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President Michele O'Neil **Secretary** Sally McManus

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[redacted]
General Manager, Policy APRA
Policy and Advice Division
Australian Prudential Regulation Authority

By email: [redacted]

Dear General Manager

Response Paper - The guidance, *Prudential Practice Guide CPG 511 Remuneration* (CPG 511)

Pursuant to the opportunity to comment on Prudential Practice Guide CPG 511, whilst this guidance focuses extensively on the risk management responsibilities of boards, it has failed to address the substantive issues that relate to remuneration practices within ASX companies. Alongside new prudential standard, CPS 511 Remuneration (CPS 511), APRA has once again failed to properly address the material issue of excessive remuneration payments to CEO's and executives.

The fundamental problem of remuneration is the excessive amount of money being paid to CEO's and executives without foundation. Real reform is needed to curb these ever-increasing remuneration amounts that continue to soar with no basis or reasonable ceiling mechanisms in place. These proposed guidelines simply reinforce the status quo that fails both shareholder and societal expectations. It should not be the responsibility of shareholders via initiating Proxy strikes against remuneration reports to do the work of APRA. Remuneration plans presented by companies are also becoming increasingly more complex, making it difficult for a trustee or investor to understand whether it is both robust and reasonable.

The disconnect between these payments and real world expectations is perpetuating a culture amongst CEO's and executives that drives an unrestrained and reckless behaviour that needs to be overhauled. A system should be put in place that better aligns total remuneration payments paid to CEO's and executives with the workplace medium remuneration structure. Despite the current pandemic and the severe impact that this is having on workers, average realised pay for CEOs in the ASX100 rose 11.5% in FY20.[1] The disproportionate increase in remuneration to those of investors is evidenced by this being an incredible 93 times the average Australian taxable income of $62,000 in 2018-19 according to Australian Taxation Office data.[2]

To avoid public scrutiny about the payment of bonuses to executives, the practice of increasing wages to disguise remuneration net figure increases is also being exploited by large organisations. In November 2020 ANZ highlighted in the press that their executive team had their bonuses cut by 50% after a 42%

[1] ACSI CEO Pay in ASX200 Companies Report July 2021 P.12
[2] COVID pay bump for highest paid bosses as bonuses tank (thenewdaily.com.au)

profit decrease, and yet they all had notable fixed pay increases[3]. In fact, their CEO's annual base remuneration pay actually rose nearly 20% to $2.5 million during FY20.[4] As a result, executive take home pay at ANZ barely shifted on the dial, whilst workers were struggling to meet home loan payments and pensioners were living off near zero interest on their bank deposits.

This underlining need for reform that was highlighted in the Banking Royal Commission has been too slow in its delivery. Whilst we welcome the introduction of the financial services Compensation Scheme of last resort (CSLR) proposal paper introduced in July 2021, we note that this was in response to the Ramsay Review in September 2017.[5] Since then the government have been delaying the suite of banking royal commission reforms since February 2019 and is only now looking to implement its response. Consumers continue to be at risk where ineffective protections and oversight do not exist. It is hoped that by extending the Banking Executive Accountability Regime (BEAR) to all APRA regulated entities, that you will extend your remuneration controls within CPS 511 to this new CSLR proposal and hold executives responsible for failures in their operations.

When we consider that workers in our essential service industries such as doctors, nurses, cleaners, and teachers, all fall outside of a variable remuneration pay structure and are not paid bonuses in Australia, APRA should be working to shift away from all forms of variable remuneration within companies. Such a shift would be entirely consistent with the clear intentions of the Banking Royal Commission's recommendations, which was to drive cultural change and overall better remuneration practices. The current pandemic has not provided any evidence of a substantive shift towards companies self-regulating in this way and so without the correct enforcement mechanisms of APRA, remuneration amounts paid to CEO's and executives will continue to increase unchecked.

Our request is for APRA to consider a regulatory framework that shifts away from variable remuneration structures and creates clear foundations and limits to the amounts of remuneration being paid to CEO's and executives of ASX companies in Australia.

Yours Sincerely

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Assistant Secretary

[3] ANZ exec bonuses cut, salaries hiked (afr.com)
[4] ACSI CEO Pay in ASX200 Companies Report July 2021 P.19
[5] Review of the financial system external dispute resolution framework (Ramsay Review). The Ramsay Review was finalised and presented to the Government on 6 September 2017

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