



RESPONSE PAPER

Remuneration disclosure and reporting

1 August 2023

Disclaimer Text

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Executive summary

In July 2022, APRA released draft remuneration disclosure requirements for consultation.¹ The proposals are designed to provide greater transparency on remuneration practices across APRA-regulated entities, by requiring entities to publicly disclose information on their remuneration frameworks, design, governance and outcomes.

The disclosure requirements are important in ensuring that there is transparency on how entities are meeting the objectives of APRA's remuneration standard, *Prudential Standard CPS 511 Remuneration* (CPS 511), which raises the bar for remuneration practices across all APRA-regulated industries. CPS 511 requires entities to establish and maintain stronger incentives for individuals to manage risk, appropriate consequences for poor risk outcomes and increased oversight and accountability.

Consultation feedback on disclosure

Overall, 23 submissions were received in response to the consultation. Many submissions commented that the disclosure requirements will duplicate other existing disclosure requirements and appear excessive.

APRA disclosure requirements under CPS 511 complement and build on existing disclosure requirements under the *Corporations Act 2001* and the *Superannuation Industry (Supervision) Act 1993*,² rather than duplicate them. In addition, the disclosures align to those of the Basel Committee for Banking Supervision as well as having regard to the disclosure principles of the Financial Stability Board.

In particular, the requirements will apply to a broader range of entities than those covered by existing legislation and add important transparency on remuneration design to explain how risk has influenced remuneration outcomes. This will indicate how entities are complying with CPS 511.

¹ The package comprised the *Discussion Paper – Remuneration disclosure and reporting requirements* (Discussion paper), an updated *Prudential Standard CPS 511 Remuneration* (CPS 511) which incorporates the proposed disclosure requirements and proposed reporting requirements as set out in *Reporting Standard CRS 511.0 Remuneration* (CRS 511.0), including APRA's proposed publication flowing from the reporting.

² From 1 July 2023, RSE licensees (trustees) are subject to requirements under the *Corporations Act 2001*. For remuneration disclosures, this means that the previous section 29QB and regulation 2.37 (under the SIS Act and regulations) were repealed and new requirements are included in the Corporations Act and regulations to give effect to these requirements. This means that disclosure requirements for trustees will be consistent with those for other industries.

Comparison of disclosure regimes



APRA has, however, applied a proportionate approach. APRA-regulated entities that are significant financial institutions (SFIs) are subject to enhanced requirements for qualitative and quantitative disclosures to reflect that these entities are more likely to have complex remuneration arrangements and higher proportions of variable remuneration. Non-SFIs are only required to make qualitative disclosures, to reflect their typically less complex remuneration arrangements.

In addition, APRA will provide flexibility around the implementation timing to allow transition to the new disclosure requirements, and a longer period after the end of an entity's financial year for the disclosures to be made. For groups, APRA will also allow disclosures to be made at the group level, unless otherwise required by supervisors.

This Response paper summarises feedback from industry and other stakeholders to the consultation on the proposed disclosure requirements in draft CPS 511. It also sets out APRA's response to feedback and timelines for implementation.

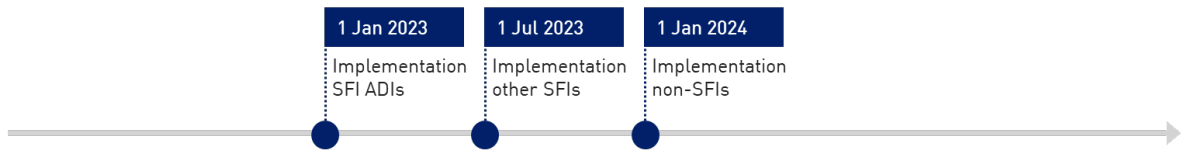
Consultation feedback on reporting

On reporting requirements, APRA acknowledges the sensitive nature of the proposed data collection and concerns raised by industry. APRA continues to work through these issues. As a result, finalisation of the reporting standard (CRS 511.0) will be delayed to later this year. This means commencement of CRS 511.0 reporting to APRA and the associated proposed APRA publication of remuneration will also be delayed. Refer to Chapter 2 for further detail.

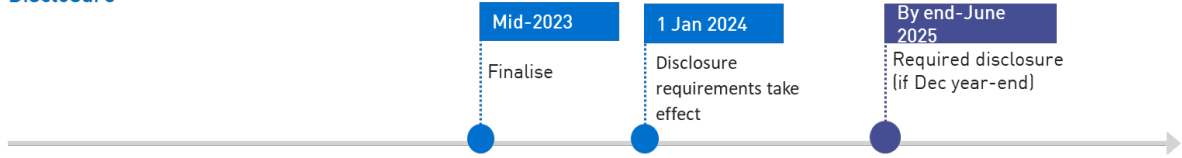
Next steps

APRA has released an updated version of the standard, CPS 511, incorporating finalised disclosure requirements. CPS 511 disclosure requirements will take effect from 1 January 2024 and apply to an entity's first financial year after this date.

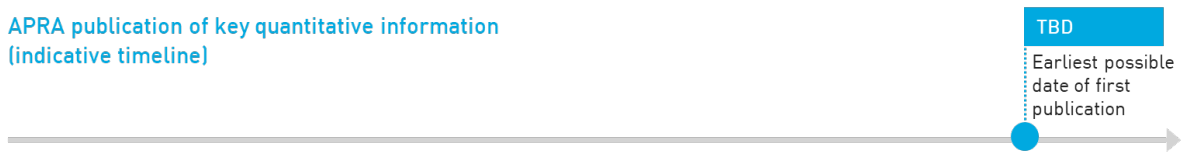
Prudential standard CPS 511



Disclosure



APRA publication of key quantitative information (indicative timeline)



Glossary

ADI	Authorised deposit-taking institution
APRA	Australian Prudential Regulation Authority
APS 330	<i>Prudential Standard APS 330 Public Disclosure</i>
CEO	Chief executive officer
Corporations Act	<i>Corporations Act 2001</i>
CPS 511	<i>Prudential Standard CPS 511 Remuneration</i>
CRS 511.0	<i>Reporting Standard CRS 511.0 Remuneration</i>
HPMRT	Highly paid material risk-taker
MRT	Material risk-taker
Non-SFI	Non-significant financial institution
RFCP	Risk and financial control personnel
RSE	Registrable superannuation entity
RSE licensee	Registrable superannuation entity licensee as defined in section 10(1) of the <i>Supervision Industry (Supervision) Act 1993</i>
SFI	Significant financial institution
SIS Act	<i>Superannuation Industry (Supervision) Act 1993</i>

Chapter 1 - Disclosure

This chapter summarises feedback received in submissions on the proposed remuneration disclosure requirements, as well as APRA's response.

1.1 Disclosure requirements commencement

CPS 511 disclosure requirements were originally due to commence on a staggered basis in line with the standard: for authorised deposit-taking institutions (ADIs) that are significant financial institutions (SFIs) from 1 January 2023; insurance and RSE licensee SFIs from 1 July 2023; and for all other regulated entities from January 2024. Disclosures were proposed to be required to be made four months after the end of the following financial year for an entity.

Comments received

Some respondents indicated that the proposed commencement timelines would be tight, with entities having to prepare and implement the CPS 511 requirements that have come into effect this year and possible FAR commencement in 2023. These respondents suggested APRA extend the commencement date for disclosures.

APRA's response

APRA acknowledges the commencement dates will need to be extended to align commencement for all APRA-regulated entities. The new commencement date for disclosure requirements will be 1 January 2024 for all regulated entities. The first disclosure will be required to be made after the end of an entity's first full financial year after 1 January 2024. For example, where an entity's financial year end is 30 June, its first disclosure would be due after 30 June 2025. An entity would then have a period of time after the end of the financial year in which to make the disclosure, as outlined in section 1.2.

1.2 Timing of disclosures

APRA proposed that regulated entities make disclosures on remuneration no later than four months after the end of an entity's full financial year.

Comments received

Many submissions cited challenges in meeting this proposed timeframe. A key concern was that the proposed timeframe coincides with regulated entities' annual remuneration review process, which respondents indicated can take up to three months to complete. With existing resourcing focused on completing the annual remuneration reviews, this would shorten the time available to make the required disclosures. In addition, some respondents stated that the application of the disclosure requirements to a larger population within an entity would require additional resourcing to meet the proposed timeframe.

There were also concerns relating to the time needed to obtain data from various sources both within an entity and from service providers, including where entities may be operating in multiple jurisdictions and using different payroll providers. Respondents requested the

timing of disclosure requirements be extended to six months after the end of an entity's financial year.

APRA's response

APRA acknowledges the challenges raised by industry. CPS 511 will therefore allow entities to publish disclosures as soon as possible after lodgement of their annual financial statements with ASIC and not more than six months after the end of the financial year to which the disclosures relate. If an entity is not required to lodge financial statements with ASIC, it must make the required disclosures not more than six months after the end of the financial year to which the disclosures relate.

1.3 Focus and breadth of disclosure

Under the proposed disclosure requirements, SFIs would publicly disclose, on an annual basis, information on their remuneration framework, design and governance, as well as quantitative information on remuneration outcomes. Proposed disclosures by non-SFIs include summary information on their remuneration framework, design and governance and key aspects of variable remuneration, where relevant.

Comments received

There were several issues raised by industry in the context of the breadth and focus of the disclosure requirements. These issues are summarised broadly below:

- **focus of the disclosure requirements** – submissions suggested the focus of the disclosure requirements should be on ensuring remuneration design supports and delivers appropriate remuneration outcomes, rather than on the actual remuneration outcomes themselves;
- **unintended consequences of disclosure** – there were concerns the disclosed information might result in unintended consequences, such as how the disclosed information might be used and the potential for an individual's information being identified; and
- **excessive disclosures** - the disclosures were considered excessive given existing remuneration disclosure requirements under the Corporations Act and the SIS Act. There were also concerns that the disclosures would only serve to increase the length and complexity of existing remuneration disclosures while reducing comparability.

Submissions suggested refinements if quantitative disclosure requirements were to be retained, including that:

- the quantitative disclosures be aligned with requirements for key management personnel under the Corporations Act and SIS Act to standardise obligations and enable comparison of individual remuneration arrangements and significant outcomes;
- remuneration outcomes on a cohort basis for material risk-takers (MRTs) and senior risk and financial control personnel (RFCP) not be disclosed; and
- where the proposed disclosures duplicate information already required to be provided to APRA, these duplicative disclosure requirements should be removed.

APRA's response

In relation to the issues raised in submissions, APRA notes:

- **focus of the disclosure requirements** - the disclosure requirements are intended to promote transparency, ensure boards are accountable for their remuneration decisions and demonstrate how practices have been strengthened under CPS 511. Suggestions in submissions that APRA's disclosure requirements should focus on remuneration design, rather than outcomes, would not enable the market to determine if remuneration outcomes accord with an entity's remuneration framework and would not support board accountability for remuneration decisions. APRA noted in the Discussion paper that many current remuneration disclosures lack clarity on how risk considerations have been factored into remuneration decisions, and how individuals in important roles are held to account for poor outcomes. The CPS 511 disclosure requirements provide a mechanism for entities to demonstrate that design and governance promotes effective management of financial and non-financial risks, and that there are remuneration consequences for poor performance or risk outcomes.
- **unintended consequences of disclosure** - APRA has designed the remuneration requirements for entities to disclose on a cohort basis, aside from chief executive officer (CEO) remuneration, to mitigate unintended consequences such as being able to identify individuals. This is considered to mitigate the risk of unintended consequence.
- **excessive disclosures** - APRA has previously noted the existing inconsistent disclosure of remuneration governance arrangements and insufficient detail on remuneration design and outcomes, particularly for highly paid material risk-takers (HPMRTs) and other MRTs. There is also a lack of clarity regarding the inputs and outputs of the consequence management process. The CPS 511 disclosure requirements seek to address these issues. For example, the requirements for HPMRTs and other MRTs are intended to highlight how a board is incentivising and remunerating such roles on a collective basis.

In relation to the suggested refinements made in submissions, and having reviewed the proposed disclosures to assess the scope for streamlining, APRA notes that:

- existing public disclosures regimes under the Corporations Act and SIS Act differ from the proposed CPS 511 disclosure requirements. The proposed CPS 511 disclosure requirements focus on how incentives are driving risk outcomes; and
- RFCP quantitative disclosure requirements have been removed from the final CPS 511. Regulated entities will instead be required to provide summary qualitative information on RFCP remuneration outcomes. If, however, a senior manager is in an RFCP role (for example, a chief risk officer), the regulated entity will still be required to provide quantitative data regarding that senior manager within the senior manager cohort.

APRA also notes industry feedback to remove existing APRA requirements that are duplicative with the proposed disclosure requirements. As stated in the Discussion paper issued at the start of consultation, APRA intends to remove remuneration requirements that sit in other areas of the prudential framework, so that remuneration requirements, including disclosures, are all housed within CPS 511. In addition to having revoked the remuneration

components in *Prudential Standard CPS 510 Governance* (CPS 510) and *Prudential Standard SPS 510 Governance* (SPS 510), APRA will be:

- phasing out Attachment G to *Prudential Standard APS 330 Public Disclosure* (APS 330) from 1 January 2024; and
- retiring *Prudential Practice Guide PPG 511 Remuneration* and *Prudential Practice Guide SPG 511 Remuneration*, which have been superseded by *Prudential Practice Guide CPG 511 Remuneration*, released in October 2021.

1.4 Cohort disclosure

APRA proposed that disclosure of remuneration be at a cohort level to minimise the risk of identification of individual information. It was proposed that masking (non-disclosure) would be permitted when there are less than five individuals in a cohort (e.g. senior managers and material risk takers).

Comments received

Industry responses opposed masking based on fewer than five *individuals* as it would still potentially enable interested parties to 'join the dots' on bonus levels and enable stakeholders to discern individual remuneration outcomes. Industry suggested masking when there are less than five *data points*, such as five payments for a particular disclosure requirement (rather than five individuals in a cohort).

APRA's response

APRA will retain individuals as the basis for masking. CPS 511 is premised on specified roles and applies the disclosure requirements to those roles. Data points are complex to define and reduce comparability of disclosed information across entities.

1.5 Application of disclosure requirements to groups

APRA-regulated groups must comply with CPS 511, including the disclosure requirements:

- in their capacity as an APRA-regulated entity;
- by ensuring that the requirements are applied appropriately throughout the group including in relation to entities that are not APRA-regulated; and
- on a group basis.

Comments received

Submissions sought clarification on how the disclosure requirements would apply to groups, including where a group comprises both SFIs and non-SFIs. There were also comments that disclosure should be permitted at group level only, rather than requiring disclosure for each individual entity within a group and at a group level.

APRA's response

For the purposes of disclosure:

- APRA-regulated entities that are not part of a group will be required to disclose on a regulated entity basis; and
- where an APRA-regulated entity is part of a Level 2 or Level 3 group, the required disclosure would be at the group level only. The disclosure would include those persons who are in specified roles³ at the group level.

APRA will be able to require disclosure on a different basis, if it believes there are prudential reasons to do so.

1.6 Clarification of other matters

This section responds to other issues raised where clarification was sought.

Cross-referencing and the use of footnotes - Industry respondents sought clarification on whether disclosures made elsewhere can be cross-referenced and whether footnotes can be employed. An APRA-regulated entity is permitted to cross-reference disclosures made elsewhere to the extent that the disclosure made elsewhere contains the same level of disclosure information required under CPS 511. Footnotes are also permitted.

Amendment to footnote 13 and footnote 23 - the footnotes have been amended to remove the reference to taxation obligations arising from deferred variable remuneration at termination. This is a consequential amendment which reflects changes made to the *Income Tax Assessment Act 1997* which removed deferred variable remuneration as a taxing point.

Currency in which the disclosure information should be made - Some submissions indicated that making remuneration disclosures in Australian dollars where they report in a different currency in their home jurisdiction could potentially confuse external stakeholders when comparing disclosures. APRA acknowledges that parent entities would be disclosing for the group in their home jurisdiction on the basis of the home jurisdiction currency, while CPS 511 remuneration disclosures are to be made in Australian dollars. This is consistent with APRA's requirements for reporting of amounts in Australian dollars under APRA's reporting standards.

Completion of Disclosure tables - CPS 511 allows an APRA-regulated entity to choose not to disclose information for a particular cohort, with the exception of the CEO, where the cohort comprises less than five individuals. CPS 511 does not prohibit an APRA-regulated-entity from disclosing information for a particular cohort where the cohort comprises less than five

³ As defined in CPS 511, specified role means a person who is a senior manager, executive director, material risk-taker (including highly paid material risk-takers) and risk and financial control personnel.

individuals. However, where a particular cohort of specified roles, with the exception of the CEO, comprises less than five individuals, and an APRA-regulated entity chooses to disclose information for that particular cohort, the entity must then disclose all items in the table: in other words, it can't cherry pick.

Where there is no remuneration to disclose, an APRA-regulated entity would disclose the item as 'nil'.

In making disclosures of share-based payments:

- a) the value of any amount of variable remuneration in the relevant financial year (not including share-based option plans and loan plans) is:
 - i) the face value at grant date, where awarded in the reporting period;
 - ii) the face value on vesting date, where vesting relates to the reporting period; and
 - iii) the face value at the end of the reporting period, where the vesting date is in a future reporting period(s) (often referred to as 'on-foot').
- b) the value of any amount of variable remuneration in the relevant financial year that is in the form of share-based option plans (with a non-zero exercise price) and loan plans is:
 - i) the fair value at grant date, assuming all performance and other vesting criteria are met, where awarded in the reporting period;
 - ii) the face value less the exercise price or any outstanding loan balance on vesting date, where vesting relates to the reporting period; and
 - iii) the face value less the exercise price or any outstanding loan balance at the end of the reporting period, where the vesting date is in a future reporting period (s) (often referred to as 'on-foot').

Chapter 2 - Reporting and publication

As part of the 2022 consultation, APRA released draft *Reporting Standard CRS 511.0 Remuneration* (CRS 511.0), proposing to collect qualitative and quantitative remuneration data from all APRA-regulated entities. Data from CRS 511.0 would be used to support APRA supervision of CPS 511. APRA also proposed to publish quantitative statistics on remuneration outcomes for all APRA-regulated entities, to facilitate transparency on market practices and lessen the burden on non-SFIs.

Feedback from submissions covered various issues. In particular, entities noted the sensitive nature of the data to be collected by APRA in CRS 511.0 and outlined potential privacy issues with publication of detailed remuneration data. Other feedback related to potential challenges with gathering certain data proposed in draft CRS 511.0, the time provided for entities to report and requests for clarification of specific definitions and interpretation of data items.

APRA is currently reviewing industry feedback on the reporting standard and will provide a more detailed response in due course. APRA will also consult on its planned publication of remuneration data at a later date.

APRA remains committed to ensuring that data collected via APRA Connect is subject to appropriate security and access controls. As outlined in its *December 2022 Response Paper – Direction for Data Collections*, maintaining the security of entity data will continue to be of the highest priority for APRA. Given the extensive industry feedback, APRA will delay the response to submissions for CRS 511.0 to ensure it adequately addresses the issues raised by industry and, in particular, those concerns raised regarding privacy. APRA will also extend the commencement date for CRS 511.0.



APRA