BlackRock

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General Manager
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Policy and Advice Division
Australian Prudential Regulation Authority

Submitted via email to: PolicyDevelopment@apra.gov.au

Dear APRA

RE: Strengthening prudential requirements for remuneration

BlackRock Investment Management (Australia) Limited (**BlackRock**) welcomes APRA's continued initiative to strengthen prudential requirements for remuneration. We have considered APRA's response paper and updated prudential standard for remuneration (Draft CPS 511) which has been released for further consultation following the initial consultation released in July 2019. We refer to BlackRock's submission to the initial consultation available on APRA's website.

As previously stated, BlackRock's view of remuneration is that its key purpose is to attract, reward and retain executives and other staff who are fundamental to the long-term sustainable growth of shareholder value, with reward for executives contingent primarily on controllable outcomes that contribute to long-term sustainable value creation.

In the previous iteration of the consultation, from BlackRock's perspective, we found the prescriptive hard limit was the item that raised the most concern as outlined in our response. In the revised Draft CPS 511 consultation, APRA is instead proposing a focus on non-financial risks, by requiring entities to give material weight to these measures in remuneration design. BlackRock welcomes this shift from a fixed demarcation of financial and non-financial risks as these risks are symbiotic and should be embedded throughout a firm's strategy. We favour the shift to a principles-based approach, rather than more prescriptive regulation to protect against a 'one-size fits all' approach, which could potentially lead to unintended consequences.

With regard to the question, "What principles should inform the types of information required to be disclosed for prudential purposes?", as discussed in our original response, BlackRock recommends regulatory guidance that aims for financial measures to constitute a majority of metrics as these are quantifiable, measurable, and importantly reflect the company's financial success and/or viability. We expect that variable pay should also be based on multiple criteria and not incentivise excessive risk taking beyond the company's determined risk appetite. Within this context, we are wary of using only "output" metrics such as earnings per share or total shareholder return. Our preference is for "input" metrics as these are within management's control. Furthermore, we believe that non-financial metrics, which have the potential to become significant financial risks over the longer term, should also be measurable and quantifiable.

We support incentive plans that foster long-term sustainable value creation. Whilst companies should identify those business relevant performance measures most directly tied to its strategic objectives and shareholder value creation, the emphasis should be on those factors within management's control to create economic value over the long-term.

We expect issuers' public disclosures to be the primary mechanism for companies to explain their executive remuneration practices. We would also recommend that companies explicitly disclose how incentive plans reflect strategy and incorporate drivers of long-term shareholder value; this discussion should include the rationale for selecting those metrics and the timeframes by which shareholders should assess performance. We will hold members of the relevant committee, or the most senior non-executive director, accountable for inadequate disclosures and the business practices underlying them. For further information on our approach to remuneration, please see: https://www.blackrock.com/corporate/literature/publication/blk-commentary-our-approach-to-executive-compensation.pdf.

More broadly, since our last response, we have seen a significant increase in appetite and need for convergence of different reporting frameworks for sustainability reporting generally. International accounting and auditing standards setters have issued guidance that climate risk may be material for some companies and, if so, should be reflected in financial reporting under existing standards.

However, the proliferation of disclosure initiatives, many of which are overlapping, has led to duplicative efforts by reporters and a lack of consistent and comparable data. We believe that this could be resolved by aligning and converging to establish a globally recognized sustainability reporting framework and set of standards. Ideally, these would be developed by those with domain expertise in the private sector and supported by public policy makers as they move to require more comprehensive corporate reporting. We believe KPIs tied to sustainability targets could be included in the non-financial metrics used to determine total compensation.'

BlackRock strongly supports convergence to achieve a globally recognized and adopted approach to comprehensive reporting. BlackRock will continue to advocate for TCFD and SASB-aligned reporting until a global standard is established. In the meantime, we expect companies to accelerate their efforts to publish sustainability data and contextual information under existing frameworks and standards. Further discussion on this topic can be found here: https://www.blackrock.com/corporate/literature/publication/blk-commentary-sustainability-reporting-convergence.pdf.

We hope these comments are helpful to APRA's deliberations. We appreciate the opportunity to address and comment on the issues raised by the Discussion Paper and will continue to work with APRA on any specific topics which may assist in the discussions of revising the Remuneration Framework.

Yours faithfully,

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