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Via email: Policy.Development@apra.gov.au

Date: 22.01.2021
Your ref.: [Reference]
Our ref.: [Reference]

APRA consultation on remuneration requirements

We refer to the second consultation on remuneration requirements for all APRA-regulated entities (CPS 511), published by the Australian Prudential Regulation Authority (APRA) on 12 November 2020. We appreciate the opportunity to contribute our perspective and will focus on remuneration of the chief executive of significant financial institutions specifically.

Norges Bank Investment Management (NBIM) is the investment management division of the Norwegian Central Bank and is responsible for investing the Norwegian Government Pension Fund Global. NBIM is a globally diversified investment manager with 24.4 billion AUD invested in equities in Australia as of the end of 2019. We are a long-term investor, working to safeguard and build financial wealth for future generations.

Our starting point is that a CEO's remuneration package should 1) be driven by long-term value creation and 2) align CEO and shareholder interests[1]. To achieve this, we recommend a simple approach where part of the total annual remuneration is paid in cash and a substantial proportion of the total annual remuneration in shares of the company, locked-in for five to ten years. The lock-in should be maintained beyond resignation or retirement. Requiring the CEO to invest a meaningful part of his or her remuneration in locked-in company shares is a transparent way of aligning the interests of the CEO with those of shareholders and the wider society.

The revised CPS 511 captures key aspects of our position, by requiring at least 60 per cent of the CEO's total variable remuneration to be deferred over a minimum period of six years. We note the reduction from seven years in the original proposal but believe that a minimum of six years will in a meaningful way capture the sustained outcomes of managerial decisions, especially when the equity lock-in is required to stay in place for the originally set period when the CEO steps down.

We share many of the concerns with financial metrics in long-term incentive plans[2] (LTIs). As an alternative to mandating non-financial measures alongside financial ones in LTIs, we

[1] CEO Remuneration. Position Paper, 2017
[2] See Asset Manager Perspective 1-17

suggest that APRA specifically makes it clear that equity deferral can be provided without further performance conditions. This can be arranged either as deferral of annual bonus into equity or as restricted shares. We are of course fully in support of clawback in the rare cases of wrongdoing.

For annual bonus schemes, we trust boards to determine which performance criteria are most appropriate. In many cases this will include non-financial indicators which should be relevant for value creation, transparent and objectively measurable. Our experience as a shareholder in the Australian market indicates that some non-financial indicators measure the performance of routine tasks. Moreover, the indicators may not vary with achievements in ways that are suitable for bonus assessment. When the board applies such criteria, a large responsibility lies with the board to explain the incentives to shareholders and how they relate to value creation.

We have also seen instances where boards use discretion to adjust annual bonuses in light of weak financial performance. Hence, while formal criteria ex ante emphasised non-financial measures, boards ex post saw a need to take financial outcomes into consideration to a stronger degree than anticipated by pay models. This again demonstrates the need for simple and transparent remuneration pay policies that are driven by long-term value creation and align management and shareholder interests.

We thank you for considering our perspective and remain available for further discussion.

Yours sincerely

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Chief Governance and Compliance Officer

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