



**AIA Australia Limited**  
(ABN 79 004 837 861 AFSL 230043)  
PO Box 6111  
Melbourne VIC 3004  
Phone : 1800 333 613  
Fax : 1800 832 266  
AIA.COM.AU

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General Manager, Policy Development  
Policy and Advice Division  
Australian Prudential Regulation Authority

Email: [policydevelopment@apra.gov.au](mailto:policydevelopment@apra.gov.au)

## **CONSULTATION ON REVISED CPS 511**

Thank you for the opportunity to provide further feedback on the revised draft prudential standard on remuneration, CPS 511.

AIA Australia welcomes the progress made in the latest draft, in response to stakeholder feedback. It is our view that taking a more principles-based and less prescriptive approach to board oversight and to non-financial risk measures will be much more workable for entities, while still achieving APRA's objectives.

### **Deferral periods and clawback**

We remain concerned about the length of the deferral periods and the requirement to apply clawback in "exceptional circumstances", and the impact that these measures will have on entities' ability to attract talent.

The criteria for applying clawback are still potentially broad and our concerns regarding the difficulties in enforcing clawback remain.

Having a regulatory standard that is not aligned with current pending legislation – that is, the Banking Executive Accountability Regime (BEAR) and the proposed Financial Accountability Regime (FAR) – creates regulatory confusion. It is our view that where the Government has clearly set its policy direction, it should be the regulator's role to give effect to this and enforce it, rather than to create a different policy standard.

As we noted in our previous submission, the deferral period and clawback requirements will place Australian financial institutions at a notable disadvantage compared with other industries or overseas jurisdictions when competing for senior leaders, as they will most likely be a deterrent to potential employees. These will cause a reduction in available capability in an industry that is already highly regulated. An exodus of critical and experienced talent has the potential to actually increase industry risks as less qualified talent is forced into critical roles.

At a minimum, industry pay levels will almost certainly be pushed up to counteract the long vesting periods and clawback risk, increasing financial institutions' payroll costs which will no doubt be passed on to customers.

We understand that the UK and US experience has resulted in these unintended consequences.

**Recommended alternative:** CPS 511 should require a deferral period of four years for all senior leaders captured by the standards, which aligns with the minimum standard in the BEAR and the proposed standard in the FAR.

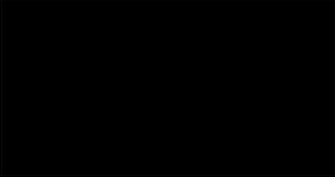
### **Disclosure**

We note that APRA intends to apply increased disclosure requirements, the details of which it is still to publish for consultation. We would be pleased to consider and provide feedback as part of APRA's further consultation.

At a high level, we would hope that the level of required disclosure is not so granular as to expose commercially sensitive information that could impact entities' ability to compete for talent, nor to "name and shame" executives through the publication of consequence management.

We would be happy to discuss any of the points raised in this submission in further detail. If you require any further information please contact in the first instance [REDACTED], GM Communications and Corporate Affairs, at [REDACTED]

Yours faithfully



[REDACTED]  
CEO and Managing Director  
AIA Australia and New Zealand