



16 May 2013

Mr Neil Grummitt
General Manager, Policy Development
Policy, Research and Statistics
Australian Prudential Regulation Authority
Email: Basel3capital@apra.gov.au

Dear Mr Grummitt

**Members Equity Bank Pty Limited (ME Bank)
Submission in respect of Basel III remuneration disclosure requirements**

I refer to the *Discussion Paper: Basel III disclosure requirements: composition of capital and remuneration (Discussion Paper)* and the draft *Prudential Standard APS 330 – Public Disclosure (Draft APS 330)*, both released on 9 April 2013.

Capital Disclosures

ME Bank acknowledges the composition of capital disclosures proposed in Draft APS 330 and confirms it does not wish to make any submission in respect of those.

Remuneration Disclosures

ME Bank submits that the remuneration disclosures proposed in Draft APS 330 (**Disclosure Requirements**) are inappropriate when applied to small, unlisted Authorised Deposit-taking Institutions (**ADIs**), and request that APRA amend the Disclosure Requirements, or exempt unlisted ADIs from their application, to ensure the requirements for small ADIs are appropriate and in alignment with the intentions of the Basel Committee. This includes ensuring the Disclosure Requirements do not require the disclosure of sensitive of confidential information by smaller or unlisted ADIs.

As APRA is aware, ME Bank currently makes limited remuneration disclosures in its annual financial statements. These disclosures give the aggregate compensation made to the Bank's directors (as a group) and key management personnel of the Bank (being the Chief Executive Officer and executive team, as a group).

As a proprietary company ME Bank is not currently required to, and does not, publish its annual financial statements, or make them available on a general basis. Shareholders are provided with a copy of the statements, and are able to make enquiries on matters contained in them. The statements are available to the public through ASIC, upon payment of a small fee.

The Disclosure Requirements will require remuneration arrangements for a wider group of ME Bank staff to be reported, as senior managers and material risk takers, as defined in Draft APS 330, will include people other than the directors and key management personnel. Further, while many of the Disclosure Requirements are aggregate disclosures, there are a number of new categories of disclosure where both the number and total amount of different types of payments would need to be disclosed.

The Disclosure Requirements include the separate reporting of the totals of any guaranteed bonuses, sign-on awards and severance payments made in a year. Given ME Bank makes few, if any, such payments in a year, disclosure could compromise the confidentiality of any such arrangements, particularly if the Bank is required to publish remuneration data on its website.

Additionally, given the limited group of employees who receive deferred remuneration at ME Bank, the requirement to disclose outstanding deferred remuneration and deferred remuneration paid out could compromise the confidentiality of its most senior employees, of which there is a small, identifiable number. This is contrary to the intention of the Basel Committee, which has said of its recommended requirements:

The requirements have been designed to be sufficiently granular and detailed to allow meaningful assessments by market participants of a bank's compensation practices, while not requiring disclosure of sensitive or confidential information.¹

The Basel Committee has acknowledged the difficulty that smaller banks may have in complying with remuneration disclosure requirements and has indicated that the scope of such requirements may need to be limited. Relevantly, the Committee has stated:

Scope of application

6. It is recognised that there is a broad spectrum of banks that are subject to Basel II and that the proposed disclosures may not be relevant for all such banks or for all their business lines. In certain jurisdictions, banks subject to Basel II may not be of sufficient size to have a separate Remuneration Committee, or may not have resources to implement a fully functional deferral and performance adjustment scheme.

7. Pillar 3 remuneration disclosure requirements therefore may include thresholds of materiality or proportionality, based on those already applying to existing Pillar 3 disclosures. This may have two aspects:

- whether the bank as a whole is exempt fully or partly from disclosure, depending on the risk profile of the bank, and*
- whether certain types of disclosure may be exempted on grounds that the information is not material, or is proprietary or confidential.²*

ME Bank therefore requests that APRA consider amending the Disclosure Requirements or limiting their application to not require ME Bank (and other small ADIs) to publish sensitive or confidential information.

We note also the submission from the Australian Bankers' Association in respect of the Disclosure Requirements, and are supportive of it insofar as it relates to issues affecting ME Bank.

Please contact me [REDACTED] if you require any further information about this submission.

Yours sincerely


Isobel Rogerson
Company Secretary

¹ Paragraph 3, *Pillar 3 disclosure requirements for remuneration*, Bank for International Settlements, July 2011.

² Paragraph 6-7, *Ibid.*