

23 July 2021

[REDACTED]
General Manager Policy
Policy and Advice Division
Australian Prudential Regulation Authority
Email: [REDACTED]

Dear Mr Holland

APRA DRAFT PRUDENTIAL PRACTICE GUIDE CPG 511 REMUNERATION

On behalf of the Australian Council of Superannuation Investors (ACSI), thank you for the opportunity to make a submission related to APRA's draft Prudential Practice Guide CPG 511 Remuneration.

About ACSI

Established in 2001, ACSI exists to provide a strong, collective voice on environmental, social and governance (ESG) issues on behalf of our members. Our members include 36 Australian and international asset owners and institutional investors. Collectively, they manage over \$1 trillion in assets and own on average 10% of every ASX200 company.

Our members believe that ESG risks and opportunities have a material impact on investment outcomes. Through ACSI, our members collaborate to achieve genuine, measurable and permanent improvements in the ESG practices and performance of the companies they invest in. ACSI staff undertake a year-round program of research, engagement, advocacy and voting advice. These activities provide a solid basis for our members to exercise their ownership rights.

Summary of ACSI's position on CPG 511

We remain supportive of APRA's goals to improve remuneration practice, by enhancing board oversight, improving transparency, strengthening the use of non-financial measures in remuneration design and ensuring that there are appropriate financial consequences for poor risk management. CPG 511 provides helpful clarity for APRA-regulated institutions ('institutions') to ensure they have robust remuneration policies and practices.

Overall, we support CPG 511, as it is consistent with our understanding of good practice in remuneration design and appropriately captures the necessary core principles.

There are, however, some areas in which CPG 511 would benefit from further refinement, including:

- the use of the term 'non-financial risk'
- disclosure
- alignment with SPG 530.

We look forward to engaging in further consultations on remuneration, particularly related to disclosure.

I trust our comments are of assistance. Please contact me or [REDACTED] should you require any further information on ACSI's position.

Yours sincerely

[REDACTED]
[REDACTED]
Chief Executive Officer
Australian Council of Superannuation Investors

Support for CPG 511

We recognise and appreciate that APRA has integrated a number of elements of feedback into the updated CPS 511. We strongly support APRA's focus on 'non-financial' risk, and the recognition in CPG 511 that 'non-financial' targets should be appropriately weighted to reflect the range of matters that are important to an entity's long-term success and should impact an entity's strategy, risks, opportunities and priorities. While one set of metrics will not suit all entities, there are common principles that are well articulated in CPG 511. Importantly, 'non-financial' measures should always be appropriate, objective, transparent, measurable and truly at risk.

We support a number of elements included in CPG 511, including the guidance that:

- Entities should 'define non-financial measures that best suit their particular strategy and risk objectives, and reflect their specific risk profile' (para 47).
- Boards should 'ensure that remuneration practices are well supported by broader frameworks and policies that influence behaviour, beyond financial rewards' (para 6).
- Entities should 'define non-financial measures that best suit their particular strategy and risk objectives, and reflect their specific risk profile' (para 47).
- Remuneration outcomes should be 'sensitive to the assessment of non-financial measures, as there is otherwise limited scope to impact behaviours' (para 44.b). This is important to ensure that non-financial measures are not (and are not perceived to be) persistently high, unchallenging or a 'catch up' for when financial measures fail to vest. We also strongly support non-financial measures being used as a modifier or gateway that operates to reduce or prevent pay out under a financial measure where the non-financial measures are not appropriately met.
- Entities should use qualitative and quantitative measures to form the basis of decisions (para 18, 49).
- Entities should have appropriate measure for consequence management (page 19), and that it would not be prudent for Boards to excuse poor risk outcomes on the basis of good intent (para 16).
- Boards should take account of windfall gains due to public sector support during periods of stress (para 15.c).

Further suggestions for consideration

Use of the term 'non-financial risk'

We support the APRA Capability Review Panel's view, which stated '[t]his Review is careful not to make the distinction between financial and non-financial risks common in discussion of governance, culture and accountability (GCA). Weaknesses in GCA frameworks feed directly into financial safety and stability.' While we recognise that the use of the term 'non-financial risk' is common, we encourage APRA to consider language that more accurately captures the material financial consequences associated with poor management of 'non-financial risks', particularly environmental, social and governance risks.

Disclosure

There are varying levels of quality in disclosure of remuneration policies and practices. As APRA noted in its Response Paper, there can be inconsistent disclosure of remuneration governance, insufficient detail on remuneration design and outcomes, (particularly for Highly Paid Material Risk Takers) and a lack of clarity on the inputs and outputs of the consequence management processes. It is important to have high quality disclosure in order to establish effective market discipline of remuneration outcomes.

We note that CPG 511 does not cover disclosure, and that APRA intends to consult later in 2021 to develop reporting and disclosure requirements for remuneration. Clear standards will be important to ensure entities are providing investors with meaningful information. ACSI therefore supports APRA's intention to consult further on disclosure, and we will look forward to providing our perspective during that consultation.

Aligning SPG 530

We note that APRA is proposing to review and update SPS/G 530 on consideration of ESG factors in formulating investment strategy. We agree that review is necessary and note its relevance to CPG 511 given the focus on non-financial risk.