



# Prudential Standard CPS 511

## Remuneration

### Objectives and key requirements of this Prudential Standard

The objective of this Prudential Standard is ~~for all APRA-regulated entities to design and maintain remuneration arrangements that promote effective management of both financial and non-financial risks, sustainable performance and long-term soundness, and in addition for an RSE licensee, performing its duties and exercising its powers in the best financial interests of beneficiaries to ensure that APRA-regulated entities maintain remuneration arrangements which appropriately incentivise individuals to prudently manage the risks they are responsible for, and that there are appropriate consequences for poor risk outcomes.~~

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, ~~consistent with the size, business mix and complexity of the entity;~~
- an entity must ~~have maintain~~ a remuneration framework ~~which captures all remuneration arrangements and is appropriate to the size, business mix and complexity of the entity~~ that promotes effective management of financial and non-financial risks;
- remuneration outcomes must be commensurate with performance and risk outcomes; and
- higher standards must be met for key roles and certain large, complex entities.

**Table of Contents**

Authority.....3  
Application .....3  
Commencement.....4  
Interpretation.....5  
Adjustments and exclusions.....6  
Previous exercise of discretion .....6  
Definitions .....6  
A. Requirements for SFIs.....9  
Remuneration framework.....9  
Role of the Board .....10  
Board Remuneration Committee.....10  
Remuneration design .....11  
Deferral .....13  
Remuneration outcomes .....14  
Specified roles .....14  
Review of the remuneration framework .....15  
Other requirements .....16  
B. Requirements for Non-SFIs.....18  
Remuneration framework.....18  
Role of the Board .....19  
Remuneration design .....19  
Remuneration outcomes .....20  
Specified roles .....21  
Other requirements .....21

## 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 paragraphs 3 and 4, 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) but excluding purchased payment facility providers;
  - (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.<sup>1</sup>
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.
4. For the purposes of this Prudential Standard, an APRA-regulated entity is either a significant financial institution or a non-significant financial institution (non-

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<sup>1</sup> 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.

SFI). This Prudential Standard applies to these two classes of APRA-regulated entities as follows:

- (a) paragraphs 1 to 60 apply to any significant financial institution; and
  - (b) paragraphs 1 to 18 and 61 to 77 apply to any non-SFI.
5. Where an entity is the ‘Head of a group’<sup>2</sup>, it must comply with an applicable 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 16 to 77 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.

## Commencement

9. Subject to paragraphs 10 and 11, this Prudential Standard commences:
- (a) for an ADI that is a significant financial institution (whether or not the ADI is a member of any group) or a group headed by an ADI or authorised NOHC that is a significant financial institution, on 1 January 2023;
  - (b) for a general insurer, life company, private health insurer or RSE licensee that is a significant financial institution, or a group headed by such a significant financial institution, or a group headed by an authorised NOHC, [a parent entity of a Level 2 insurance group](#) or a registered NOHC that is a significant financial institution, on 1 July 2023; and

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<sup>2</sup> 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.

- (c) for any other APRA-regulated entity, on 1 January 2024.
- 10. This Prudential Standard does not apply to a person’s variable remuneration if the opportunity to earn the variable remuneration arose before the relevant commencement dates specified in paragraph 9.
- 11. Despite paragraph 10, if:
  - (a) the person’s variable remuneration is payable under a contract entered into before this Prudential Standard came into effect; and
  - (b) apart from this paragraph, the application of this Prudential Standard to the variable remuneration would result in an acquisition of property from the person other than on just terms (within the meaning of paragraph 51(xxxi) of the Constitution);

this Prudential Standard does not apply to the variable remuneration to the extent it would result in such an acquisition.<sup>3</sup>

### Interpretation

- 12. Terms that are defined in *Prudential Standard 3PS 001 Definitions*, *Prudential Standard APS 001 Definitions* (APS 001), *Prudential Standard GPS 001 Definitions* (GPS 001), *Prudential Standard LPS 001 Definitions* or *Prudential Standard HPS 001 Definitions* appear in bold the first time they are used in this Prudential Standard.
- 13. 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.
- 14. Where this Prudential Standard provides for APRA to exercise a power or discretion, the power or discretion is to be exercised in writing.
- 15. 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 entities<sup>4</sup> and all related bodies corporate<sup>5</sup> of the RSE licensee, as relevant;<sup>6</sup>
  - (b) Head of a group – means a Level 2 Head or **Level 3 Head**, as relevant;

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<sup>3</sup> Given this paragraph prevents this Prudential Standard from giving rise to such an acquisition of property in relation to variable remuneration payable under such a contract, compensation will not be payable under section 69E of the Banking Act, section 127A of the Insurance Act, section 251 of the Life Insurance Act or section 8 of the PHIPS Act. Equally, compensation would not be payable in respect of the superannuation sector noting section 349B of the SIS Act.

<sup>4</sup> A reference to a ‘connected entity’ has the meaning given in section 10(1) of the SIS Act.

<sup>5</sup> A reference to a ‘related body corporate’ has the meaning given in section 50 of the *Corporations Act 2001* (Corporations Act).

<sup>6</sup> 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.

- (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**

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

### **Previous exercise of discretion**

- 17. 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 *Prudential Standard CPS 510 Governance or Prudential Standard SPS 510 Governance (SPS 510)* ~~a previous version of this Prudential Standard.~~<sup>7</sup>

### **Definitions**

- 18. 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 subsection 10(1) of the SIS Act;
  - (b) clawback – means the recovery of an amount corresponding to some or all variable remuneration subject to recovery that has been paid or vested to a person;
  - (c) conduct risk – means the risk associated with misconduct;
  - (d) executive director – means a **director** that is not a non-executive director;
  - (e) financial measures – means measures that are based on revenue, sales, profit, the entity’s share price, or other measures that directly affect these;

<sup>7</sup> ~~Prudential requirements 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 17.~~

- (f) highly paid material risk-taker – means a material risk-taker whose total fixed remuneration (which includes salary, superannuation, allowances and benefits) plus actual variable remuneration is equal to or greater than 1 million AUD in a financial year of the entity;
- (g) in-period adjustment – means an adjustment made to variable remuneration during the period set for measuring the performance under a variable remuneration arrangement;
- (h) independent director – means a director defined as independent in *Prudential Standard CPS 510 Governance* and ~~*Prudential Standard SPS 510 Governance (SPS 510)*~~ in subsection 10(1) of the SIS Act;
- (i) malus – means an adjustment to reduce the value of all or part of deferred variable remuneration before it has vested;
- (j) 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 performing its duties and exercising its powers in the best financial interests of beneficiaries;
- (k) misconduct – means ~~the risk associated with an~~ action or inaction by a person covered by an entity’s remuneration policy that does not meet applicable:
- (i) legal and prudential obligations;
  - (ii) requirements or standards of a recognised professional body; or
  - (iii) policies and procedures covering conduct and ethical standards set by the entity;
- (l) non-executive director – has the meaning given in *Prudential Standard CPS 510 Governance* and for an RSE licensee, *Prudential Standard SPS 510 Governance*;
- ~~(m)~~ non-financial measures – means measures that are not financial measures;
- ~~(m)~~(n) non-significant financial institution – means an APRA-regulated entity that is not a significant financial institution;
- ~~(n)~~(o) relevant oversight function – means for foreign ADIs and Category C insurers, the senior officer outside Australia, and for EFLICs, the Compliance Committee;
- ~~(o)~~(p) 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;

~~(p)~~(q) remuneration framework – means the totality of systems, structures, policies, processes and people within an entity that identify, measure, evaluate, monitor, report and control or mitigate all internal and external sources of risks relating to remuneration;

~~(q)~~(r) risk and financial control personnel – means persons whose primary role is in risk management, compliance, internal audit, financial control or actuarial control;

~~(r)~~(s) senior manager –

- (i) in relation to ADIs, has the meaning given in the Banking Act;
- (ii) in relation to general insurers, has the meaning given in the Insurance Act;
- (iii) in relation to life insurers, has the meaning given in the Life Insurance Act;
- (iv) in relation to private health insurers, means any person specified in paragraph (c) of the definition of officer in the PHIPS Act; and
- (v) in relation to RSE licensees, has the meaning given in *Prudential Standard SPS 520 Fit and Proper*;

~~(s)~~(t) significant financial institution – means an APRA-regulated entity that is either:

~~(i)~~ (i) of a certain size<sup>8</sup> as may be specified by APRA from time to time not a foreign ADI, a Category C insurer or an EFLIC, and has total assets in excess of:

(A) AUD \$20 billion in the case of an ADI;

(B) AUD \$10 billion in the case of a general insurer or life company;

(C) AUD \$3 billion in the case of a private health insurer; or

~~(A)~~(D) AUD \$30 billion in the case of a single RSE operated by an RSE licensee, or if the RSE licensee operates more than one RSE where the combined total assets of all RSEs exceeds this amount; or

(ii) determined as such by APRA having regard to matters such as complexity in its operations or remuneration practices, or its membership of a group;

<sup>8</sup> ~~In respect of a RSE licensee, reference to size is reference to the asset size of the RSE.~~

~~(t)~~(u) specified role – means a person who is a senior manager, executive director, material risk-taker (including highly-paid material risk-takers) and risk and financial control personnel;

~~(v)~~ third-party service provider – means an entity that provides, under a compensation arrangement, a service to an APRA-regulated entity that is not a related body corporate or connected entity of the APRA-regulated entity;

~~(w)~~(w) variable remuneration – means the amount of a person’s total remuneration that is conditional on objectives, which include performance criteria, service requirements or the passage of time; and

~~(x)~~(x) vesting – means, in relation to variable remuneration, the process by which a person becomes the legal owner of the variable remuneration.

## A. Requirements for SFIs

### Remuneration framework

19. An APRA-regulated entity must maintain a remuneration framework that:
  - (a) aligns with the entity’s business plan, strategic objectives and risk management framework;<sup>9</sup>
  - (b) promotes effective management of both financial and non-financial risks, sustainable performance and the entity’s long-term soundness;
  - (c) for an RSE licensee, promotes performing its duties and exercising its powers in the best financial interests of beneficiaries; and
  - (d) supports the prevention and mitigation of conduct risk.
20. The remuneration framework must include a documented remuneration policy which at minimum sets out:
  - (a) how the remuneration framework addresses paragraph 19 of this Prudential Standard;
  - (b) at a high level, the structure and terms of remuneration arrangements that apply to a person who is:
    - (i) employed directly by the APRA-regulated entity;
    - (ii) retained directly by the APRA-regulated entity under contract; and
    - (iii) employed by, or is a contractor of a body corporate (including a service company) that is a related body corporate or connected entity, of the APRA-regulated entity;

<sup>9</sup> As required under *Prudential Standard CPS 220 Risk Management* and for an RSE licensee *Prudential Standard SPS 220 Risk Management*.

- (c) the ~~process approach~~ to identify and ~~address inconsistencies with~~ ~~mitigate material conflicts to the objectives of the remuneration framework, as specified in~~ paragraph 19 of this Prudential Standard, that may result from ~~the remuneration arrangements of a third party service provider that is not a related body corporate or connected entity of the APRA regulated entity~~ ~~third-party service provider compensation arrangements~~; and
- (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.

### **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.
- 22. The Board, or relevant oversight function, must approve the remuneration policy required under paragraph 20 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.

### **Board Remuneration Committee**

- 24. The Board Remuneration Committee must have at least three members and all members must be non-executive directors of the entity.
- 25. 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.
- 26. 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 director on the Board.
- 27. The Board Remuneration Committee must have a written charter that sets out its roles, responsibilities and terms of operation.

28. The Board Remuneration Committee, or relevant oversight function, must consult the Board Risk Committee<sup>10</sup> and Chief Risk Officer or person in a similar role, to enable risk outcomes to be appropriately reflected in remuneration outcomes for persons in specified roles. This consultation must follow a documented process.
29. The Board Remuneration Committee, or relevant oversight function, must obtain comprehensive reporting that will allow it to determine whether remuneration outcomes of all remuneration arrangements align with paragraph 19 of this Prudential Standard.
30. The Board Remuneration Committee, or relevant oversight function, in carrying out its duties must:
  - (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.

### Remuneration design

31. An APRA-regulated entity must design all variable remuneration arrangements to align with paragraph 19 of this Prudential Standard and must incorporate in its variable remuneration arrangements:
  - (a) financial and non-financial risks that could materially impact the entity's risk profile, sustainable performance, long-term soundness, and in addition for an RSE licensee, those risks that could materially impact on performing its duties and exercising its powers in the best financial interests of beneficiaries;
  - (b) payout and vesting schedules that are commensurate with the possible range of risk and performance outcomes and that are sensitive to the time horizon of risk; and
  - (c) appropriate [variable](#) remuneration adjustment tools, that include but are not limited to overriding Board discretion at each decision point, in-period adjustments, malus and where appropriate clawback, which are supported by a downward-adjustments process:
    - (i) with clearly identified triggers to make a downward-adjustment;
    - (ii) that determines the appropriate adjustment tools to use; and

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<sup>10</sup> For an RSE licensee, as set out in SPS 510, another Board Committee may carry out this function with respect to risk management. Consultation with a Board Risk Committee does not apply to a foreign ADI or Category C insurer.

- (iii) that determines the amount of downward-adjustment, proportionate to the severity of risk and conduct outcomes, to nil if appropriate.

32. The determination of each component of a person's variable remuneration must:

- (a) give material weight to non-financial measures<sup>11</sup> where the remuneration is performance related; and
- (b) be adjusted downwards, potentially to nil, for adverse risk and conduct outcomes, based on clearly defined risk criteria, as specified in paragraph 35 below.

33. An APRA-regulated entity must subject a person's variable remuneration arrangement to malus.

~~33.~~34. An APRA-regulated entity must also subject the variable remuneration arrangement of a senior manager, executive director or a highly-paid material risk-taker to clawback, ~~in the circumstances specified in paragraph 35~~. Clawback arrangements must include the following features:

- (a) a period of at least two years from the date of payment or vesting of variable remuneration within which clawback may apply; and
- (b) the application of clawback whether or not the employment or engagement of the person has ceased.

~~34.~~35. An APRA-regulated entity must set specific criteria for the application of ~~malus to any unvested~~ variable remuneration adjustment tools, including at least the following:

- (a) misconduct leading to significant adverse outcomes;
- (b) a significant failure of financial or non-financial risk management;
- (c) a significant failure or breach of accountability, fitness and propriety, or compliance obligations;
- (d) a significant error or a significant misstatement of criteria on which the variable remuneration determination was based; and
- (e) significant adverse outcomes for customers, beneficiaries or counterparties.

36. An APRA-regulated entity must take reasonable steps to appropriately ~~reduce any unvested~~ adjust variable remuneration downwards when, as a minimum, any of the criteria specified in paragraph 35 are satisfied. The total downward-adjustment to variable remuneration must be proportionate to the severity of the risk and conduct outcome.

<sup>11</sup> ~~For the avoidance of doubt, a~~ No component of variable remuneration ~~that is~~ may be entirely dependent on share price performance or profitability ~~would not be permitted.~~

~~35.37.~~ In addition, in circumstances involving a person under investigation for criteria specified in paragraph 35, variable remuneration must not vest until the investigation is closed.

~~36.38.~~ An APRA-regulated entity must take appropriate steps to assess and mitigate conflicts of interest in the design of its remuneration arrangements, including conflicts that may arise from service contracts.

### **Deferral and clawback**

~~37.39.~~ An APRA-regulated entity must defer variable remuneration as follows:

- (a) for a Chief Executive Officer (CEO), at least 60 per cent of the CEO's total variable remuneration must be deferred over a minimum deferral period of six years, vesting no faster than on a pro-rata basis and only after four years;
- (b) for a senior manager and executive director other than a CEO, at least 40 per cent of that person's total variable remuneration must be deferred over a minimum deferral period of five years, vesting no faster than on a pro-rata basis and only after four years; and
- (c) for a highly-paid material risk-taker who is not a senior manager, at least 40 per cent of that person's total variable remuneration must be deferred over a minimum deferral period of four years, vesting no faster than on a pro-rata basis and only after two years.

~~38.40.~~ The deferral period must include the period over which performance is assessed, only where the measures of performance are forward looking. The deferral period must also include any required service, retention and holding periods.

~~39.41.~~ Paragraph 39 does not apply in respect of any person with deferred variable remuneration of less than AUD \$50,000 in a financial year of the APRA-regulated entity.

~~40.~~ An APRA regulated entity must set specific criteria for the application of clawback, including at least the following:

- ~~(a) — misconduct leading to material adverse outcomes;~~
- ~~(b) — a material failure of financial or non-financial risk management;~~
- ~~(c) — a material failure or breach of accountability, fitness and propriety, or compliance obligations;~~
- ~~(d) — a material error or a material misstatement of criteria on which the variable remuneration determination was based; and~~
- ~~(e) — material adverse outcomes for customers, beneficiaries or counterparties.~~

~~41.~~ An APRA regulated entity must take reasonable steps to appropriately apply clawback, in circumstances where, as a minimum, any of the criteria specified in paragraph 55 is satisfied. In addition, in circumstances involving a person under

~~investigation for criteria specified in paragraph 55, variable remuneration must not vest until the investigation is closed.~~

### **Remuneration outcomes**

42. An APRA-regulated entity must:
  - (a) align variable remuneration outcomes with performance and risk outcomes; and
  - (b) reflect the appropriate application of variable remuneration adjustment tools in variable remuneration outcomes, as specified in paragraph 31(c) of this Prudential Standard.
43. An APRA-regulated entity may only pay or vest variable remuneration to a person if payment or vesting:
  - (a) supports the entity's compliance with paragraph 19 of this Prudential Standard; and
  - (b) is justified on the basis of the effectiveness of risk management of the entity and the relevant business unit; and
  - (c) is justified on the basis of the performance of the person, the relevant business unit and the entity.
44. An APRA-regulated entity's variable remuneration outcomes must link to and be supported by the entity's performance management system, code of conduct and consequence management processes.
45. An APRA-regulated entity must not accelerate the vesting of unvested variable remuneration for a person in a specified role no longer employed or engaged by the entity, unless specific exceptions<sup>12</sup> have been included in the remuneration policy. If that person is eligible for any unvested variable remuneration, it must be subject to the same vesting conditions as those for a person employed or engaged by the entity.

### **Specified roles**

46. An APRA-regulated entity must prudently manage the variable remuneration arrangements of all persons in specified roles.
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 specified roles.

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<sup>12</sup> For the purposes of paragraph 45 of this Prudential Standard, a reference to 'specific exceptions' is limited to death, serious incapacity, serious disability, serious illness or partial vesting of only the amount required to enable the person to cover taxation obligations arising from the deferred variable remuneration at termination.

48. The Board Remuneration Committee must make recommendations to the Board annually on the remuneration arrangements and variable remuneration outcomes for persons in specified roles as follows:
- (a) individually for senior managers and executive directors;<sup>13</sup> and
  - (b) on a cohort basis for highly-paid material risk-takers, other material risk-takers and risk and financial control personnel.
49. When forming its recommendations under paragraph 48 of this Prudential Standard, the Board Remuneration Committee must:
- (a) obtain sufficient information to enable remuneration outcomes to be commensurate with performance and risk outcomes; and
  - (b) determine whether the variable remuneration arrangement, individually and on a cohort basis:
    - (i) is appropriate to meet its intended purpose and expected remuneration outcomes; and
    - (ii) supports the entity's compliance with paragraph 19 of this Prudential Standard.
50. The Board, or relevant oversight function, must approve the variable remuneration outcomes for persons in specified roles as follows:
- (a) individually for senior managers and executive directors;<sup>14</sup> and
  - (b) on a cohort basis for highly-paid material risk-takers, other material risk-takers and risk and financial control personnel.
51. The variable remuneration arrangements for risk and financial control personnel must:
- (a) reflect the independence and authority of those personnel in carrying out their functions;
  - (b) reflect the purpose of their functions; and
  - (c) not be unduly influenced by the performance of the business activities they control.

### **Review of the remuneration framework**

52. An APRA-regulated entity must review compliance of the remuneration framework against the requirements of this Prudential Standard at least annually.

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<sup>13</sup> For the avoidance of doubt, paragraph 48(a) of this Prudential Standard ~~does apply~~ies to a senior manager who is a senior officer outside Australia of a foreign ADI or of a Category C insurer.

<sup>14</sup> Paragraph 50(a) of this Prudential Standard does not apply to a senior manager who is a senior officer outside Australia of a foreign ADI or of a Category C insurer.

53. In addition to the annual review of compliance, the effectiveness of the remuneration framework must be subject to a comprehensive review by operationally independent, appropriately experienced and competent persons at least every three years.
54. An APRA-regulated entity must document and report the results of the reviews required under paragraphs 52 and 53 of this Prudential Standard~~5~~ to the Board Remuneration Committee, or relevant oversight function, in a timely manner. The Board Remuneration Committee, or relevant oversight function, must take appropriate and timely action to ensure the findings of these reviews are adequately considered and addressed.
55. An APRA-regulated entity's effectiveness review required under paragraph 53 of this Prudential Standard must assess:
- (a) compliance of the remuneration framework with paragraph 19 of this Prudential Standard;
  - (b) whether the remuneration framework and its elements are operating as intended;
  - (c) whether the design of the remuneration framework is appropriate and fit for purpose; and
  - (d) the alignment of remuneration outcomes with the performance and risk outcomes achieved.
56. Where an APRA-regulated entity identifies a material change to the size, business mix and complexity of the operations ~~is identified~~ outside the review required in paragraph 53, ~~the APRA-regulated entity~~it must consider and address the need to amend or review the remuneration framework to take account of these developments at that time.

### Other requirements

57. In relation to the requirements for a Board Remuneration Committee and remuneration policy, where an APRA-regulated entity is part of a group, or corporate group in the case of a private health insurer, the Board of the APRA-regulated entity may:
- (a) use a group Board Remuneration Committee as the Board Remuneration Committee for the APRA-regulated entity, provided that:
    - (i) the requirements set out in this Prudential Standard are met;
    - (ii) 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;<sup>15</sup> and

<sup>15</sup> In the case of a private health insurer, all members of the group Board Remuneration Committee must also be non-executive directors of the Head of the corporate group.

- (iii) the Board of the entity has free and unfettered access to the group Board Remuneration Committee; and
  - (b) adopt and apply a group remuneration policy that is also used by a related body corporate or a connected entity provided that the group remuneration policy:
    - (i) meets the requirements of this Prudential Standard;
    - (ii) has been approved by the Board or relevant oversight function; and
    - (iii) gives appropriate regard to the entity's business activities, its specific requirements and its remuneration framework.
58. An APRA-regulated entity may apply to APRA for approval of 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.
59. Except in circumstances permitted by law, an APRA-regulated entity must not pay any remuneration (whether directly or indirectly) to, or for the benefit of, a person through vehicles or methods that undermine the effect or intent of the requirements of this Prudential Standard. An APRA-regulated entity must at minimum prevent the following:
- (a) the entity ~~(or the entity making arrangements with any other person)~~ indemnifying or insuring (whether directly or through arrangements with another person) the relevant person against the consequences of:
    - (i) breaching an obligation under this Prudential Standard; or
    - (ii) applying in-period adjustment, malus or clawback under this Prudential Standard; and
  - (b) hedging by any person in a specified role who receives equity or equity-linked deferred variable remuneration, of 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 have a prohibition for such hedging, whether in its remuneration policy, contractual or other documentation, and, define and document the process and actions to be taken where any person in a specified role is in breach of the prohibition.
60. Paragraph 59 does not apply in respect of a liability for legal costs.

## B. Requirements for Non-SFIs

### Remuneration framework

61. An APRA-regulated entity must maintain a remuneration framework that:
- (a) aligns with the entity's business plan, strategic objectives; and risk management framework;<sup>16</sup>
  - (b) promotes effective management of both financial and non-financial risks, sustainable performance and the entity's long-term soundness;
  - (c) for an RSE licensee, promotes performing its duties and exercising its powers in the best financial interests of beneficiaries; and
  - (d) supports the prevention and mitigation of conduct risk.
62. The remuneration framework must include a documented remuneration policy which at minimum sets out:
- (a) how the remuneration framework addresses paragraph 61 of this Prudential Standard;
  - (b) at a high level, the structure and terms of remuneration arrangements that apply to a person who is:
    - (i) employed directly by the APRA-regulated entity;
    - (ii) retained directly by the APRA-regulated entity under contract; and
    - (iii) employed by, or is a contractor of a body corporate (including a service company) that is a related body corporate or connected entity, of the APRA-regulated entity.
  - (c) the process approach to identify and address inconsistencies with mitigate material conflicts to the objectives of the remuneration framework, as specified in paragraph 61 of this Prudential Standard, that may result from the remuneration arrangements of a service provider that is not a related body corporate or connected entity of the APRA-regulated entity third-party service provider compensation arrangements; and
  - (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.

<sup>16</sup> As required under *Prudential Standard CPS 220 Risk Management* and for an RSE licensee *Prudential Standard SPS 220 Risk Management*.

## Role of the Board

63. The Board, or relevant oversight function, of an APRA-regulated entity is ultimately responsible for the entity's remuneration framework and its effective application.
64. The Board, or relevant oversight function, must approve the remuneration policy required under paragraph 62 of this Prudential Standard.

## Remuneration design

65. An APRA-regulated entity must design all variable remuneration arrangements to align with paragraph 61 of this Prudential Standard and must incorporate in its variable remuneration arrangements:
  - (a) financial and non-financial risks that could materially impact the entity's risk profile, sustainable performance, long-term soundness, and in addition for an RSE licensee, those risks that could materially impact on performing its duties and exercising its powers in the best financial interests of beneficiaries;
  - (b) payout and vesting schedules that are commensurate with the possible range of risk and performance outcomes and that are sensitive to the time horizon of risk; and
  - (c) appropriate variable remuneration adjustment tools, that include but are not limited to overriding Board discretion at each decision point, in-period adjustments, malus and where appropriate clawback, which are supported by a downward-adjustments process:
    - (i) with clearly identified triggers to make a downward-adjustment;
    - (ii) that determines the appropriate adjustment tools to use; and
    - (iii) that determines the amount of downward-adjustment, proportionate to the severity of risk and conduct outcomes, to nil if appropriate.
66. An APRA-regulated entity must subject a person's variable remuneration arrangement to malus.
- ~~66.~~67. An APRA-regulated entity must set specific criteria for the application of ~~malus to any unvested~~ variable remuneration adjustment tools, including at least the following:
  - (a) misconduct leading to significant adverse outcomes;
  - (b) a significant failure of financial or non-financial risk management;
  - (c) a significant failure or breach of accountability, fitness and propriety, or compliance obligations;

- (d) a significant error or a significant misstatement of criteria on which the variable remuneration determination was based; and
- (e) significant adverse outcomes for customers, beneficiaries or counterparties.

~~68.~~ An APRA-regulated entity must take reasonable steps to appropriately ~~reduce any unvested~~adjust variable remuneration downwards when, as a minimum, any of the criteria specified in paragraph 67 are satisfied. The total downward-adjustment to variable remuneration must be proportionate to the severity of the risk and conduct outcome.

~~67-69.~~In ~~addition, in~~ circumstances involving a person under investigation for criteria specified in paragraph 67, variable remuneration must not vest until the investigation is closed.

~~70.~~ An APRA-regulated entity must take appropriate steps to assess and mitigate conflicts of interest in the design of its remuneration arrangements, including conflicts that may arise from service contracts.

~~68-71.~~A foreign ADI, Category C insurer or EFLIC with total assets in excess of the thresholds set out in paragraph 18(t) of this Prudential Standard, must defer variable remuneration of highly-paid material risk-takers in accordance with paragraph 39(c), 40 and 41 of this Prudential Standard.

## Remuneration outcomes

~~69-72.~~An APRA-regulated entity must:

- (a) align variable remuneration outcomes with performance and risk outcomes; and
- (b) reflect the appropriate application of variable remuneration adjustment tools in variable remuneration outcomes, as specified in paragraph 65(c) of this Prudential Standard.

~~70-73.~~An APRA-regulated entity must not accelerate the vesting of unvested variable remuneration for a person in a specified role no longer employed or engaged by the entity, unless specific exceptions<sup>17</sup> have been included in the remuneration policy. If that person is eligible for any unvested variable remuneration, it must be subject to the same vesting conditions as those for a person employed or engaged by the entity.

<sup>17</sup> For the purposes of paragraph 73 of this Prudential Standard, a reference to 'specific exceptions' is limited to death, serious incapacity, serious disability, serious illness or partial vesting of only the amount required to enable the person to cover taxation obligations arising from the deferred variable remuneration at termination.

## Specified roles

~~71.~~74. The Board, or relevant oversight function, must approve the variable remuneration outcomes for persons in specified roles as follows:

- (a) individually for senior managers and executive directors;<sup>18</sup> and
- (b) on a cohort basis for highly-paid material risk-takers, other material risk-takers and risk and financial control personnel.

## Other requirements

~~72.~~75. In relation to the requirements for a remuneration policy, where an APRA-regulated entity is part of a group, or corporate group in the case of a private health insurer, the Board of the APRA-regulated entity may adopt and apply a group remuneration policy that is also used by a related body corporate or a connected entity provided that the group 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.

~~73.~~76. Except in circumstances permitted by law, an APRA-regulated entity must not pay any remuneration (whether directly or indirectly) to, or for the benefit of, a person through vehicles or methods that undermine the effect or intent of the requirements of this Prudential Standard. An APRA-regulated entity must at minimum prevent the following:

- (a) the entity ~~(or the entity making arrangements with any other person)~~ indemnifying or insuring ~~(whether directly or through arrangements with another person)~~ the relevant person against the consequences of:
  - (i) breaching an obligation under this Prudential Standard; or
  - (ii) applying in-period adjustment, malus or clawback under this Prudential Standard; and
- (b) hedging by any person in a specified role who receives equity or equity-linked deferred variable remuneration, of 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 have a prohibition for such hedging, whether in its remuneration policy, contractual or other documentation, and, define and document the process and actions to be taken where any person in a specified role is in breach of the prohibition.

<sup>18</sup> Paragraph 74(a) of this Prudential Standard does not apply to a senior manager that is a senior officer outside Australia of a foreign ADI or Category C insurer.

~~74.77.~~ Paragraph 76 does not apply in respect of a liability for legal costs.