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Gideon Holland
General Manager, Policy
Australian Prudential Regulation Authority

Email: [REDACTED]

Dear Mr [REDACTED]

CONSULTATION ON DRAFT PRUDENTIAL PRACTICE GUIDE CPG 511 REMUNERATION

Thank you for the opportunity to provide feedback on the draft guidance on remuneration practices, CPG 511.

We note the need to provide feedback on the guidance ahead of the related standard, CPS 511, being finalised. We have therefore assumed within this submission that there is unlikely to be material change to the standard since it was last published for consultation. Given the purpose of this document is to provide guidance on good practice to support CPS 511, it would be useful to be able to consider the documents together. The final version of the standard may have implications for our feedback on the guidance.

While the draft guidance provides some of the desired clarity to complement the principles in CPS 511, we are of the view that in some areas, further detail would be useful. We have noted these specific areas below.

Material risk-takers

The guidance notes that highly paid material risk-takers (HPMRTs) at significant financial institutions (SFIs) are defined as material risk-takers *“with total remuneration greater than \$1 million in a financial year, including variable remuneration that has been awarded.”* It is not clear whether total remuneration is intended to be calculated in the financial year in which it is earned, or in the year in which it is paid. We suggest the guidance clarifies the basis for calculation of remuneration.

Service providers

We are of the view that greater guidance is required in relation to the third-party service providers that are captured by CPS 511, and what the standards require in respect of them. This includes what the expectations are in relation to Board responsibilities and accountability and the level of assurance that would be expected. In addition, some practical examples of how to *“identify and address conflicts between remuneration arrangements in third party providers”* would be useful.

We note that CPS 321 Outsourcing contains definitions in relation to the assessment of material business activity and risk mitigation processes. It would seem prudent if these definitions were overtly aligned.

There is already regulation in place to prevent conflicted remuneration for many financial services, including the Future of Financial Advice reforms and the Life Insurance Framework. We suggest that the guidance makes it clear that compliance with any relevant existing remuneration requirements would satisfy the standards of CPS 511; or alternatively, what the differences are and how these different requirements should interact.

Downward adjustments

The guidance gives an example of the use of downward adjustments at paragraph 70, being *“a breach of a prudential standard or other regulation would typically be expected to result in a risk adjustment for an individual or group.”*

This appears to be broad enough to capture even trivial breaches which do not impact customers, which in our view should not result in risk adjustments. To apply a blanket approach to all breaches of prudential standards

or regulation would seem to be inconsistent with the guidance on assessing severity, which takes into account the impact on customers and beneficiaries. We suggest that the example provided in guidance is redrafted to include an appropriate measure of severity in the use of downward adjustments.

Clawback

In our original submission to the consultation on CPS 511, we noted that there are practical difficulties in enforcing clawbacks. We are of the view that appropriate use of reasonable periods of deferrals could obviate the legal and taxation difficulties and other complexities associated with enforcing clawback. If clawback requirements are to be maintained, the guidance needs to provide greater information about how APRA expects clawback should be applied in practice.

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].

Yours faithfully

[REDACTED]

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