevantly covered by “revenue”. Alternatively, clarify whether profit includes cost reduction / cost control</li> <li>• Clarify whether variable remuneration extends to bonuses and commissions (although this may be negated by a threshold)</li> <li>• Consider whether financial measures for the cap be limited to customer related financial measures, to excluded non-customer financial measures</li> <li>• Consider exclusion of non-finance sector operations</li> </ul>	RACQ suggests that the practical application of paragraph 38 requires broader consideration. While the provision appears designed for long-term incentives, the draft standard appears to encapsulate many other forms of variable remuneration.
44	Delete the provision from “including” onwards	RACQ suggests that a Board should set the specific criteria for the application of malus based on the particular organisation, rather than have criteria prescribed.
45	Delete	RACQ suggests that a Board should determine if and when to exercise its discretion to apply malus, rather than be obliged to do so in specified circumstances.
50	<i>“The Board or relevant oversight function must approve the variable remuneration outcomes for persons in special role categories <u>where variable remuneration forms a significant proportion of the person’s remuneration</u>”.</i>	RACQ suggests that a requirement for the Board to approve variable remuneration outcomes of each and every risk and financial control personnel is onerous and excessive.



	Alternatively, RACQ would suggest adoption of a threshold of 20% variable remuneration or \$50,000 in variable remuneration before Board approval would be required.	
51(c)	<p>RACQ would submit that the paragraph be deleted.</p> <p>Alternatively, RACQ proposes: <i>“(c) are not <u>unduly</u> influenced by the performance of the business activities they control”</i></p>	It is a core principle of variable remuneration that the interests of the individual and of the business are tied together. RACQ suggests that tying a portion of variable remuneration to the corporate outcome remains appropriate.
53-59	RACQ suggests that a transition period of at least 2 years apply for an entity that newly becomes a SFI for the SFI specific provisions to apply.	As RACQ is not a SFI on the current proposal, while it raises concerns in the body of this document it has not considered the drafting, other than to raise that for an entity that becomes an SFI reasonable time will be needed to revise employment contracts and remuneration frameworks in order to comply with the provision.



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## Appendix B: Summary of Responses to Specific Consultation Questions

	Questions	Response
1.	Is triennially an appropriate frequency for conducting independent reviews of the remuneration framework?	RACQ's view is that it ought to be a matter for an entity's Board as to how and when it informs itself to ensure that its functions are met, rather than prescribing a one size fits all review and timeframe.
2.	What areas of the proposed requirements most require further guidance?	The concept of variable remuneration to which paragraph 38 applies requires further guidance (does it extend for instance to employee benefits programs, such as gift cards), as does the meaning and application of the measures in 38(a). The concept of "volume" is particularly problematic as volume may extend well outside financial performance. Other areas of guidance that would assist include: (a) what APRA considers to "appropriately reduce" in para 45; (b) how the concept of a "multi-year framework" in para 37(d) should be considered in STI only schemes which operate over a 1 year time horizon; and (c) whether the obligation in para 51(c) means that the variable remuneration of risk and financial control personnel cannot in any way be based on corporate level metrics, or whether there is an acceptable percentage that APRA considers wouldn't result in "influence"; what extent of "control" is necessary for this obligation to operate.
3.	Are the proposed duties of the Board appropriate?	RACQ's view is that, as currently drafted, the prudential standard is onerous and beyond the usual functions of the Board. In particular, paragraph 50 requiring "approval" of the variable remuneration "outcome" for all special risk category employees, which includes all risk and financial control personnel, would displace senior manager responsibility and detract from the focus of the Board on key management personnel.  Similarly, RACQ has concerns around the wording in paragraph 45 and the obligation (use of



		the word “must”) to “appropriately reduce” deferred variable remuneration in specified circumstances, removing the discretionary nature of the Board’s consideration, and whether this leaves Board’s decision making open to challenge by APRA or others.
4.	Are the proposed duties of the Board Remuneration Committee appropriate?	<p>RACQ notes that there appears to be a disconnect between para 48(c), where the consideration of the BRC is at a collective level, against the Board responsibility to approve outcomes in paragraph 50.</p> <p>Further, RACQ does not consider it necessary or appropriate for the remuneration framework overseen by the BRC to extend to contractors – this is not typically the function of the BRC and remuneration frameworks, and is better addressed under procurement and risk management frameworks.</p>
5.	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?	While a balanced scorecard approach is supported by RACQ, its view is that, at a conceptual level, regulating how variable rewards are calculated is an unnecessary intrusion on the private commercial arrangements between an organisation, and that such matters ought to be determined by Boards. RACQ sees that there will be considerable difficulty as an industry applying prescriptive rules of this nature. Concerns arise as to the scope of variable remuneration that appears to be caught (profit-share, commissions, bonuses, employee benefit programs) and the absence of any <i>de minimis</i> exclusion or threshold under which the prescription does not apply. The concepts appear designed based on LTIs, not STIs or other forms of reward. Consistent with risk-based principles, RACQ would suggest a threshold of variable reward under which the prescription would not apply – such as \$50,000 variable reward or 20% of total remuneration.
6.	What would be the impacts of the proposed deferral and vesting requirements for SFIs? For ADIs, what would be the impact of	RACQ is not an SFI, as currently proposed. However, RACQ anticipates impact throughout the financial services industry on talent attraction and retention, including a potential inflationary impact on fixed remuneration (reflecting a partial shift from variable towards fixed). In seeking to impose rules on variable remuneration in the pursuit of risk adjusted



	implementing these requirements in addition to the BEAR requirements?	outcomes, the prudential standard may drive fixed remuneration and therefore lessen risk adjusted outcomes, inhibiting a Board's ability to adjust remuneration for outcomes.
7.	Would the proposals impact the industry's capacity to attract skilled executives and staff?	RACQ expects an adverse impact on international recruitment, to the detriment of the Australian industry. RACQ also expects an adverse impact on attraction and retention for senior executives who are not by their nature tied to the financial services sector, resulting in a loss of talent for the industry.
8.	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?	RACQ has concerns over the legality and taxation implications of clawbacks, likely to result in litigation. RACQ considers the point of payment should be regarded as sacrosanct. If clawback considerations are necessary, for practical reasons they ought to be limited to equity interests. RACQ considers deferral periods facilitating malus adjustments ought to be sufficient risk protection, and if a Board cannot be certain whether a risk may manifest at the time the deferral becomes due for payment, the preferred approach would be to extend the deferral period until the decision can be made, rendering clawback an unnecessary concept. Noting the extended deferral periods, the deferred amounts available for malus adjustment plus the in-year award are ample, ultimately equating to 260% of an executive's variable reward (4 x 40% deferrals plus 100% of in-year award).
9.	What transitional provisions may be necessary for particular components of the new standard or for particular types of regulated entities?	RACQ believes a transitional provision of at least two years would be appropriate for non-SFIs when they newly become an SFI. Significant changes would be necessary to the remuneration framework of the organisation, and to contractual relationships with executive staff, to facilitate compliance with the SFI obligations
10.	What disclosures would encourage a market discipline in relation to remuneration practices?	RACQ considers existing disclosure obligations adequate and does not consider any additional disclosure obligations to be necessary