



Prudential Standard CPS 511

Remuneration

Objectives and key requirements of this Prudential Standard

The objective of this Prudential Standard is to ensure that the remuneration arrangements of all APRA-regulated entities promote effective management of both financial and non-financial risks, sustainable performance and long-term soundness, and in addition for an RSE licensee, promote the financial interest, and reasonable expectations, of beneficiaries.

The key requirements of this Prudential Standard are that:

- the Board of an APRA-regulated entity is responsible for the remuneration framework and its effective application;
- an entity must have a remuneration framework which captures all remuneration arrangements;
- an entity must regularly conduct compliance and effectiveness reviews of the entity's remuneration framework;
- remuneration outcomes must be commensurate with performance and risk outcomes; and
- higher standards must be met for key roles and certain large, complex entities.

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Authority

1. This Prudential Standard is made under:
 - (a) section 11AF of *the Banking Act 1959* (Banking Act);
 - (b) section 32 of the *Insurance Act 1973* (Insurance Act);
 - (c) section 230A of the *Life Insurance Act 1995* (Life Insurance Act);
 - (d) section 92 of the *Private Health Insurance (Prudential Supervision) Act 2015* (PHIPS Act); and
 - (e) section 34C of the *Superannuation Industry (Supervision) Act 1993* (SIS Act).

Application

2. Subject to paragraph 3, this Prudential Standard applies to all APRA-regulated entities, defined as:
 - (a) **authorised deposit taking institutions (ADIs)**, including **foreign ADIs**, and **non-operating holding companies** authorised under the Banking Act (authorised banking NOHCs);
 - (b) **general insurers**, including **Category C insurers**, non-operating holding companies authorised under the Insurance Act (authorised insurance NOHCs) and **parent entities of Level 2 insurance groups**;
 - (c) **life companies**, including **friendly societies**, **eligible foreign life insurance companies** (EFLICs), and non-operating holding companies registered under the Life Insurance Act (registered life NOHCs);
 - (d) **private health insurers** registered under the PHIPS Act; and
 - (e) **registrable superannuation entity licensees** (RSE licensees) under the SIS Act in respect of their business operations.¹
3. The obligations imposed by this Prudential Standard on, or in relation to, a foreign ADI, a Category C insurer or an EFLIC apply only in relation to the Australian branch operations of that entity.

¹ For the purposes of this Prudential Standard, an 'RSE licensee' has the meaning given in section 10(1) of the SIS Act. An 'RSE licensee's business operations' includes all activities of an RSE licensee (including the activities of each RSE of which it is the licensee), and all other activities of the RSE licensee to the extent that they are relevant to, or may impact on, its activities as an RSE licensee.

5. Where an entity is the ‘Head of a group’², it must comply with a requirement of this Prudential Standard:
 - (a) in its capacity as an APRA-regulated entity;
 - (b) by ensuring that a requirement is applied appropriately throughout the group, including in relation to entities that are not APRA-regulated; and
 - (c) on a group basis.
6. In applying the requirements of this Prudential Standard on a group basis, references in paragraphs 14 to 52 and 60 to 62 to an ‘APRA-regulated entity’ must be read as ‘Head of a group’ and references to ‘entity’ must be read as ‘group’.
7. This Prudential Standard does not apply to the extent it would require any entity to act (or not act) in a manner contrary to:
 - (a) the *Fair Work Act 2009*; and
 - (b) in relation to any employment contract or contract of appointment or engagement governed by foreign law, any applicable foreign legislation.
8. For an ADI, by operation of the *Legislation Act 2003*, this Prudential Standard is to be read and construed subject to the Banking Act, including Part IIAA which imposes requirements relating to remuneration.
9. This Prudential Standard commences on 1 July 2021.

Interpretation

10. Terms that are defined in *Prudential Standard 3PS 001 Definitions*, *Prudential Standard APS 001 Definitions* (APS 001), *Prudential Standard GPS 001 Definitions*, *Prudential Standard LPS 001 Definitions* or *Prudential Standard HPS 001 Definitions* appear in bold the first time they are used in this Prudential Standard.
11. In this Prudential Standard, unless the contrary intention appears, a reference to an Act, Regulations, Rules or Prudential Standard is a reference to the Act, Regulations, Rules or Prudential Standard as in force from time to time.
12. Where this Prudential Standard provides for APRA to exercise a power or discretion, the power or discretion is to be exercised in writing.

² Where a Level 2 group operates within a Level 3 group, a requirement expressed as applying to a Head of a group is to be read as applying to the Level 3 Head. For the avoidance of doubt, the reference to ‘Head of a group’ does not apply to an RSE licensee.

13. For the purposes of this Prudential Standard:
- (a) group – means a Level 2 group, **Level 3 group** or a group comprising the RSE licensee and all connected entities³ and all related bodies corporate⁴ of the RSE licensee, as relevant;⁵
 - (b) Head of a group – means a Level 2 Head or **Level 3 Head**, as relevant;
 - (c) Level 2 group – means the entities that comprise:
 - (i) **Level 2** as defined in APS 001; or
 - (ii) a Level 2 insurance group as defined in GPS 001;
 - (d) Level 2 Head – means:
 - (i) where an ADI that is a member of a Level 2 group is not a **subsidiary** of an authorised banking NOHC or another ADI, that ADI;
 - (ii) where an ADI that is a member of a Level 2 group is a subsidiary of an authorised banking NOHC, that authorised banking NOHC; or
 - (iii) the parent entity of a Level 2 insurance group as defined in GPS 001;

Adjustments and exclusions

14. APRA may adjust or exclude a specific requirement in this Prudential Standard in relation to an APRA-regulated entity.

Previous exercise of discretion

15. An APRA-regulated entity must contact APRA if it seeks to place reliance, for the purposes of complying with this Prudential Standard, on a previous exemption or other exercise of discretion by APRA under a previous version of this Prudential Standard.⁶

³ For the purposes of this Prudential Standard, a reference to a ‘connected entity’ has the meaning given in section 10(1) of the SIS Act.

⁴ ‘Related body corporate’ has the meaning given in section 50 of the *Corporations Act 2001* (Corporations Act).

⁵ For the avoidance of doubt, a reference to ‘group’ also includes a group as defined in *APS 001*; For an RSE licensee, ‘group’ includes where an RSE licensee is part of a corporate group.

⁶ Prudential standards relating to remuneration were previously included in *Prudential Standard CPS 510 Governance* (CPS 510) and *Prudential Standard SPS 510 Governance* (SPS 510), and are considered to be previous versions of CPS 511 for the purposes of paragraph 15.

Definitions

16. The following definitions are used in this Prudential Standard:
- (a) Board – for an RSE licensee, means a reference to the Board of directors or group of individual trustees of an RSE licensee where ‘group of individual trustees’ has the meaning given in section 10(1) of the SIS Act;
 - (b) clawback – means the recovery of remuneration that has been paid or vested to a person;
 - (c) highly-paid material risk-taker – means a material risk-taker whose total fixed remuneration (which includes salary, superannuation, allowances and benefits) plus maximum potential variable remuneration is equal to or greater than 1 million AUD in a financial year;
 - (d) in-period adjustment – means an adjustment made to variable remuneration during or at the end of the period set for measuring the performance of a variable remuneration arrangement;
 - (e) malus – means an adjustment to reduce the value of all or part of deferred variable remuneration before it has vested;
 - (f) material risk-taker – means a person whose activities have a material potential impact on the entity’s risk profile, performance and long-term soundness, and in addition for an RSE licensee, means a person whose activities have a material potential impact on promoting the financial interest, and reasonable expectations, of beneficiaries;
 - (g) misconduct risk – means the risk associated with action or inaction by a person covered by an entity’s remuneration policy that falls short of expected standards, including legal, professional, internal conduct and ethical standards;
 - (h) relevant oversight function – means for foreign ADIs and Category C insurers, the senior officer outside Australia, and for EFLICs, the Compliance Committee;
 - (i) remuneration arrangement – means an arrangement that includes measures of performance, the mix of forms of remuneration (such as fixed and variable components, and cash and equity-related benefits) and the timing of eligibility to receive payments. All forms of remuneration are captured by this Prudential Standard, regardless of where, or from whom, the remuneration is sourced;
 - (j) risk and financial control personnel – means a person whose primary role is risk management, compliance, internal audit, financial control or actuarial control;

- (k) senior manager – means a person:
 - (i) who has or exercises any of the senior management responsibilities, within the meaning of *Prudential Standard CPS 520 Fit and Proper* and for an RSE licensee, *Prudential Standard SPS 520 Fit and Proper*, for the entity in their capacity other than as a director; and
 - (ii) who is a director within the meaning of the Corporations Act;
- (l) significant financial institution – means a large, complex entity as determined by APRA;
- (m) special role category – means a person in the category of senior manager, material risk-taker (including highly-paid material risk-takers) and risk and financial control personnel;
- (n) variable remuneration – means the amount of a person’s total remuneration that is conditional on the achievement of objectives; and
- (o) vesting – means the process by which a person becomes the legal owner of the variable remuneration.

Remuneration framework

- 17. An APRA-regulated entity must maintain a remuneration framework that is appropriate to the size, business mix and complexity of the entity.
- 18. The remuneration framework must include a documented remuneration policy setting out:
 - (a) the remuneration objectives of the entity;
 - (b) the principles to be followed to align the entity’s remuneration arrangements with the remuneration objectives;
 - (c) at a high level, the structure and terms of remuneration arrangements that apply to a person specified in paragraph 19;
 - (d) the systems and processes that support the implementation of the entity’s remuneration arrangements, including those that cover the assessment and management of performance, conduct and consequences; and
 - (e) where the entity is a significant financial institution, the approach to addressing specific requirements of this Prudential Standard.
- 19. Paragraph 18(c) applies to a person who is:
 - (a) employed directly by the entity;
 - (b) retained directly by the entity under contract;

- (c) employed by, or a contractor of a body corporate (including a service company) that is a related body corporate or connected entity, of the entity;
 - (d) employed by, or a contractor of a body that is not a related body corporate or connected entity of the entity, and which has a service contract with the entity, where:
 - (i) the primary role of the body is to provide risk management, compliance, internal audit, financial control or actuarial control services to the entity; or
 - (ii) the services provided by the body, either individually or collectively with like services provided by other bodies, may affect the entity's long-term soundness or materially affect the management of financial or non-financial risks, and where under the services contract, a material amount of the total payment to the body is based on performance.
20. The remuneration objectives of an entity must:
- (a) align with the entity's business plan, values, and compliance obligations;
 - (b) promote effective management of both financial and non-financial risks, sustainable performance and the entity's long-term soundness;
 - (c) for an RSE licensee, promote the financial interest, and reasonable expectations, of beneficiaries; and
 - (d) support the prevention and mitigation of misconduct risk.

Role of the Board

21. The Board, or relevant oversight function, of an APRA-regulated entity is ultimately responsible for the entity's remuneration framework and its effective application. The Board must actively oversee the framework.
22. The Board or relevant oversight function must approve the remuneration policy required under paragraph 18 of this Prudential Standard.
23. The Board must establish a Board Remuneration Committee that:
- (a) oversees the design, operation and monitoring of the remuneration framework;
 - (b) is appropriately composed to enable it to exercise competent and independent judgment when fulfilling requirements under paragraph 23(a) above; and
 - (c) has the powers necessary to perform its functions.

24. The Board must establish a formal process for the Board Remuneration Committee to consult the Board Risk Committee⁷ and Chief Risk Officer or person in a similar role, to enable risk outcomes to be appropriately reflected in remuneration outcomes for persons in special role categories.

Board Remuneration Committee

25. The Board Remuneration Committee must have at least three members and all members must be non-executive directors of the entity.
26. For an entity that is not an RSE licensee, a majority of members of the Committee must be independent and the chairperson of the Committee must be an independent director of the entity.
27. For an RSE licensee, the chairperson of the Board may sit on the Board Remuneration Committee, but may not chair the Committee except where the chairperson of the Board is the only independent director⁸ on the Board.
28. The Board Remuneration Committee must have a written charter that sets out its roles, responsibilities and terms of operation. The charter must reflect the remuneration objectives of the entity.
29. The Board Remuneration Committee, or relevant oversight function, must obtain comprehensive reporting that will allow it to assess whether remuneration outcomes of all remuneration arrangements align with the entity's remuneration objectives.
30. The Board Remuneration Committee or relevant oversight function must, in carrying out its duties:
- (a) have free and unfettered access to other Board committees;
 - (b) have free and unfettered access to risk and financial control personnel and other relevant parties (internal and external); and
 - (c) if choosing to engage third-party experts, have the power to do so in a manner that ensures that the engagement, including any advice received, is independent.
31. Where an APRA-regulated entity is part of a group, the Board of the APRA-regulated entity may use a group Board Remuneration Committee as the Board Remuneration Committee for the APRA-regulated entity, provided that:
- (a) the other requirements set out in this Prudential Standard are met;

⁷ For an RSE licensee, as set out in SPS 510, another Board Committee may carry out this function with respect to risk management.

⁸ For an RSE licensee, independent director has the meaning given in section 10 of the SIS Act.

- (b) all members of the group Board Remuneration Committee are non-executive directors of the Head of the group in the context of an ADI, general insurer or life company; and
 - (c) the Board of the entity has free and unfettered access to the group Board Remuneration Committee.
32. An APRA-regulated entity may apply to APRA for approval for alternative Board Remuneration Committee arrangements that meet the objectives of this Prudential Standard. APRA may approve alternative arrangements for the entity if satisfied that those arrangements will, in APRA's opinion, achieve the objectives of this Prudential Standard.

Review of the remuneration framework

33. An APRA-regulated entity must review compliance of the remuneration framework with the requirements of this Prudential Standard at least annually.
34. In addition to the annual review of compliance, an APRA-regulated entity must ensure that the effectiveness of the remuneration framework is subject to a comprehensive review by operationally independent, appropriately experienced and competent persons at least every three years.
35. An APRA-regulated entity must document and report the results of the reviews required under paragraphs 33 and 34 of this Prudential Standard, to the Board Remuneration Committee in a timely manner. The Board Remuneration Committee must take appropriate and timely action to ensure the findings of these reviews are adequately addressed and implemented.
36. An APRA-regulated entity's effectiveness review under paragraph 34 of this Prudential Standard must:
- (a) assess the alignment between the entity's remuneration objectives and remuneration framework;
 - (b) test whether the remuneration framework is operating as intended, and whether the remuneration objectives, principles and structures are achieving their expected outcomes;
 - (c) assess the alignment of remuneration outcomes with the performance and risk outcomes achieved including, where relevant, back testing of remuneration outcomes against remuneration design and performance and risk outcomes;
 - (d) assess whether the remuneration framework and arrangements could create circumstances which increase misconduct risk; and
 - (e) assess the alignment of the remuneration framework and arrangements with all applicable laws and regulations.

Remuneration design

37. An APRA-regulated entity must design all variable remuneration arrangements to align with its remuneration objectives. Design of variable remuneration arrangements must incorporate:
- (a) appropriate remuneration design tools which allow variable remuneration adjustments when and if required;
 - (b) financial and non-financial risks that could materially impact the entity's risk profile, performance, long-term soundness, and in addition for an RSE licensee, materially impact on promoting the financial interest and reasonable expectations of beneficiaries and which, at a minimum, cover the material risks set out in *Prudential Standard CPS 220 Risk Management* and *Prudential Standard SPS 220 Risk Management*;
 - (c) the need for payout and vesting schedules to be commensurate with the possible range of risk and performance outcomes;
 - (d) an assessment of whether remuneration objectives have been met in a multi-year framework over the entity's business and strategic time horizon; and
 - (e) the cost and quantity of capital and liquidity required to support business activities, where appropriate for the role.⁹
38. For any variable remuneration arrangement of an APRA-regulated entity, financial performance measures must not comprise more than 50 per cent of total measures used to allocate variable remuneration. Each individual financial performance measure must not comprise more than 25 per cent of total measures. Financial performance measures include but are not limited to:
- (a) revenue, profit and volume based measures;
 - (b) share-based measures that reflect changes in the value of shares and dividends paid or the return on the number of shares issued; and
- excludes risk-adjusted measures and an RSE licensee's investment return measures.
39. An APRA-regulated entity must take appropriate steps to assess and mitigate conflicts of interest in the design of its remuneration arrangements, including service contracts.

⁹ Paragraph 37(e) of this Prudential standard does not apply to an RSE licensee.

40. An APRA-regulated entity must not accelerate the vesting of unvested variable remuneration for a person no longer employed or engaged by the entity, unless specific exceptions¹⁰ have been made in the remuneration policy. If the person is eligible for any unvested variable remuneration, it must be subject to the same vesting conditions as for a person employed or engaged by the entity.

Remuneration outcomes

41. An APRA-regulated entity must ensure that variable remuneration outcomes:
- (a) are commensurate with performance and risk outcomes; and
 - (b) are adjusted downwards, to zero if appropriate, through tools that are triggered when remuneration objectives are not met, or in response to significant unexpected or unintended consequences which impact the effective management of both financial and non-financial risks, sustainable performance, long-term soundness of the entity and for an RSE licensee have an impact on promoting the financial interest, and reasonable expectations, of beneficiaries. Tools include but are not limited to in-period adjustments, malus, clawback and overriding discretion and judgment.
42. An APRA-regulated entity must ensure that variable remuneration is paid or vested only if payment or vesting:
- (a) does not compromise the entity's long-term soundness;
 - (b) for an RSE licensee, does not compromise promoting the financial interest, and reasonable expectations, of beneficiaries;
 - (c) is justified on the basis of the performance achieved and effective management of both financial and non-financial risks of the entity and the relevant business unit, and, the performance of the person concerned; and
 - (d) meets the entity's remuneration objectives.
43. An APRA-regulated entity must ensure that variable remuneration outcomes are linked to and are supported by the entity's performance management system, code of conduct and consequence management processes.
44. An APRA-regulated entity must set specific criteria for the application of malus for variable remuneration, including:
- (a) a significant downturn in financial performance;
 - (b) evidence of misconduct or negligence resulting in losses;
 - (c) a significant failure of financial or non-financial risk management;

¹⁰ For the purposes of paragraph 40 of this Prudential Standard, a reference to 'specific exceptions' includes death, serious incapacity, serious disability or serious illness.

- (d) a failure to meet the entity's code of conduct; and
 - (e) significant adverse outcomes for customers, beneficiaries or counterparties.
45. An APRA-regulated entity must take reasonable steps to appropriately reduce unvested deferred variable remuneration when, as a minimum, any of the criteria specified in paragraph 44 is satisfied.

Special role categories

46. An APRA-regulated entity must prudently manage the variable remuneration arrangements of all persons in special role categories.
47. The Board Remuneration Committee or relevant oversight function must provide clear guidance to senior management on its expectations in determining the appropriate level and timing of risk adjustment to the variable remuneration outcomes for persons in special role categories.
48. The Board Remuneration Committee must assess and make recommendations to the Board annually on the remuneration arrangements and variable remuneration outcomes for persons in special role categories as follows:
- (a) individually for senior managers and highly-paid material risk-takers;
 - (b) collectively for material risk-takers not covered under paragraph 48(a) of this Prudential Standard; and
 - (c) collectively for risk and financial control personnel.
49. In undertaking its assessment under paragraph 48 of this Prudential Standard, the Board Remuneration Committee must obtain sufficient information to determine whether the variable remuneration arrangement for a person in a special role category, whether individually or collectively, is appropriate to meet its intended purpose and expected outcomes, and meet the entity's remuneration objectives.
50. The Board or relevant oversight function must approve the variable remuneration outcomes for persons in special role categories.
51. An APRA-regulated entity must also ensure that the variable remuneration arrangements for risk and financial control personnel:
- (a) reflect the independence and authority of those personnel in carrying out their functions;
 - (b) are set in accordance with the objectives of their functions; and
 - (c) are not influenced by the performance of the business activities they control.

52. An APRA-regulated entity must include, whether in its remuneration policy, contractual or other documentation, a prohibition for any person in a special role category who receives equity or equity-linked deferred variable remuneration from hedging their economic exposure to the resultant equity price risk before the equity-linked remuneration is fully vested and able to be sold for cash by the recipient. The entity must define and document the process and actions to be taken where any person in a special role category is in breach of this requirement.

Deferral and clawback for significant financial institutions

53. A significant financial institution must, for a Chief Executive Officer (CEO), defer 60 per cent of their total variable remuneration for at least seven years from the inception of the variable remuneration component. Vesting of this 60 per cent may only occur after four years from the time of inception and no faster than on a pro-rata basis.
54. A significant financial institution must, for a senior manager other than its CEO and for a highly-paid material risk-taker, defer 40 per cent of their total variable remuneration for at least six years from the inception of the variable remuneration component. Vesting of this 40 per cent may only occur after four years from the time of inception and no faster than on a pro-rata basis.
55. Paragraphs 53 and 54 do not apply in respect of any person with variable remuneration of less than AUD \$50,000 in a financial year.
56. A significant financial institution must subject the variable remuneration of a senior manager or a highly-paid material risk-taker to clawback. Variable remuneration must only be awarded if an amount corresponding to it can be recovered from the person if recovery is justified on the basis of the criteria specified in paragraph 58.
57. For the purposes of paragraph 56, variable remuneration must be subject to clawback for:
- (a) at least two years from the date of payment or vesting; and
 - (b) in circumstances involving a person under investigation, for at least four years from the date of payment or vesting.
58. Subject to conditions set in the remuneration policy, a significant financial institution must set specific criteria for the application of clawback, including:
- (a) responsibility for material financial losses;
 - (b) material misstatement of financial statements or other criteria on which the variable remuneration determination was based;
 - (c) breach of compliance obligations including in relation to misconduct risk; and
 - (d) failure of accountability or fitness and propriety.

59. A significant financial institution must take reasonable steps to recover an appropriate amount corresponding to some or all paid or vested variable remuneration subject to clawback, in circumstances where any of the criteria specified in paragraph 58 is satisfied, whether or not the employment or engagement of the individual has ceased.

Other requirements

60. Nothing in this Prudential Standard prevents an APRA-regulated entity from adopting and applying a group remuneration policy that is also used by a related body corporate or a connected entity provided that the required remuneration policy:
- (a) meets the requirements of this Prudential Standard;
 - (b) has been approved by the Board or relevant oversight function; and
 - (c) gives appropriate regard to the entity's business activities, its specific requirements and its remuneration framework.
61. An APRA-regulated entity must ensure that variable remuneration is not paid (whether directly or indirectly) to, or for the benefit of, the relevant person through vehicles or methods that undermine the effect or intent of the requirements of this Prudential Standard, including through the entity (or by the entity making arrangements with any other person) indemnifying or insuring the relevant person against the consequences of:
- (a) breaching of an obligation under this Prudential Standard; or
 - (b) applying in-period adjustment, malus or clawback under this Prudential Standard.
62. Paragraph 61 does not apply in respect of a liability for legal costs.