



14 October 2022

██████████  
General Manager, Policy  
Australian Prudential Regulation Authority

By email: [policydevelopment@apra.gov.au](mailto:policydevelopment@apra.gov.au)

Dear ██████████,

## Remuneration disclosure and reporting requirements

The Australian Banking Association (**ABA**) welcomes the Australian Prudential Regulation Authority's (**APRA**) consultation on the revised prudential standard, CPS 511 Remuneration (**CPS 511**) and the draft Reporting Standard (**CRS 511**). The ABA also welcome's APRA's early engagement with industry and for participating in an industry workshop, on 27 September.

The ABA is supportive of simplified and consistent remuneration disclosure requirements, and the continued focus on strengthening remuneration practices. However, we have significant concerns regarding aspects of the draft CPS 511 and CRS 511, and propose opportunities for APRA to consider further simplification to reduce duplication; recognise the variety of remuneration frameworks and impact of different organisational contexts; treatment of confidential and commercially sensitive information and changes to the timing of disclosures to enhance the efficacy of these disclosures and reduce the compliance costs.

### Industry's key concerns are:

- **Consistency and usability of the proposed disclosures by APRA**

There remains considerable uncertainty with regards to how data will be published and presented by APRA. This, coupled with uncertainties regarding the proposed change more generally, may lead to inconsistency in disclosures across entities and across industries. Along with suboptimal design elements, the proposed changes may reduce, rather than enhance, the comparability and usability of the disclosures.

The ABA recommends the first year of APRA's proposed disclosure tables be provided to the industry as part of a collaborative extended policy development process, rather than disclosed publicly. The ABA also recommends that proposed disclosures for banks should also not be made public in the first year, given the interlinkages between APRA's proposed disclosures and the proposed disclosures of banks'.

- **Confidentiality of elements of the disclosures**

The ABA has serious concerns regarding the provision and publication of personal information and the potential for personal information to be derived from the various (proposed) disclosures. We believe that individual level data should only be provided when a specific, for example supervisory, need arises.

The ABA recommends that remuneration data should only be provided to APRA on cohort-basis and should remain confidential.

- **Timing of disclosures and reporting**

The four month timeframe for disclosure suggested in the proposals is not achievable for various unavoidable reasons detailed in this submission.

The ABA recommends adjusting the due date to six months after the end of the financial year.



## Enhancing consistency and usability

In industry's view, the proposed reporting and disclosure requirements can be significantly streamlined and simplified while still delivering on APRA's intent and objectives. ABA is of the view that they could be designed in such a way that duplication of qualitative and quantitative information across existing disclosures is avoided and the reporting scope be limited to aspects of remuneration where transparency can provide meaningful and relevant insights without providing commercial sensitive information. The ABA notes the global reporting standards of international supervisory bodies, such as the Financial Stability Board and the European Banking Authority (**EBA**)<sup>1</sup> provide a useful reference point in this regard and strike an appropriate balance across disclosures (for example, not duplicating disclosures for CEOs).

The consistency of terminology and methodology to report remuneration data will be critical to provide meaningful, comparable and consistent information to industry participants and observers, and to avoid confusion across existing remuneration disclosures provided by APRA-regulated entities.

Considering the various remuneration and consequence frameworks in place across the banking industry (and the insurance and superannuation industries), some might not be comparable to each other across the industry (for example, mechanisms in place to manage conduct risk). As such, the ABA considers that APRA's proposed reporting and disclosure requirements should be limited to providing the general remuneration framework context of each entity. Practical examples of challenges with and potential misinterpretation of the proposed disclosure tables are included in the body of this letter.

The industry proposes a phased implementation of the quantitative and qualitative elements of the proposed disclosures to reduce the risk of information being misinterpreted when reported without the appropriate organisational context. Specifically, the ABA proposes the first year of APRA's proposed disclosure tables be provided to the industry as part of a collaborative extended policy development process, rather than disclosed publicly. This would allow ABA members to better understand and support key messages provided as part of the disclosures, and to manage and better estimate the disclosures' impact and implications in practice.

Importantly, allowing the industry to actively contribute to delivering clear and consistent key messages as part of the revised CPS 511 remuneration disclosures and APRA's publication would also reduce the risk of misinterpretation (relative to existing disclosures) and reputational risk.

## Confidentiality concerns

ABA has serious concerns regarding the requirement to report and/or disclose confidential and commercially sensitive information (for example, as part of the enhanced disclosure of the effectiveness review of the remuneration framework). The ABA recommends that data provided to APRA for supervision or publication *should only be provided on cohort-basis* (in line with the proposed disclosures), and should remain confidential to protect privacy and reduce the risk of drawing incorrect conclusions, in particular if the relevant context cannot necessarily be disclosed. For Specified Roles outside of Australia, careful consideration will need to be given to the applicable legal and privacy regimes of the relevant jurisdiction.

## Timing of disclosure and reporting

Industry views the four month timeframe to meet significantly increased requirements as unrealistic. The industry typically has significant year-end commitments coinciding with APRA's proposed timing window for disclosure (that is, four months after the end of the financial year), which together will increase resourcing and operational challenges. The ABA notes that implementation challenges in this respect would be eased if the due date was instead moved to six months after the end of the financial year.

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<sup>1</sup> Particularly for international banks, the impact of the proposed changes could be reduced by aligning the requirements more closely with international reporting and disclosure practice.



## Australian Banking Association

The ABA and its members look forward to ongoing engagement with APRA regarding these important reforms. If you require further information or would like to discuss any of the content of this letter, please do not hesitate to contact me on [REDACTED] or [REDACTED].

Regards,



**Policy Director**  
Australian Banking Association

### About the ABA

The Australian Banking Association advocates for a strong, competitive and innovative banking industry that delivers excellent and equitable outcomes for customers. We promote and encourage policies that improve banking services for all Australians, through advocacy, research, policy expertise and thought leadership

## Appendix A: Thematic observations

### Alignment of reporting and disclosure requirements

The ABA welcomes and supports APRA's objective to provide transparency on remuneration practices across all APRA-regulated entities via 'consolidated' reporting and disclosure requirements, which also have the purpose of facilitating more consistent comparisons and insights across the industry.

In providing this information to APRA and in public disclosures, ABA suggests, however, that it will be key to:

- *Design CPS 511 remuneration reporting and disclosures in such a way as to avoid duplication of qualitative and quantitative information already included in other disclosures, for example, as part of the annual remuneration report (Corporations Act 2001).*

Presenting similar information using different calculation and reporting methodologies to the ones currently applied in remuneration reports (awarded and statutory remuneration tables) could lead to confusion and misinterpretation of information. This, in turn, could lead to significant, unintended reputational risk. An example for this scenario is the requirement to disclose CEO and Key Management Personnel (**KMP**) remuneration, which is already included as part of the remuneration reports and includes detailed information on upfront and deferred variable remuneration (**VR**) outcomes, as well as the link to performance and risk. It is important to note that this information will continue to be disclosed as part of the remuneration report of banks, and that ABA members have expressed a preference to maintain separation of the scope between Corporations Act and CPS 511 disclosure requirements. Basis for this view is that remuneration reports are designed to provide detailed information not only to the general public, but also to other key stakeholders, such as shareholders, investors and proxy advisers<sup>2</sup>. It is less likely that shareholders, investors and proxy advisers will have a similar level of interest in CPS 511 disclosures.

- *Further align APRA's required reporting (under CRS 511) to CPS 511 remuneration disclosures by focusing only on cohort-based reporting of remuneration arrangements of Specified Roles.*

ABA's view is that providing aligned, aggregated data to both APRA and in public disclosures will allow entities to transparently demonstrate how their remuneration practices have strengthened under CPS 511 and reduce the compliance costs and complexity of preparing a cohort-based disclosure. Importantly, providing aggregated data to APRA for supervisory activities would also be aligned to European/UK remuneration data reporting requirements. In the particular case of the UK and following guidance provided by the EBA<sup>3</sup>, entities<sup>4</sup> are required to submit 'Remuneration Benchmarking Information Reports' and 'High Earners Reports' to the PRA, as set out in Chapter 17 and Chapter 18 of the Remuneration Part of the PRA Remuneration Rulebook. Each of these reports captures remuneration information of identified staff and high earners<sup>5</sup> on an aggregated basis, and are submitted to PRA via prescribed templates annually<sup>6</sup>.

The ABA notes that APRA would still be able to request 'line-by-line' remuneration data, for example, in circumstances where a specific risk or concern has been identified, where downward adjustments have been made to VR or where another supervisory need arises.

<sup>2</sup> And, in addition, are subject to shareholder vote and the 'two strikes' rule.

<sup>3</sup> Noting that EBA published its revised 'Guidelines on the data collection exercise on high earners and remuneration benchmarking' on 16 July 2014.

<sup>4</sup> The ABA notes that in the UK, 'Level one firms', that is firms with 'total assets equal to or greater than £50 billion on an unconsolidated basis on the accounting reference date immediately prior to the firm's last complete financial year', are required to submit data to the PRA on an individual line-by-line basis. The ABA also notes that the scope of this data collection is less than APRA's proposed reporting requirements under CRS 511.0 and that the PRA does not use these data in any publications.

<sup>5</sup> In line with the PRA Remuneration Rulebook, 'High Earner' means 'an employee (of a firm or of any consolidation group entity) whose total annual remuneration is €1 million or more per year or its equivalent in another currency determined by reference to the conversion rate applicable to the corresponding High Earners Report', PRA Remuneration Rulebook, section 1.3.

<sup>6</sup> Noting that the EBA benchmarks remuneration trends biennially and publishes data on high earners annually, to closely monitor and evaluate developments in this area.

Overall, the ABA notes that compliance costs and complexity of annual and triennial cycles will be significant, especially in light of the expansive disclosure required under revised CPS 511.

The ABA's recommendation to amend the proposed CRS 511 reporting and related disclosure to only include aggregated data on Specified Roles (and exclude line-by-line CEO remuneration) would be in line with international reporting and disclosure requirements and allow both smaller and larger APRA-regulated entities to focus on the qualitative information being provided to APRA and the market for the purpose of alignment with CPS 511's intent. This in turn should reduce or avoid any confusion in the interpretation of quantitative information due to lack of organisational or cultural context, which could lead to unintended reputational risk.

The above also addresses APRA's expectation for entities to 'meet their collective disclosure obligations in a more concise, cost-effective and efficient manner'<sup>7</sup>, while still providing relevant context to demonstrate how each remuneration framework, in its own particular design, promotes effective management of financial and non-financial risks.

### Employee privacy and confidentiality

Industry is concerned about the requested reporting to APRA at the individual employee level (for example, Table 3, Table 4). This data request would require the disclosure of detailed and confidential personal information about these individuals.

It appears that the information to be reported (including an employee's position title, their business unit and then their remuneration details, performance / risk ratings and if relevant their exit reason from the bank) would constitute 'personal information' protected under the Privacy Act, given it would be sufficient for APRA to reasonably identify individuals based on this information. APRA has stated that the information will be collected in a way that meets its obligations under section 56 of the APRA Act and the Privacy Act 1988 surrounding the collection of personal information.

The ABA suggests that while permitted under the law, given this is personal information of a sensitive and confidential nature, the practice of data minimisation should be observed where there is discretion as to the collection of personal information. Data minimisation is key to embedding Privacy by Design Principles in process, practices and systems, by ensuring that privacy is the default setting. As a matter of practice, this principle provides that wherever possible, identifiability, observability, and linkability of personal information should be minimised.

Industry also suggests that APRA's objectives could be achieved just as effectively and more efficiently by only requiring reporting at the cohort level for Specified Roles. This approach may also serve to reduce the obligation on industry to notify relevant employees of the collection of their personal information.

Beyond Australian privacy laws, consideration should be given to the privacy restrictions that could be applied by foreign jurisdictions, where APRA-regulated entities have Specified Roles located offshore. For example, for employees of operations in the European Union and United Kingdom, privacy legislation may restrict the disclosure of personal information for secondary purposes, in circumstances where a requirement under Australian law is not a sufficient legal obligation to support a lawful basis for the disclosure.

A particular illustration is the EU's General Data Protection Regulation (**GDPR**, applicable to European Union or EU member state laws), which essentially restricts the purposes for which an organisation can 'process' personal information – this includes collecting, disclosing, analysing personal information etc. An entity cannot process personal information, including by disclosing it to a third party such as APRA, unless one of these purposes (known as a 'lawful basis') applies.

In the context of this APRA data collection, the relevant purposes in Article 6 could be:

- (c) processing is necessary for compliance with a legal obligation to which the controller is subject;

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<sup>7</sup> See Discussion paper – Remuneration reporting and disclosure requirements, page 5.





(f) processing is necessary for the purposes of the legitimate interests pursued by the controller or by a third party, except where such interests are overridden by the interests or fundamental rights and freedoms of the data subject which require protection of personal data, in particular where the data subject is a child.

However, in relation to the first basis above, where the processing is necessary for compliance with a legal obligation to which the organisation is subject, Article 6.3(a) makes it clear this only applies to European Union or EU member state laws.

For the second basis above, if the entity is pursuing a legitimate interest, the processing of information is necessary for that purpose, and only where the individual's interests do not override that legitimate interest (under Articles 5(2) and 24)). Guidance from the Information Commissioner's Office (the UK data protection authority) states '*You should avoid using legitimate interests if you are using personal data in ways people do not understand and would not reasonably expect, or if you think some people would object if you explained it to them.*'

It is not clear to ABA members whether a lawful basis such as that above applies so that the proposed reporting to APRA of information regulated by the GDPR is permitted.

Insight from APRA regarding its thinking on these uncertainties and barriers would be appreciated.

### Clarity on meaning and application of disclosure/reporting requirements

APRA's objective is to improve the transparency of remuneration arrangements in a prudential context and facilitate more consistent comparisons and insights across all APRA regulated entities.

Industry is concerned that the proposed disclosure will be confusing and difficult for readers to interpret. For example, the required remuneration outcomes to be disclosed are a mix of awarded, realised and outstanding (deferred) remuneration. While this provides a wide spectrum of information, the wording used by APRA (in the tables included in CPS 511) does not provide sufficient detail as to the basis of the disclosure. This is particularly problematic where CPS 511 disclosures are compared to the awarded and statutory remuneration tables currently disclosed in remuneration reports, and could lead to inaccurate conclusions when presented without the appropriate context. Readers would benefit from clearer disclosure, for example to clearly label the disclosures to indicate that they relate to realised remuneration outcomes or for the disclosures to be presented in separate tables so that there is clear distinction.

Additional practical examples of challenges with and potential misinterpretation of the proposed disclosure tables include:

- Data disclosed by cohort is driven by the entity's interpretation of the cohort definitions, which takes into consideration size, complexity and performance of the entity, among other factors. As such, information such as the number of employees in each cohort will only provide meaning to the disclosing entity, but will not necessarily be able to be compared across the industry. As such, providing appropriate organisational, strategic and cultural context as part of the qualitative disclosures of each entity will be key to a correct interpretation of all remuneration arrangements and governance frameworks relevant to each Specified Role population.
- A similar argument applies to the disclosure of the *number of material Third Party Service Providers (TPSP)* within each entity. Each APRA-regulated entity has its own governance approach to address CPS 511 obligations impacting (in-scope) TPSP and there are several different structures to manage them according to the size and complexity of each organisation. As such, a single figure disclosed without context will be problematic to interpret and potentially lead to unintended, inaccurate messages.
- Each entity has a reward philosophy and framework which defines the level, mix and type of remuneration offered to employees in different cohorts and is driven by the entity's strategy, culture and organisational structure, as well as different performance, remuneration and consequence models/structures. As such, it will be important for the proposed reporting and disclosure requirements to allow for, e.g.:



- *Discretionary or formulaic scorecard approaches.* The current reporting template appears to be focused towards entities with a formulaic/scorecard approach. For example, current data fields require a specific percentage of weighting to non-financial measures, specified target and maximum levels for VR and reporting of total pool amounts for each VR component, which might not be applicable to all entities. In addition, a company structure (listed vs. unlisted) will have a significant impact on the available VR vehicles available.
- *How an entity rates individual performance.* Some entities have a single overall rating, whereas others may have two (or more ratings), for example, a 'What' and a 'How' performance rating, one has a separate risk rating. This means entities will need to make interpretations on how their particular rating system fits with APRA's current reporting requirements (which assumes a given rating scale).
- *Not all entities or roles within an entity have VR targets (or VR at all).* In some entities, it may be the roles with the most significant VR earning potential that do not have targets, for example one SFI's institutional business does not have VR targets and this business unit includes a number of Material Risk-takers (**MRT**)s/ highly paid (**HP**) MRTs.
- More generally, disclosure of special payments such as sign-on awards or severance payments are typically provided as part of a specific contractual arrangement and within a particular context. Providing quantitative information on these payments without the qualitative context could cause confusion and reputational risk. There is also concern that in some circumstances it can lead to the identification of an individual, i.e. when there are limited numbers of special payments made and there have been low numbers of key hires or exits. Industry believes data should not be provided where an entity believes an individual can be identified.

APRA's stated objectives of the disclosure requirements are to provide a better overview of how remuneration is aligned with performance and risk, consequence management for poor outcomes, as well as how non-financial measures have been incorporated in remuneration outcomes. The ABA notes that this can be achieved more effectively via bespoke qualitative disclosures that allow each entity to demonstrate, for example, the available VR adjustment mechanisms in place, and how often they were applied as a result of identified risk, conduct or performance outcomes (on an aggregated basis). Entities should also have the flexibility to provide the adequate organisational context as part of the qualitative disclosure.

### **Inclusion of benefits as part of fixed remuneration**

Industry suggests that benefits be removed from the definition of fixed remuneration. The reasons to remove it include:

- It is unclear how the inclusion of benefits is relevant to achieving APRA's prudential objectives for remuneration;
- Including benefits does not allow for like-for-like comparison of salaries or pay mixes across entities; and
- There are different interpretations on what constitutes a benefit and how to value these, which will result in entities having different approaches.

### **Proposed timing**

The proposed timing for the disclosures to be published four months after the end of the financial year is considered insufficient to complete requirements and will lead to resourcing constraints, particularly given other year-end commitments at that time. Key issues are

- the key dependency for completion of requirements being the finalisation of the performance and remuneration review and not the end of the financial year. Tying the timing to the end of the financial year should not be what determines a reasonable time to meet requirements.



- the Standard imposes a significant increase to information needed (including from third parties) to meet requirements and goes well beyond existing requirements;
- new assurance processes will need to be implemented to ensure accurate disclosure and reporting. Adequate time will be required complete this, including for allowing entities, if they choose, to engage third party assurance services in the early years of implementation, further challenging timeframes; and
- providing adequate time to be able to engage the HR Committee and/or Board prior to making disclosures or submitting data to APRA.
- The following practical example, of an SFI with 30 September year end, demonstrates why four months is insufficient time:
  - performance and remuneration review is only completed in December (month 3)
  - holiday period late December – mid January (month 4)
  - no real time to collate and populate all information, conduct assurance processes and engage the Board within the four month expectation.

Furthermore, while the required information is available, it will be necessary to collate this for a significantly expanded employee population and the data will need to be sourced from a number of different systems/databases (which will be even more challenging for entities who operate in multiple payrolls/jurisdictions). The implementation challenges in this respect would be eased if the due date was instead six months after the end of the financial year. A six month period would also align more closely with current disclosure requirements where, in theory, entities have up to seven months to disclose remuneration information for their Senior Manager and MRT populations (as under APS 330 companies have up to three months after lodgement of the annual financial report, to disclose this information).

### Effectiveness review disclosure – commercial sensitivity concerns

Draft CPS 511 paragraph 67, table 1, column 2, requests that entities disclose: *“An overview of reviews of the remuneration framework performed during the financial year, including any consequential changes, the reasons for those changes and their impact on remuneration outcomes”*. This request may create situations whereby commercially sensitive information is required to be disclosed. As an alternative, industry suggests that entities have sufficient flexibility to determine what is disclosed publicly, noting that APRA could request access to the review findings and actions in full.

### Efficiency for Groups with regulated subsidiaries

All APRA regulated entities are required to submit reporting to APRA, therefore groups with APRA regulated subsidiaries will be required to make multiple submissions. This will mean significant duplication of the same qualitative information across entities. Industry is keen to work with APRA to explore options for groups with multiple regulated entities (including non-employing entities) to meet disclosure and reporting requirements more efficiently and without unnecessary administrative burden/duplication when they rely on the same remuneration frameworks and policies of another entity within the Group.

### Request for worked examples and industry ready materials

There are a number of items requested in the draft reporting disclosures where it is unclear what is being requested, such as those highlighted in this submission. The ABA would like to work with APRA to develop practical and applicable examples for these reporting requirements.

In addition, the excel template for reporting purposes does not contain the definitions (or in some cases the required ‘drop downs’) needed to populate it. A practical suggestion would be to map the CRS 511 document descriptions to the excel template and provide worked examples alongside of this.





Additionally, APRA could pre-populate the template with the standard formulas that are requested to be used (where relevant), particularly where cells directly reference other data already input. Otherwise, APRA is likely to receive inconsistent information which will hamper comparison across industry.

Combined, these practical 'quick wins' will save significant time across the industry in trying to understand and map out how to complete the new template. It will also ensure that APRA receives the information as consistently as possible (notwithstanding the differences in remuneration constructs/models across entities).

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## Appendix B: Responses to specific consultation questions

Topic Area	Topic Questions
Disclosure requirements	<p><b>1. Do the proposed disclosures provide sufficient information to support greater transparency and market discipline on remuneration practices, and if not, how could they be improved?</b></p> <p>The proposed disclosure requirements appear to conflict with APRA's intention to align and complement existing disclosure requirements under the Corporations Act and facilitate greater transparency.</p> <p>Although quantitative cohort information does provide some basis for comparison, the ABA questions whether, as currently proposed, it will be sufficiently comparable across entities (and industries) to be meaningful.</p> <p>In particular, while disclosing a mix of awarded, realised and outstanding (deferred) remuneration provides a wide spectrum of information, the proposed requirement that these be combined for disclosure will likely lead to confusion for readers and require significant explanatory notes to explain the basis of reporting.</p> <p>Data published is likely to be open to interpretation and stakeholders forming assumptions that may lead to inaccurate conclusions; considering:</p> <ul style="list-style-type: none"> <li>• entities do not operate under the same remuneration model/ structure – they are different;</li> <li>• entities have their own unique circumstances and specific context which have a key influence on remuneration outcomes. Without a full understanding of an entity's context it is difficult to compare quantitative results in a meaningful way; and</li> <li>• multiple factors are considered when determining remuneration outcomes. Even within an entity there may be considerable variation that requires context to understand in any one year.</li> </ul> <p>Detailed suggestions on how proposed disclosures could be improved are included in this submission. However, as stated above, the ABA proposes the first year of APRA's proposed disclosure tables be provided to the industry as part of a collaborative extended policy development process, rather than disclosed publicly, to allow for further refinements and improvements.</p>
	<p><b>2. Are there any further items that should be disclosed, or items that should not be disclosed?</b></p> <p>As stated above, the ABA considers that APRA's proposed reporting and disclosure requirements should be limited to providing the general remuneration framework context of each entity. Practical examples of challenges with and potential misinterpretation of the proposed disclosure tables have been included in this submission.</p>



Specifically, as also outlined above, combining awarded and realised remuneration causes concerns and the ABA proposes that remuneration not be disclosed on this basis. Disclosure of awarded and realised remuneration separately would more accurately reflect the remuneration outcomes, and would be comparable across entities.

The ABA would welcome the opportunity to work with APRA to further develop the tables, including identifying specific items that could be modified or removed without reducing the value of the disclosures.

### **3. What are the implementation challenges of APRA's disclosure proposals?**

The proposed four-month submission date will be challenging and lead to resourcing constraints, particularly given the expanded employee population and other year-end commitments at that time.

#### Timeframe

Implementation challenges in this respect could be eased if a six-month submission date was instead implemented, particularly for entities who operate in multiple jurisdictions globally given the various sources of data and manual processes that will be required to disclose the data in the proposed format.

- Disclosure and reporting requirements leverage the same underlying quantitative data which is only available once the performance & remuneration review is complete.
- For banks with a September year end, this means it is the 3rd month (Dec) when outcomes are considered final. Considering the Christmas leave period, this leaves only circa one month to prepare information and data, undertake assurance processes and seek approval.
- Tying the disclosure and reporting to the year end should not be what determines a reasonable time to meet requirements, i.e. the key dependency is the completion of the annual Performance and Remuneration review.

#### Volume & complexity

Some banks will be disclosing/ reporting data on a larger overall cohort of people and VR awards. Data will require tracking and reconciliation at individual levels, even if then to inform cohort reporting. For some banks, this will result in multiple hundreds of individual VR awards; comprising thousands of individual cash/ equity award tranches.

- For an international Group this involves multiple jurisdictions, payrolls/ systems (may present country specific challenges).
- There will likely be implications for Third Party service providers and their role in providing data (e.g. Computershare for equity).
- Additional resourcing will be required to complete requirements and assurance processes over all information (qualitative & quantitative), including the likely engagement of external assurance services in at least the initial years. Solutions may need to be



	<p>found to systematise remuneration elements that are currently tracked via manual systems (e.g. deferred cash, special reward arrangements).</p> <p><u>Duplication of qualitative information within a Group</u> that has other APRA regulated entities that rely on Group remuneration frameworks and policy.</p>
	<p><b>4. How would RSE licensees seek to address the disclosure proposals in CPS 511 in a manner consistent with existing SIS Act obligations, particularly in relation to CEO disclosures?</b></p> <p>No comment</p>
	<p><b>5. What is the appropriate level of assurance over disclosed information?</b></p> <p>The ABA understands that APRA is not proposing to require external audit of the remuneration disclosures under CPS 511. Notwithstanding this, some banks may choose to engage external auditors, at least in earlier years of disclosure. The engagement of external auditors would add further pressure on the proposed four-month disclosure requirement.</p>
	<p><b>6. What are the compliance costs of APRA's proposed disclosure requirements in CPS 511 and how could APRA reduce compliance costs and impacts?</b></p> <p>It is too early to accurately cost the proposals but, for larger banks, it is likely to be hundreds of thousands of dollars and commensurate expenses for smaller banks. The costs are expected to be greater than those incurred during the 2021 CPS 511 'data strategy' engagement.</p> <p>Compliance costs include the extra resourcing that will be required to prepare these disclosures, considering existing disclosure requirements, Committee/Board reporting, and other year-end commitments at that time. This is particularly so when considering the relatively short timeframe being proposed (i.e. four months after the end of the financial year).</p> <p>Increasing the timeframe to six months and limiting both data reporting and disclosures to being provided on a cohort-basis only would assist with resourcing challenges.</p>
<b>Reporting requirements</b>	<p><b>7. Are there any systems or implementation challenges with reporting remuneration data?</b></p> <p>While the required information is available, the data will need to be sourced from a number of different systems and databases. This will be even more challenging for entities who operate in multiple payrolls/jurisdictions and it is anticipated that a number of manual processes will be required in order to transpose the data into the appropriate format in the reporting template.</p>





**8. What are views of interested parties on declaring CRS 511.0 to be nonconfidential?**

As stated in the main body of this submission, industry has strong concerns regarding the disclosure of personal information and implications of the Privacy Act, in addition to foreign requirements.

**9. What is the appropriate level of external assurance over remuneration data reported to APRA?**

Response in line with Q5.

**10. What are the compliance costs associated with the proposed CRS 511.0? Do the reporting proposals meet APRA's objectives in an efficient and least-cost manner for industry?**

Compliance costs will include the extra resourcing (both personnel and systems/process changes) that will be required to prepare the reporting disclosures, especially when considering the significantly expanded population and scope of data to be reported.

**APRA  
publication**

**11. Is the proposed publication sufficient to provide comparability of remuneration outcomes across entities?**

There are a number of data points/terms which may be defined differently across the industry, calling into question the comparability of the information APRA will receive.

As an example, the reporting template is also focused heavily towards entities with a formulaic/scorecard approach, which will limit comparability across industry due to the different approach to remuneration from entity to entity, and in some instances may even lead to misreporting of outcomes and/or significantly skewed data. For example:

- For entities that use a discretionary approach, a comparable response will not be possible where a specific percentage of weighting to non-financial measures is required;
- For certain cohorts of employees across the industry, target and maximum percentage for VR is not defined; and
- For reporting of total pool amounts for VR, this will be impacted by various factors (such as company size) and will therefore vary greatly across industry and will not be meaningful in the absence of other metrics (e.g. profit, headcount etc).

Please refer to section '*Clarity on meaning and application of disclosure/reporting requirements*' of this submission for more practical examples of comparability challenges.

The comparability of the data published by APRA could be enhanced, for example, by limiting the quantitative reporting and disclosures to high-level cohort data only, and by allowing APRA-regulated entities to prepare bespoke qualitative disclosures that allow each entity to demonstrate e.g.. the available VR adjustment mechanisms in place, and how often they were applied as a result of identified risk, conduct or performance outcomes. More generally, entities should also have the flexibility to provide the adequate organisational context as part of the qualitative disclosure





**12. What other remuneration data should APRA publish for all entities?**

Industry believes that the focus should be more towards the comparability (i.e. quality) of data as opposed to the quantity/scope of data to be reported/published. As outlined in the consultation paper, APRA's proposal provides a wider range of disclosures than comparable foreign jurisdictions.

**13. Is the masking of small cohort sizes sufficient to address the risk that remuneration outcomes of individuals are discernible from published data?**

Unfortunately, not.

For some organisations and as an example, the Senior Manager population may not fully align with the KMP population. This misalignment may lead to the remuneration outcomes of certain employees (those who are Senior Managers but not KMP) being discernible from data published separately in the remuneration report. This is particularly relevant where the difference in this population is small, e.g. less than five individuals or in the circumstance where for one SFI there is a difference of one individual between KMP and Senior Manager populations. This latter situation allows clear identification of an individual if an interested party chooses to reverse engineer information.

There is also a risk that in some years, one-off payments such as buy-outs or termination/ severance payments may lead to the identification of an individual, e.g. if there has been one or a small number of key hires/ exits with these types of payments.

Consider minimum cohort size for disclosure/ reporting purposes to be greater than five.

## Appendix C: Specific observations and questions

### Reporting

#### **CRS 511 – Commencement: #4 (a)**

Need to confirm the commencement date for subsidiaries of an SFI ADI, i.e. one is a non-SFI insurer, the other is a non-SFI RSE – Question: Is the commencement date for these two subsidiary entities the same as the SFI ADI, or is it as stated in #4 (c)? – This is not clear to industry.

#### **Discussion document – page #16 Reporting consolidation**

‘At the highest level of consolidation of the APRA regulated entity level’. Can APRA clarify what this means for an insurer non-SFI subsidiary? Does this mean the subsidiary is required to report on a standalone entity level or is it part of the ADI SFI consolidation and therefore does not need to report at an individual entity level?

#### **General comment on Table 1**

In line with the rationale provided in the main body of this letter, ABA suggests to limit data reporting and disclosures to those elements of governance and remuneration that are comparable and meaningful across entities. The ABA would be willing to contribute in developing this view in practice as part of an extended policy development process (i.e. ‘trial period’ for reporting/disclosures).

#### **Table 1, #2: Number of material Third Party Service Provider compensation arrangements**

Is the expectation that ADIs apply their own interpretation to “materiality” and does this need to be agreed with APRA? The ABA notes that establishing a materiality threshold was a suggestion only in the practice guide so not all entities will necessarily have developed this.

#### **Table 1, #8 & 9 - Remuneration Framework Compliance and Effectiveness Review Dates**

Can APRA clarify what dates are being requested? Is this date completed, date approved, other?

#### **Table 1, #11 – Remuneration Framework Changes Description**

Confirm expectation for which compliance/ effectiveness reviews this relates to, i.e., reviews in relation to the current FY just completed or the last completed review? Given submission is required within 4 months of FY end industry assumes that it is the ‘most recently completed’, otherwise there is insufficient time to complete the necessary review.

#### **Table 1, #10. Brief overview of the Remuneration Framework Compliance Review and Effectiveness Review findings and recommendations**

Which financial year compliance / effectiveness report be expected, for example, the financial year just gone or the prior financial year (meaning there will not be a compliance report for the first reportable year)? If it is for the financial year just gone, this could be problematic from a timing perspective.

Would the same information provided in the annual report be acceptable?

Consideration should be also given to how entities might report issues with potential commercial sensitivity.

#### **Table 1, #12. Consequence Management where nil Variable Remuneration**

Consequence management for employees without VR / incentive must be clearly documented and would require a lot of manual effort to put together in a report. The ABA suggests for entities to follow a principle-based approach to how entities provide this information to APRA, which could include organisational, strategic and cultural considerations, and how governance of such employees works in practice.

#### **Table 2, #2 – Report the type of Variable Remuneration Component (VRC)**

Options do not adequately reflect ‘buy-outs’. Buy-outs are not the same as sign-on/ guaranteed bonuses – we could only place ‘buy-outs’ under the ‘other’ category. It would be better to have a

category specifically for 'buy-outs' as these are a point of contention in feedback already provided to APRA.

In some years, one-off payments such as buy-outs or termination/ severance payments may lead to the identification of an individual, for example, if there has been one or a small number of key hires/ exits with these types of payments. The ABA recommends a minimum number of disclosures, for example 5, be required against any element before disclosure.

#### **Table 2, #5 – Report the primary form used to deliver the VRC**

For at least some banks, the primary form used for VRC (STVR) delivery for MRTs and R&FC employees will default to cash, i.e. deferral is 40%. Therefore, equity component will not be reported. As such, this is not representing the true picture – makes VR all look like cash payments. For at least some banks, STVR for Senior Managers is equally weighted between cash and deferred shares – there is no option that reflects this.

#### **Table 2, #7 – Report the portion of total measures used to determine the VRC that are non-financial measures (NFM)s:**

Industry questions the need for this table to be so specific. Industry believes it should be qualitative and not a precise percentage. If it must be a number only, it would be better to ask for a range that contributes to the determination of VR.

It is unclear how banks can account for, (for example) a split assessment? For example, a bank's model may have 2x performance ratings, the 'How' & 'What'. This is a prime example of it being difficult to achieve comparability of outcomes across the industry due to the different performance and remuneration models adopted by entities. For entities that treat behavioural measures as a gateway or modifier it will be excluded as a measure under the instructions.

#### **Table 2, #9. Description of level of actual achievement of non-financial VR measures**

This requirement cannot be provided in each reporting period for the LTVR. Not all incentive plans have a formulaic approach to derive an outcome for non-financial measures.

For long-term plans, would APRA accept a response of "not measured until the end of the performance period (being 202X)".

#### **Table 2, #10, 11 and Table 2.1**

In some banks, the approach to determining final VR pool is not so formulaic or doesn't assign a pool per plan. It takes a range of considerations into account, including performance and risk outcomes and the Board applying judgement. The ABA believes these items should provide for a qualitative response to demonstrate all considerations in determining the final pool when an entity has an approach that is not so formulaic.

#### **Table 2.1, #3. VR adjustment tool method (e.g., financial gateway, financial modifier)**

Does "VR adjustment tool method" include Board discretion? Response options do not seem to suggest so.

#### **Table 2.1, #4. VRC Eligibility**

Further clarity on definition of employees eligible is required:

- Is this requesting the number of individuals who were "eligible" to receive or "did" receive. VR includes retention awards. If this related to a retention award, these would be two different things
- What does "eligible" mean? E.g. Does this include or exclude those not meeting gates?
- Clarify if this is number of Specified Roles eligible or number of employees eligible.

#### **Table 3, #2. Specified Role category**

Does this data have to be provided for all separated employees until the individual's VR has completely vested?

If so, entities may be reporting on separated employees for up to 5-6 years following their separation date (depending on the treatment of awards and vesting period)

If not, the individuals listed in Tables 3-4 may be different and will not align.

#### **Table 3, #3 – Position Role ID**

It is unclear to industry why a position ID is relevant when a unique employee ID is provided – this overcomplicates process/ systems implications.

#### **Table 3, #5 – Position Business Unit**

What does APRA intend to use this for? To ensure this is a useful data point, can APRA define what a “business unit” is, otherwise it will get inconsistent data for this?

#### **Table 3, #13, 14 – Performance Rating; Risk and Conduct Rating**

Banks do not necessarily have a single rating scale to harmonise performance ratings to the APRA scale. For example, a bank might rate ‘What’ & ‘How’ (with risk standards and behaviours as an input to the ‘How’). The template assumes all operating under common models and rating scales. In general, each entity has a reward philosophy and framework which is driven by the entity’s strategy, culture and organisational structure, as well as different performance, remuneration and consequence models/structures. Considering this diversity of practice will be key to achieve meaningful comparability of outcomes across the industry due to the different models used. In addition, allowing for qualitative disclosures that provide appropriate organisational, strategic and cultural context for each entity will be key to a correct interpretation of all remuneration arrangements and governance frameworks.

#### **Table 4, #3 – Weight of VRC NFMs**

Similar comment as Table 2, #7 above: Industry recommends not being so specific or formulaic, this should be qualitative. If it must be a number only, it would be better expressed as a range.

#### **Table 4, #5,6 – Target VRC/ Maximum VRC:**

Not all roles have ‘target’ based VR (APRA was provided with this feedback last year). This will impact comparability of reporting – albeit instructions say to report as ‘0’ where no target/ maximum is in place. This could look quite misleading, for example, Institutional is an area where this is typical for some banks, yet these employees are some of the highest potential earners of STVR. A qualitative response could provide appropriate context for how this works in practice.

#### **Table 4, #7,8 – Actual VRC awarded to person pre and post in period adjustments**

This creates complexity in system tracking and process, that is entities must determine outcome pre adjustments, then apply adjustments – reporting accuracy due to different approaches by entities may impact comparability across industry.

#### **Table 4, #7-21 – VR awards, deferral & adjustments**

From FY24, systems and processes need to be established (creating additional complexity in our rem system) to track and report all VR awards made, adjusted and paid/ vested through to the completion of each award’s vesting and clawback (where applicable) period for a cohort of a significant pool of employees.

#### **Table 4, #17-21.**

Table 4 will result in a significant amount of data being reported.

There will be multiple lines of data for employees who participate in more than one VR plan.

Entities may be reporting on separated employees for up to 5-6 years following their separation date (depending on the treatment of awards and vesting period).

Reporting on malus and clawback adjustments will be highly manual (e.g., to determine exactly which award malus was applied to). Method of reporting will need to be carefully considered to ensure accurate and comparable data.

#### Table 4.1, #3. VRC Adjustment Tool

Some of these adjustment tools will need to be incorporated in various reports and completed manually.

#### Table 4.1, #4. VR adjustment tool method (e.g., financial gateway, financial modifier)

Does “VR adjustment tool method” include Board discretion? Response options do not seem to suggest so. Information on whether Board discretion was used to override this is tool is requested in #5 but it doesn’t specify whether this is included or excluded in #4. A worked example would assist.

#### Additional feedback:

**MRT reporting** – Industry’s interpretation is that ADIs must report on individual MRTs only and not collective MRTs – Can APRA confirm if this is correct? For completeness if an MRT is also an RFC, can APRA confirm which cohort the individual should be included in for disclosure purposes?

#### APRA Disclosures:

##### *Relevant payments and awards*

**CPS 511 #64, 68** – These two clauses appear to be inconsistent for what must be disclosed, i.e. clause #64 requires disclosures of **payments and awards that relate to performance or service during the financial year, but are made following the end of the FY** whereas #68 requires disclosures of **remuneration outcomes for the financial year, including vested remuneration that was granted in previous financial years.**

Language must be clarified as #64 will identify payments and awards relating to one year only, whereas #68 will identify payments relating to awards relating to current year outcomes and payments/ vesting relating to previous year’s awards. In addition, consideration should also be given to alignment with the definition of VR to be used for the calculation of deferral as given in #67 of the CPG.

Similarly, as the ABA outlined in its submission on FAR, there are inconsistencies in the wording between VR to use for the purposes of deferral calculations under FAR and CPS/CPG 511. APRA previously indicated that it may make additional amendments to CPS 511 where appropriate, once FAR is finalised to ensure there is appropriate alignment between the design and implementation of CPS 511 and FAR. Now FAR has been finalised, can APRA indicate if it intends to make any amendments to CPS 511. If so, can APRA please confirm what these are going to be?

##### *Other*

**CPS 511 Table 1 #3.** Overview of reviews of the remuneration framework - request clarification of what “reviews of the remuneration framework” include? Are these just the compliance and effectiveness reviews or is the intent to capture other reviews as well? Note, CRS 511 table 1, is explicit around what reviews it is asking for information from. Is this distinction deliberate?

**CPS 511 Table 3, Special Payments** - options do not adequately reflect ‘buy-outs’. Same issue as identified in Reporting requirements, Table 2, #2, i.e. buy-outs are not the same as sign-on/ guaranteed bonuses. There should be a specific category for ‘buy-outs’ as these are a point of contention in feedback already provided to APRA.

#### **CPS 511 Table 4(b) Total amount of variable remuneration not deferred post adjustments –**

There is a need to clarify the meaning of this to avoid any misinterpretation, i.e. Is this for the one year only or is it to include any from previous years?