

14 October 2022

General Manager, Policy  
Policy and Advice Division  
Australian Prudential Regulation Authority  
Email: policydevelopment@apra.gov.au

Dear Sir/Madam

## REMUNERATION DISCLOSURE AND REPORTING REQUIREMENTS FOR APRA-REGULATED ENTITIES

On behalf of the Australian Council of Superannuation Investors (ACSI), thank you for the opportunity to make a submission in respect of the proposed remuneration reporting and disclosure requirements for APRA-regulated entities.

### About ACSI

Established in 2001, ACSI exists to provide a strong voice on financially material environmental, social and governance (ESG) issues. Our members include 26 Australian and international asset owners and institutional investors with over \$1 trillion in funds under management.

Through research, engagement, advocacy and voting recommendations, ACSI supports members in exercising active ownership to strengthen investment outcomes. Active ownership allows institutional investors to enhance the long-term value of retirement savings entrusted to them to manage. ACSI members can achieve financial outcomes for their beneficiaries through genuine and permanent improvements to the environment, social and governance (ESG) practices of the companies in which they invest.

ACSI's mandate is focused on listed companies (specifically the ASX300). Our comments are therefore drawn from our experience in analysing the remuneration frameworks of listed companies and our suggestions are focused on APRA-regulated entities that are within the ASX300.

### ACSI supports greater transparency and disclosure

APRA's proposed disclosure and reporting requirements are aimed at increasing financial safety and financial system stability, which are objectives that ACSI supports. We recognise that these proposals arose out of the recommendations from the Royal Commission, to address gaps and support greater transparency in Australia's financial system. ACSI supports robust remuneration disclosure, to facilitate the prudent management of incentives and consequences and allow for more consistent comparisons across the market.

Executive remuneration should be aligned to the delivery of an entity's strategy, values, desired culture and risk appetite. In setting remuneration structures, boards should identify the long-term value drivers for the entity and how these can be best reflected in the remuneration structure and performance hurdles. Robust disclosure of an entity's remuneration approach facilitates a better understanding of how entities are managing their financial and non-financial risks. For APRA-regulated entities that are listed companies, this is important for shareholder confidence and to enable shareholders to hold companies accountable. For RSE licensees, this is just as important to ensure the trust and confidence of an RSE licensee's members.

ACSI therefore supports the overarching objectives of APRA's proposed disclosure requirements, that entities should demonstrate how remuneration is aligned with performance and risk, consequence management for poor outcomes, and how non-financial measures have been incorporated in variable remuneration outcomes (where variable remuneration is used). Any use of variable remuneration should be designed to incentivise the specific objectives and strategy of an individual entity. Disclosure of consequence management for poor outcomes is important, as this should encourage better practice and ensure that the management of an entity remains accountable to the entity's key stakeholders.

Given that each entity's strategy and objectives are different, ACSI supports the flexibility in CPS 511 to allow entities to determine the most appropriate non-financial measures to incentivise good management. Given this flexibility allowed in CPS 511, it is important that entities provide a clear explanation of how they chose their non-

financial measures, and how they are intended to drive successful outcomes for the entity. To promote effective governance, non-financial hurdles must be objective, transparent, measurable and their outcomes truly at risk. It is therefore important that entities demonstrate how this is the case in their remuneration frameworks.

As noted in APRA's discussion paper, many entities are already publicly disclosing a lot of the information that would be required by the proposed changes. Where the requirements go beyond current voluntary disclosures in the market, they generally promote better practice and would contribute to a more transparent financial system, so ACSI is supportive of the proposed requirements.

### **ACSI supports proportionality and cost effectiveness**

Each entity's circumstances are unique, so their remuneration structures should also vary. Therefore, ACSI supports APRA's proposal to introduce the disclosure requirements in a way that is proportionate to the size of an entity and the complexity of its remuneration arrangements.

Entities should aim to report and disclose in the most efficient and cost-effective way possible. ACSI therefore also supports alignment with other reporting frameworks (such as the Corporations Act 2001 and the Superannuation Industry (Supervision) Act 1993), to promote efficiency. It would be practical for entities to report on CPS 511 as well as other frameworks in the same document.

I trust our comments are of assistance. Please contact me or Kate Griffiths, ([kgriffiths@acsi.org.au](mailto:kgriffiths@acsi.org.au)), should you require any further information.

Yours faithfully



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