AUSTRALIAN INSTITUTE of SUPERANNUATION TRUSTEES

23 July 2021

[redacted]
General Manager, Policy
APRA
GPO Box 9836
Sydney, NSW
2001

Email: [redacted]

Dear [redacted]

Re: Consultation – Draft Guidance on Remuneration

> **In brief:**
> *AIST broadly supports the draft Guidance on Remuneration but has identified areas of concern related to how funds with no clawback or deferral (because of no variable remuneration) will meet APRA's expectations regarding consequence management.*

Overview of submission

AIST's organisational purpose is to advocate for the financial wellbeing in retirement for all Australians. We do this by advocating for public policy which promotes the best interests of Australian superannuation account holders and by providing professional development for trustee directors, fund staff and other professionals in the sector.

AIST has engaged our membership on the APRA draft Guidance on Remuneration (CPG 511), and we were pleased to make a submission on the consultation. There is one broad area where we have concerns with the contents of the Guidance and this is in regard to the demonstration of consequence management in the case of no clawback or deferral:

- It is unclear how consequence management is expected to be demonstrated in cases where neither clawback nor deferral apply. The Guidance and Standard are silent on this and this gap needs to be filled for industry to ensure that it meets regulatory expectations on consequence management.

Specific comments

Board remuneration committee

While the Board of a non-SFI is not required to establish a Remuneration Committee, they must put in place arrangements to meet the requirements of CPS 511 and ensure that due consideration is given to the oversight of the remuneration framework and key remuneration decisions (paragraph 10). Greater clarity is sought on what 'due consideration' is.

Specified roles

Specified roles are defined in CPS 511 and are intended to capture those individuals and cohorts who can have a material influence on the performance and risk profile of the entity, in both the short and long-term. The Guidance indicates that specified roles comprise executive directors, senior managers, material risk-takers and all risk and financial control personnel.

There is concern that 'all risk personnel' is too broad a category – and should be further defined. If it is left as it is then this would be unworkable. One option would be to refine it by specifying that it refers to personnel responsible for material risks.

Material risk-takers

Paragraph 29 discusses deferral requirements for highly paid material risk-takers. In addition to this, the Guidance states that good practice would be for an entity to also monitor and include material risk-takers with remuneration *close to* the $1 million level. It would be helpful if the Guidance was more specific about what 'close to the $1 million level' meant.

Risk and financial control personnel

The Guidance has specific measures for risk and financial control personnel. It appears arbitrary that these staff members are singled out. It is recommended that this be removed.

Remuneration design

The definition of variable includes elements that are not performance or risk based but rather are recognition of loyalty and service – two elements that enable funds to use extensive knowledge and skill to deliver services to members and are unrelated to risk taking or performance. It is common practice for funds to give gift vouchers for long service. It is not clear why this activity should be deferred or could be deferred.

Defining non-financial measures

Table 3 provides illustrative examples of non-financial measures including risk culture surveys, beaches, customer complaints and employee engagement. AIST believes that it will be challenging to give appropriate weight to the range of financial, non-financial, and conduct risks as well as best financial interests of beneficiaries and other broader indicators.

Paragraph 50 states that "a prudent entity would be able to demonstrate how non-financial measures incentivise risk management and would not rely only on metrics such as strategic goals. It is important that the use of broader indicators do not lead to the exclusion of risk management indicators." AIST believes that risk management can be treated as a gateway to be eligible for incentives.

Deferral

It would be administratively difficult to defer one-off payments such as sign-on awards and buy-outs.

Next steps

AIST looks forward to reviewing the final draft of CGS and CPG 511.

For further information regarding our submission, please contact [redacted] at [redacted]

Yours sincerely,

[redacted]

Chief Executive Officer

The Australian Institute of Superannuation Trustees ("AIST") is a national not-for-profit organisation whose membership consists of the trustee directors and staff of industry, corporate and public sector superannuation funds.

As the principal advocate and peak representative body for the $1.5 trillion profit-to-members superannuation sector, AIST plays a key role in policy development and is a leading provider of research.

AIST advocates for financial wellbeing in retirement for all Australians regardless of gender, culture, education, or socio-economic background. Through leadership and excellence, AIST supports profit-to-member funds to achieve member-first outcomes and fairness across the retirement system.