



INFORMATION PAPER

Implementing the Banking Executive Accountability Regime

17 October 2018

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Executive summary

In February 2018, Australia introduced the Banking Executive Accountability Regime to establish clear and heightened expectations of accountability for authorised deposit-taking institutions (ADIs), their directors and senior executives, and to ensure there are clear consequences in the event of a material failure to meet those expectations. This Information Paper outlines APRA's approach to implementing the accountability regime and provides guidance for ADIs in meeting the legislative requirements across a number of areas.

The accountability regime imposes explicit accountability obligations on both an ADI and on individuals who are registered as 'accountable persons'. APRA emphasises that this Information Paper should be read in conjunction with the requirements of the accountability regime as set out in Part IIAA of the *Banking Act 1959* and explained in the accompanying Revised Explanatory Memorandum.¹

Implementation of the accountability regime presents an opportunity to genuinely strengthen accountability and drive improvement in the way an ADI governs itself. APRA expects ADIs to take ownership of a carefully considered and thorough implementation, underpinned by genuine reflection and consideration of mechanisms to improve governance and accountability throughout their organisation.

The accountability regime is a dynamic regime that will continue to evolve over time. Its elements are expected to be well embedded as part of an ADI's internal accountability framework rather than operate as an adjunct to it. Through its ongoing supervision, APRA will review and challenge how an ADI is refining its frameworks and practices in order to effectively establish clear and strong accountability, as well as how that accountability can both support and be supported by appropriate governance, and together, drive strong risk culture from the top down throughout a financial institution.

¹ *Treasury Laws Amendment (Banking Executive Accountability and Related Measures) Act 2018*: <https://www.legislation.gov.au/Details/C2018A00005> and [Revised Explanatory Memorandum](#).

Glossary

Accountability map	A document complying with section 37FB of the <i>Banking Act 1959</i> (the Act) that shows how the responsibilities of accountable persons together cover all parts or aspects of the ADI's or ADI group's operations
Accountability statement	A comprehensive statement complying with section 37FA of the Act that details the parts or aspects of the ADI's or ADI group's operations for which an accountable person is accountable
Accountable person	A person, including a senior executive or director, that falls within the definition under section 37BA of the Act
ADI	Authorised deposit-taking institution
ADI group	The relevant group of bodies corporate that is constituted by the ADI and its subsidiaries
APRA	Australian Prudential Regulation Authority
BEAR	The Banking Executive Accountability Regime set out in Part IIAA of the Act
General principle	Under subsection 37BA(1) of the Act, a person is an accountable person if he or she has actual or effective senior executive responsibility for management or control of the ADI, or a substantial part of the ADI group's operations
Large, medium and small ADIs	The Minister has determined the kinds of ADIs that are large, medium and small ADIs under subsection 37G of the Act ²
Particular responsibilities	The list of responsibilities to be held by accountable persons as prescribed under subsection 37BA(2) or 37BA(6) of the Act
Revised Explanatory Memorandum	Revised Explanatory Memorandum to the <i>Treasury Laws Amendment (Banking Executive Accountability and Related Measures) Bill 2018</i> ³
S00A	Senior officer outside Australia as defined under <i>Prudential Standard APS 001 Definitions</i>

² *Banking Executive Accountability Regime (Size of an Authorised Deposit-taking Institution) Determination 2018*: <https://www.legislation.gov.au/Details/F2018L00651>.

³ [Revised Explanatory Memorandum](#) to the *Treasury Laws Amendment (Banking Executive Accountability and Related Measures) Bill 2018*.

Chapter 1 - Overview

In February 2018, legislation introducing the Banking Executive Accountability Regime (BEAR) was enacted. This legislation established clear and heightened expectations of accountability for authorised deposit-taking institutions (ADIs), their directors and senior executives, and set out clear consequences in the event of a material failure to meet those expectations. The accountability regime commenced on 1 July 2018 for large ADIs and is due to commence on 1 July 2019 for medium and small ADIs.⁴

This Information Paper outlines APRA's approach to implementing the accountability regime in order to assist both medium and small ADIs with their preparations for commencement on 1 July 2019, as well as large ADIs with their ongoing refinement and embedding of the accountability regime.

This Information Paper should be read in conjunction with the requirements of the accountability regime as set out in Part IAAA of the *Banking Act 1959* (the Act) and explained in the accompanying Revised Explanatory Memorandum.⁵ It is the obligation of the ADI to satisfy all requirements outlined in the legislation.

Nevertheless, to assist institutions, APRA has developed this Information Paper covering some key aspects of the regime. This document is intended to clarify APRA's approach to implementing the accountability regime, and is based on APRA's experience to date. APRA expects that, over time, it may refine or enhance certain aspects of the guidance contained in this paper and may periodically release updated information.

The scope of this paper focuses on implementation of the accountability regime; APRA's enforcement of breaches of the regime is not covered. APRA will be releasing additional information on particular elements of enforcement of the accountability regime in due course.

1.1 Strengthening accountability

Clear accountability is the necessary foundation for any institution in establishing and promoting good governance and a strong risk culture, and requires:

- a clear, transparent and common understanding within an institution of where accountability lies within the senior executive team for any particular part or aspect of the institution's business;
- a clear, transparent and common understanding within an institution of how a given individual meets his or her obligations as the accountable individual, including for example,

⁴ Size of an ADI for the purposes of the BEAR is defined by the *Banking Executive Accountability Regime (Size of an Authorised Deposit-taking Institution) Determination 2018*: <https://www.legislation.gov.au/Details/F2018L00651>.

⁵ *Treasury Laws Amendment (Banking Executive Accountability and Related Measures) Act 2018*: <https://www.legislation.gov.au/Details/C2018A00005> and [Revised Explanatory Memorandum](#).

by making decisions, serving as a point of review or challenge, or escalating as appropriate; and

- for those accountable individuals, direct and proportional consequences of failure to meet their obligations, whether by inappropriate action or failure to act, within their area of accountability.

Implementation of the accountability regime presents an opportunity to genuinely strengthen accountability and drive improvement in the way an ADI governs itself. APRA expects ADIs to take ownership of a carefully considered and thorough implementation. This requires honest discussion to build a clear, transparent and common understanding of who is accountable, what action is expected, and how consequences will be applied for any failure to meet obligations.

APRA expects this internal debate and discussion to serve as an essential step to clarifying and strengthening accountability. Taking a considered approach, an ADI may need to review end to end business processes and identify any gaps, areas of overlap or points of handover that may need clarification. An ADI may then identify areas for refinement of its operational or governance structures. Implementation of the accountability regime presents an opportunity to establish and refine frameworks and practices that, when cascaded down throughout the institution, strengthen risk culture in practice at all levels.

When implementing the deferred remuneration obligations, ADIs are encouraged to consider a holistic review of incentive structures, including whether the findings in APRA's recent review of *Remuneration practices at large financial institutions* indicate scope for improvement to ensure that remuneration frameworks are adequate in driving a strong risk culture and are aligned with good risk management and the long-term financial soundness of the ADI.⁶

In satisfying the requirements of the accountability regime, it is important to note that there is no single solution prescribed by the legislation. An institution must identify accountable persons, submit accountability statements and form an accountability map that reflects its own understanding among its senior executives and directors of how accountability works in practice within the organisation. The way the accountability regime is implemented may vary from institution to institution; this is appropriate as it reflects the actual practice of any given institution.

Accountable persons must be involved early and deeply in the process as they must meet personal obligations and ultimately bear the risk of breaches. APRA acknowledges that ADIs may use external advisors to facilitate, provide structure or challenge their internal dialogue. However, it remains the responsibility of each institution to own and drive its understanding of how accountability works within its organisational structure.

⁶ APRA, April 2018, *Remuneration practices at large financial institutions*:
<https://www.apra.gov.au/sites/default/files/180328-Information-Paper-Remuneration-Practices.pdf>.

1.2 Key elements of the accountability regime

The accountability regime imposes explicit accountability obligations on both an ADI and on a newly established class of individual accountable persons (typically senior executives and directors). It requires an ADI to identify its own individual accountable persons, who must then be registered with APRA prior to becoming an accountable person.⁷

The ADI must provide APRA with individual accountability statements clearly outlining the specific senior executive responsibilities within the organisation. The ADI must also provide an accountability map outlining how accountability is allocated across the institution, in a manner appropriate to its size, risk profile and complexity. The ADI must adhere to explicit requirements on minimum deferred variable remuneration for those identified accountable persons.

APRA has the power to disqualify an individual from being an accountable person where the individual has failed to meet his or her accountability obligations. If an ADI fails to meet its accountability obligations, APRA may apply to the Federal Court of Australia to seek the imposition of substantial civil penalties.

The key elements of the regime are outlined below in Figure 1.

Figure 1 Overview of the key elements of the accountability regime

Accountability obligations - ADI	<p>The accountability regime establishes accountability obligations for ADIs, requiring each ADI to take reasonable steps to:</p> <ul style="list-style-type: none">• conduct its business with honesty and integrity, and with due skill, care and diligence;• deal with APRA in an open, constructive and cooperative way;• in conducting its business, prevent matters from arising that would adversely affect the ADI's prudential standing or prudential reputation;• ensure that each of its accountable persons meets his or her accountability obligations; and• ensure that each of its subsidiaries that is not an ADI complies with the above as if the subsidiary were an ADI.
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⁷ An individual who, as a result of a position currently held, will become an accountable person upon commencement of the regime for medium and small ADIs is required to be registered effective 1 July 2019. Post-commencement, registration is required prior to an individual taking up their duties, with a grace period of 28 days for temporary or unforeseen vacancies.

<p>Accountability obligations - accountable persons</p>	<p>The accountability regime creates a class of accountable persons comprising:</p> <ul style="list-style-type: none"> • all directors of the board of an ADI; • individuals with actual or effective senior executive responsibility for management or control of a significant or substantial part or aspect of the operations of the ADI or ADI group; and • individuals with senior executive responsibility for one of the particular responsibilities specified in the legislation. <p>The accountability regime establishes accountability obligations for accountable persons, requiring each accountable person to:</p> <ul style="list-style-type: none"> • act with honesty and integrity, and with due skill, care and diligence; • deal with APRA in an open, constructive and cooperative way; and • take reasonable steps in conducting their responsibilities as an accountable person to prevent matters from arising that would adversely affect the ADI’s prudential standing or prudential reputation.
<p>Registration</p>	<p>While APRA does not approve accountable persons, an individual is required to be registered with APRA prior to commencing as an accountable person, with a grace period of 28 days for temporary or unforeseen vacancies.</p>
<p>Accountability statements and accountability map</p>	<p>An ADI is required to provide APRA with an accountability statement for each accountable person detailing the part(s) or aspect(s) of the ADI’s or ADI group’s operations for which he or she is accountable.</p> <p>An ADI is also required to provide an accountability map showing how collectively the responsibilities of accountable persons come together to cover all parts or aspects of the operations of the ADI or ADI group.</p>
<p>Remuneration</p>	<p>ADIs are required to defer a prescribed minimum proportion of an accountable person’s variable remuneration for a minimum of four years.</p> <p>An ADI’s remuneration policy must require a reduction in an accountable person’s variable remuneration proportionate to any failure to comply with accountability obligations.</p>

Notification obligations

An ADI must provide APRA with an updated accountability statement or accountability map within 14 days after any change.

ADIs must also notify APRA within 14 days after any of the following events:

- an individual ceasing to be an accountable person;
- an ADI becoming aware of a breach of accountability obligations by the ADI or an accountable person; and
- a reduction in variable remuneration, or the dismissal or suspension of an accountable person, because he or she failed to comply with accountability obligations.

Disqualifications and civil penalties

Accountable persons: In serious cases of non-compliance with accountability obligations, APRA may disqualify an individual from being an accountable person.

ADIs: APRA may apply to the Federal Court of Australia to seek a pecuniary penalty if an ADI breaches its obligations under the accountability regime.

Chapter 2 - Accountable persons

2.1 Identification of accountable persons

It is the obligation of the ADI to identify its accountable persons consistent with the legislative requirements. An individual may be identified as an accountable person through the general principle or one of the particular responsibilities listed in legislation.⁸ Under the general principle, an individual will be an accountable person where he or she has actual or effective senior executive responsibility for management or control of the ADI or management or control of a substantial part of the ADI group. An individual will be identified as an accountable person where serving as a member of the board of the ADI or holding senior executive responsibility for one of the listed particular responsibilities, including management of the:

- overall business activities of the ADI or ADI group;
- financial resources of the ADI;
- overall risk controls and risk management of the ADI;
- operations of the ADI;
- information management of the ADI, including information technology systems;
- internal audit function of the ADI;
- compliance function of the ADI;
- human resources function of the ADI; and
- anti-money laundering function of the ADI.

An individual will be an accountable person of a foreign ADI if he or she has senior executive responsibility for the conduct of all activities of an Australian branch.⁹

APRA will not prescribe or recommend the appropriate number of accountable persons of an ADI. Generally, an institution's accountable persons will comprise its directors of the board of the ADI and its most senior executives, but an institution is encouraged to carefully consider how it operates and where accountability rests in practice. The appropriate number will also vary with the size and complexity of the ADI, and it is not unforeseeable that small ADIs may only nominate a few individuals (other than directors) as accountable persons.

An accountable person may hold multiple particular responsibilities, or be registered under both the general principle and for one or more particular responsibilities. The allocation of the particular responsibilities is expected to appropriately reflect the size and nature of an

⁸ Section 37BA of the Act.

⁹ Subsection 37BA(6) of the Act.

ADI's business, and accurately reflect the way senior executive responsibilities are held across the ADI's operations.

Rather than focusing on nominating a specific number of accountable persons, an ADI should identify those individuals that, when combined, are responsible for all parts or aspects of the operations of the ADI or ADI group and each of the particular responsibilities as outlined in subsection 37BA(2) or 37BA(6) of the Act. Registering a very large number of (less senior) individuals may dilute accountability inappropriately. Conversely, a very small number of key executives who do not in practice span actual or effective accountability for all aspects of operations may concentrate accountability inappropriately. An ADI should identify relevant areas of accountability by considering functions key to the organisation, as well as an individual's actual span of influence and control, rather than applying a generic rule by role or reporting structure.

Figure 2 Additional points of clarification – identification of accountable persons

<p>Can a particular responsibility be held jointly by two (or more) accountable persons?</p>	<p>Yes. The legislation permits joint responsibilities. Nevertheless, APRA considers individual accountability to be the clearest form of accountability.</p> <p>Where multiple accountable persons have the same particular responsibility, ADIs can nominate the individuals as jointly accountable, meaning they are equally accountable with respect to that particular responsibility. ADIs should, however, ensure that the allocation of responsibilities reflects actual practice, and consider whether lines of accountability could be further refined or clarified to eliminate any unnecessary overlap. Where joint responsibilities exist, this should be clearly indicated in the accountability statements of each relevant accountable person.</p>
<p>Does an ADI have to identify an accountable person for each subsidiary?</p>	<p>Whether an ADI nominates a specific accountable person for a particular subsidiary will depend on whether that subsidiary constitutes a significant or substantial part or aspect of the operations of the ADI group. An ADI is required to ensure that the responsibilities of accountable persons in totality cover all parts or aspects of the operations of the ADI group. An ADI should therefore focus on ensuring that the entire operations of its group are covered such that there are clear lines of accountability for each part or aspect of its operations.</p>
<p>Can a non-employee be an accountable person of an ADI or a subsidiary of an ADI?</p>	<p>Yes. There is nothing in the legislation to preclude an individual who is not employed by an ADI, or a holding company or subsidiary of that ADI, from being registered as an accountable person. Paragraph 1.101 of the Revised Explanatory Memorandum points out that a contractor could be an accountable person and subject to accountability obligations.</p>

Who is an accountable person for an Australian branch of a foreign ADI?

An Australian branch of a foreign ADI is required to ensure that there is an accountable person (or jointly accountable persons) with senior executive responsibility for the conduct of all the activities of the Australian branch of the foreign ADI (subsection 37BA(6) of the Act). This will most likely be the senior manager or head of branch. APRA would also expect the senior officer outside Australia to be identified as an accountable person under the general principle, unless there is a compelling rationale otherwise.

2.2 Registration of accountable persons

Individuals are required to be registered with APRA prior to commencing duties as an accountable person.¹⁰ ADIs may apply to APRA to register a person as an accountable person.¹¹ It is the ADI's responsibility to assess whether an individual is suitable to be an accountable person.

An ADI must apply to register an accountable person at least 14 days prior to an individual commencing as an accountable person. A registration application consists of:

- a completed registration form;¹² and
- the accountability statement for the nominated accountable person.

APRA encourages institutions to engage early with their APRA supervisors in advance of submitting any registrations for new accountable persons, or as temporary or unforeseen appointments arise.

APRA will review a submitted registration application and, if necessary, seek additional information. APRA may query or challenge the nomination of an individual to be an accountable person and his or her responsibilities but does not actively grant approval of applications to register accountable persons. Individuals are deemed registered 14 days after APRA's receipt of a submitted application or any additional information subsequently requested by APRA.

The application to register an accountable person must include a signed declaration that the ADI is satisfied that the person is suitable to be an accountable person.¹³ APRA's expectation is that this declaration will be made by the chair of the relevant board committee, or a person

¹⁰ Subsection 37DA(1)(a) of the Act.

¹¹ Section 37HA of the Act.

¹² APRA intends to consult on its registration form for medium and small ADIs. APRA has released its registration form for large ADIs: https://www.apra.gov.au/sites/default/files/registration_form.pdf

¹³ Subsection 37HA(2)(c) of the Act.

delegated to sign on the board's behalf. The declaration is set out on the registration form and can be provided by electronic signature.

Registration information is held by APRA in the Register of accountable persons. The Register is not a public document and is protected information under the *Australian Prudential Regulation Authority Act 1998* (APRA Act). However, the APRA Act would permit APRA to disclose information relating to the suitability of a person proposed to be registered, including information in the Register, to an ADI seeking to have that person registered as one of its accountable persons.¹⁴ For example, APRA may confirm if the individual has been previously removed as an accountable person by an ADI.

Figure 3 Additional points of clarification – registration of accountable persons

<p>Does an ADI need to re-register an existing accountable person who is taking on different accountabilities?</p>	<p>No. Once an individual is registered as an accountable person for the ADI, there is no requirement to re-register that individual again for a different accountable person role. However, the ADI would need to notify APRA within 14 days of the change in accountabilities, including providing an updated accountability statement for the individual and updated accountability map for the ADI (refer to Chapter 3 Notifications below).</p>
<p>Does an ADI have to register a person who is temporarily undertaking an accountable person's role?</p>	<p>An individual is usually prohibited from being an accountable person if the individual is not registered with APRA. However, an ADI has 28 days to register an individual after he or she becomes an accountable person if filling a temporary or unforeseen vacancy. The application for registration must be submitted to APRA at least 14 days prior to the date by which the accountable person must be registered.¹⁵ The temporary exemption from the registration requirement does not in any way diminish other obligations on the ADI or the individual accountable person under the BEAR.</p> <p>Under subsection 37DA(4) of the Act, APRA has the discretion to determine an alternative period to the 28 days set by legislation; however, APRA has not to date made such a determination. ADIs should submit a written request to their supervisors if seeking APRA's discretion under subsection 37DA(3) of the Act to determine a period other than 28 days on a case by case basis.</p>

¹⁴ Subsection 56(7D) of the APRA Act.

¹⁵ In the case of a temporary or unforeseen vacancy, this means no later than 14 days after the person fills the vacancy.

2.3 Accountability statements

ADIs are required to provide to APRA an accountability statement for each of its accountable persons describing the areas of responsibility attributed to that person.¹⁶ It is the obligation of the ADI to provide current statements clearly and explicitly describing areas of accountability.¹⁷

To assist institutions, APRA has provided a template that may be used for accountability statements.¹⁸ Use of the template is optional and it is intended as a guide to format and minimum content.

It is critical that any individual statement reflect accountability as it operates in practice within the institution. Accountability statements should be specific to both the institution and the individual accountable person. This will mean some degree of variation in accountability statements for similar roles between institutions. Such variation is both acceptable and required where reflecting actual practice.

APRA expects accountability statements to:

- clearly articulate what an accountable person is accountable for with respect to the ADI or ADI group, and be sufficiently explicit and detailed in defining the accountable person's responsibilities and establishing the outcome expected in relation to each responsibility;
- be comprehensive, covering all areas of responsibility of an accountable person, with no gaps in accountability. Where there is joint accountability, this should be explicitly identified and defined. Caveats or limitations to accountability are expected to be used to the minimum extent possible. Where there are caveats to accountabilities, there should be clarity about where the residual accountability resides;
- align with the actual practices and governance arrangements of the ADI. As such, APRA will query an institution where its accountability statements do not appear to be consistent with existing ADI documentation including, but not limited to, internal and external governance documents; and
- when considered collectively, articulate and delineate accountability across an ADI or ADI group.

APRA expects individuals nominated as accountable persons to be closely involved in the development of their own accountability statement; and to have read, understood and accepted the areas of accountability as drafted, as well as the accountability obligations of an accountable person under the legislation. APRA expects individual accountable persons to sign their accountability statement with a brief acknowledgement that this has occurred.

¹⁶ Subsection 37F(1)(a) of the Act.

¹⁷ Section 37FA of the Act.

¹⁸ Accountability statement template:
https://www.apra.gov.au/sites/default/files/accountability_statement_template.docx

Figure 4 Acknowledgment

I, **[INSERT NAME]**, acknowledge that I have read, understood and accept:

- the areas of accountabilities included in my accountability statement; and
- my obligations as an accountable person under subsection 37CA(1) of the *Banking Act 1959* are to conduct the responsibilities of my position as an accountable person:
 - (a) by acting with honesty and integrity, and with due skill, care and diligence; and
 - (b) by dealing with APRA in an open, constructive and cooperative way; and
 - (c) by taking reasonable steps in conducting those responsibilities to prevent matters from arising that would adversely affect the prudential standing or prudential reputation of **[INSERT NAME OF ADI]**.

2.3.1 Minimum content of an accountability statement

As per subsection 37FA(1) of the Act, APRA expects an accountability statement to outline the part(s) or aspect(s) of the ADI's or ADI group's operations over which an accountable person has actual or effective management or control, and the responsibilities of the accountable person. In doing so, the statement should describe the actions, decisions and outcomes for which the individual is accountable with respect to those part(s) or aspect(s) of the ADI's or ADI group's operations.

In compiling an accountability statement, APRA encourages ADIs to focus on key functions and expected outcomes in performing those functions. APRA expects particular attention to be given to the allocation of key functions of prudential significance, including accountability for the management of prudential risks with respect to those responsibilities. APRA has developed a non-exhaustive list of key functions for ADIs to consider when developing their accountability statements – see Attachment A. The list of key functions is reflective of areas to which APRA expects ADIs to pay particular attention when refining and clarifying its areas of accountability as part of its internal processes to implement the accountability regime.

It is important to highlight that a number of key functions can, and in many cases should, appear on multiple statements in relation to a different action or expected outcome for which an individual is accountable as a result of the individual's role. For example, in relation to risk appetite, the board of an ADI approves the risk appetite statement. The Chief Executive Officer may be accountable for ensuring that the ADI as a whole operates within the board-approved risk appetite. The Chief Risk Officer may be accountable for monitoring of, and reporting on, actual risk profiles against the board-approved risk appetite. The Head of Internal Audit may be accountable for conducting independent review on the controls put in place by the business to ensure alignment with the board-approved risk appetite.

An institution is encouraged to carefully consider the wording of the expected outcome in relation to any key function, avoiding non-specific language and defining generic terms such as 'manage' or 'oversee' in detail. An expected outcome may be usefully described by specific action-oriented terms including, but not limited to: delivering, monitoring, approving, reviewing, recommending, challenging or escalating.

The level of detail expected to explain the accountability in relation to any particular function will depend on the complexity of the organisation, in terms of size, risk profile, business lines or organisational structure. Additional detail may be required to provide clarity on any points of handover between accountable persons. For smaller, less complex institutions with simpler structures, this may mean fewer handover points requiring detailed explanation as a single accountable person may be accountable for a key function on an end to end basis.

Figure 5 Additional points of clarification – accountability statements

<p>Should an accountability statement include an effective date?</p>	<p>Yes. An individual’s accountability statement should be updated over time if needed to reflect changes in responsibilities and the effective date from which each version applies should be clearly identified on the statement. As such, the accountability statement template includes a field to provide the date the statement was last updated.</p> <p>An ADI must ensure that the effective date on an accountability statement is consistent with other relevant documentation such as the accompanying registration form (the form includes a ‘start date’ for any amendments) and accountability map.</p>
<p>Can an accountability statement have an expiry or end date?</p>	<p>No. The responsibilities of an accountable person apply on an ongoing basis and an accountability statement is considered effective until those responsibilities change, at which time the ADI is required to notify APRA of the change to the accountability statement within 14 days. ADIs should establish an internal process to keep accountability statements current and to notify APRA promptly when individuals cease to act in a specific role.</p>
<p>How should any areas of joint accountability be included on an accountability statement?</p>	<p>Any responsibility held jointly by multiple individuals should be clearly set out as a joint responsibility on the accountability statement of each relevant individual.</p>

2.4 Accountability map

ADIs are required to provide to APRA an accountability map showing lines of reporting and responsibility within their organisation. The minimum requirements are set out in subsection 37FB(1) of the Act.

APRA has not provided a suggested template for an accountability map. As accountability maps are intended to provide clarity of accountability within an ADI, institutions are encouraged to consider constructing their map in a way that will best assist them in clarifying their organisational structure and charting where ultimate accountability for the ADI’s various businesses and functions lies within the organisation.

In particular, APRA expects an accountability map would include, where relevant, reporting lines to and from each accountable person. To promote consistency and readability, APRA recommends that the language used in an accountability map align with that in accountability statements.

At this stage, APRA does not plan to make any legislative instrument in relation to an accountability map under subsection 37FB(2) of the Act, but may consider doing so in the future.

Figure 6 Additional points of clarification – accountability map

Should an accountability map include an effective date?

Yes. As an ADI's accountability map will be updated over time, the date from which each version is in effect should be made clear on the map.

An ADI must ensure that the effective date on the accountability map is consistent with that on other relevant documentation such as any accompanying registration form and accountability statements.

Chapter 3 - Notifications

An ADI's notification obligations are outlined in Division 5 of Part IAAA of the Act. It is the obligation of the ADI to notify APRA of the occurrence of any prescribed events¹⁹, including when:

- changes are made to an accountability statement or map;
- a person ceases to be an accountable person;
- the ADI becomes aware of a breach of accountability obligations by the ADI or an accountable person;
- an accountable person has been dismissed or suspended due to a failure to comply with his or her accountability obligations; and
- variable remuneration has been reduced due to failure to comply with accountability obligations.

To support the notification obligations and to ensure effective consequence management, APRA expects each ADI to establish internal governance and processes that will enable timely identification of any breaches of accountability obligations or other notification events.

APRA expects to provide further details on the notification process, including recommended forms, by early 2019.

3.1 Change to accountability statements and/or map

An ADI must notify APRA of any changes to an accountability statement and accountability map within 14 days after the change. ADIs can notify APRA by submitting the updated accountability statement and/or map along with a copy of the registration form that includes sections to provide a brief description of updates.

APRA expects ADIs to establish an internal process to keep accountability statements and maps current and consistent with the operations of the institution and the understanding of where accountability sits across registered accountable persons. This internal process should consider when a change to a statement or map is necessary.

3.2 Ceasing to be an accountable person

When an individual ceases to be an accountable person, an ADI must notify APRA within 14 days. ADIs can notify APRA by submitting an updated registration form, which includes a section for a person ceasing to be an accountable person. An ADI will need to consider how the accountabilities of the individual ceasing to be an accountable person are reallocated to ensure that there is no gap in accountability. This may include amending accountability

¹⁹ Sections 37F and 37FC of the Act.

statements of existing accountable persons or applying to register a new accountable person. Although an ADI has 14 days to notify APRA of accountability statement changes, registration applications must be submitted at least 14 days prior to an individual commencing as an accountable person.

3.3 Breach of accountability obligations

An ADI must notify APRA within 14 days after becoming aware of a breach of accountability obligations by the ADI or by an accountable person.²⁰ An ADI must also notify APRA within 14 days after the:

- dismissal or suspension of an accountable person because the person has failed to comply with his or her accountability obligations; and
- reduction of the variable remuneration of a person because the person has failed to comply with his or her accountability obligations.

While there may be a gap between the identification of the breach and the reduction of variable remuneration or dismissal or suspension of an accountable person, ADIs must notify APRA within 14 days after the occurrence of each event. As such, an ADI may need to provide multiple notifications in relation to the same breach of accountability obligations.

²⁰ APRA has released a suggested template for notification of breaches of accountability obligations: https://www.apra.gov.au/sites/default/files/notification_form.pdf

Chapter 4 - Remuneration

Deferred remuneration obligations are outlined in Division 4 of Part IIAA of the Act. It is the obligation of the ADI to comply with all requirements in relation to deferred remuneration of an accountable person.

Where an accountable person's remuneration includes a variable component, the Act prescribes a minimum amount of that variable remuneration to be deferred for a minimum of four years. APRA emphasises that an effective implementation of the accountability regime requires a broad assessment of an ADI's incentive structures and remuneration policies, including their application and resulting outcomes, as a key component of the process.

APRA therefore expects an ADI to focus not just on meeting the minimum deferral requirement, but also on establishing performance-based incentive structures for accountable persons and other key personnel that align remuneration outcomes with good risk management and the long-term soundness of their institution.²¹ In considering amendments to its remuneration policy and incentive structures, an ADI should give particular attention to factors that may be relevant to determining downward adjustments, taking into account the requirement to reduce remuneration by an amount that is proportionate to a failure to comply with an obligation under the accountability regime.²²

Given the variation in structures and complexity of remuneration arrangements utilised across the industry, an ADI will need to determine an implementation approach appropriate to its own remuneration structures and in accordance with APRA's prudential framework. APRA expects ADIs to assess their deferred variable remuneration calculations against the intent of the legislation and to ensure that there is a sufficient pool of deferred remuneration to allow for meaningful downward adjustments should an accountable person fail to comply with his or her accountability obligations.

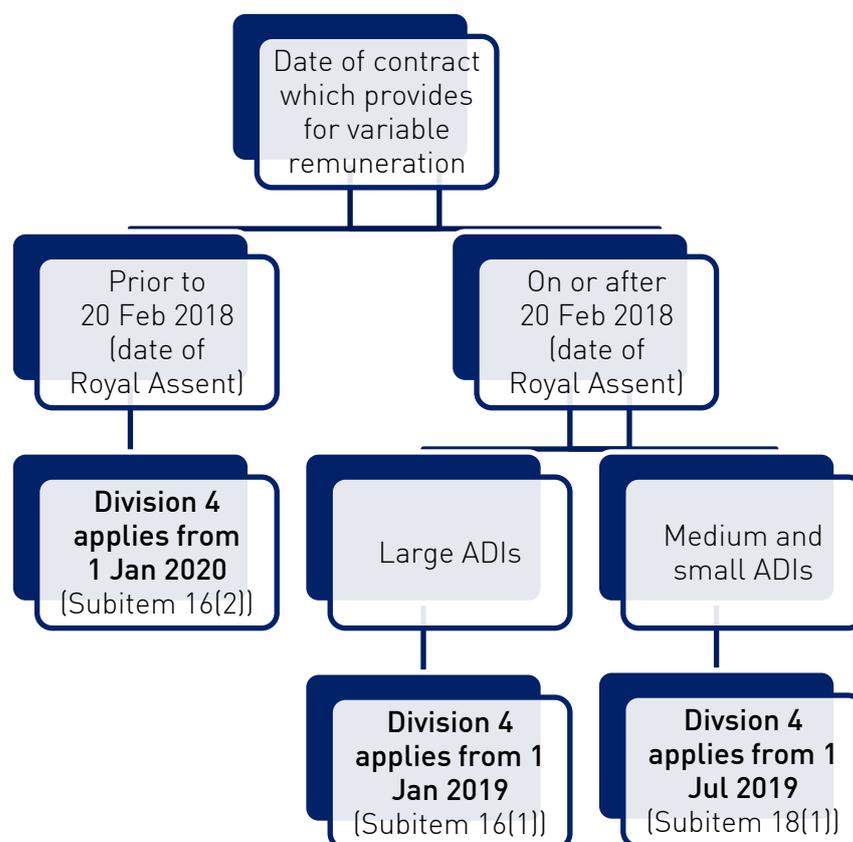
4.1 Effective date of application

The obligations to defer variable remuneration of an accountable person commence progressively from 1 January 2019 depending on the size of the ADI, date of the contract that remuneration is payable under and date of the decision to grant the variable remuneration. Institutions may use the chart below to clarify the applicable effective date.

²¹ *Prudential Standard CPS 510 Governance* sets out who should be covered by a documented Remuneration Policy for the institution.

²² Subsection 37E(1)b of the Act.

Figure 7 Effective date of application



4.2 Applications for shorter deferral periods

Under subsection 37EC(4)(a)(i) of the Act, APRA has the authority to approve a shorter deferral period if an individual is no longer an accountable person due to death, serious incapacity, serious disability or serious illness. Subsection 37EC(3) of the Act requires an ADI to meet the conditions outlined in that subsection prior to submitting an application for APRA's consideration. In this regard, an ADI will need to undertake sufficient assessment to satisfy itself that those conditions are met. Applications must be presented to APRA for consideration on a case by case basis as and when they arise. APRA has no authority to approve and will not consider approval of any shorter periods on a forward looking basis.

Under subsection 37EC(6) of the Act, APRA has the authority to determine an additional circumstance under which a shorter deferral period may be approved. APRA does not expect, at this stage, to exercise this power to determine any additional circumstances (such as payment of tax on deferred remuneration) for shorter deferral periods.

4.3 Apportioning variable remuneration

Where an accountable person works for an ADI for only part of their role within a broader group, an ADI may determine the portion of an accountable person's variable remuneration that is subject to the deferred remuneration obligations where:

- an individual is an accountable person of an ADI (or a subsidiary of an ADI); and
- this individual's remuneration is paid or payable by a non-ADI holding company of the ADI (or subsidiary of the ADI).²³

Irrespective of the methodology used to determine the portion of a person's time spent on business related to the ADI or ADI group, an ADI must make such determination honestly, in good faith and on reasonable grounds. For example, the apportionment may be based on actual time spent or an approximate calculation of the time spent based on all available information.

For consistency of approach across various organisational structures, APRA intends to determine, by legislative instrument, under subsection 37EA(4)(b) of the Act, that certain variable remuneration is not variable remuneration for the purposes of the BEAR, where:

- the variable remuneration is paid or payable by a related body corporate of the ADI (or subsidiary of the ADI) which is not a non-ADI holding company of the ADI (or subsidiary of the ADI); and
- the variable remuneration does not relate to the accountable person holding a position in the ADI (or subsidiary of the ADI).

Figure 8 Additional points of clarification – remuneration

<p>How do the deferred remuneration obligations apply if an accountable person's remuneration has no variable component?</p>	<p>Remuneration packages should reflect an appropriate incentive structure for the specific role. In the case that an accountable person has not historically received any variable remuneration, as is typically the case for directors, there is no requirement to add a variable component. In that case, no remuneration will be deferred under the remuneration obligations.</p>
<p>How do the deferred remuneration obligations apply if an individual is an accountable person based on a temporary role?</p>	<p>Where an individual is an accountable person based on a temporary role, the same requirements apply as for an accountable person holding a permanent role. This is the case even if:</p> <ul style="list-style-type: none"> • the individual ceases to occupy an accountable person role within 28 days, in which case that person need not be registered with APRA; or • the individual is no longer an accountable person on the day when the decision granting that person his or her variable remuneration is made.

²³ Subsection 37E(3) of the Act.

Chapter 5 - Next steps

ADIs demonstrating better practice would go beyond meeting the minimum statutory requirements and continue to evolve and embed the accountability regime within their institutions. APRA expects an ADI to integrate the accountability regime with its internal governance frameworks to support strong and clear accountability. This includes ensuring that accountabilities are well defined and tested, that accountable persons understand and are able to deliver on their accountabilities, and that there is a robust framework for identifying any breaches. In particular, ADIs are encouraged to consider:

- testing for any potential gaps or lack of clarity in accountabilities through scenario exercises, with a view to enhancing or refining accountability statements and maps where issues are identified. Scenarios could, for example, include significant financial losses or material control failures, and should be specific, tailored and periodically updated;
- reviewing the processes, procedures and measures that the accountable persons and the ADI have put in place to deliver on their accountabilities. Consistent with the legislation, this may include (but is not limited to) governance, control and risk management, safeguards against inappropriate delegations of responsibility and procedures for identifying and remediating problems; and
- establishing and strengthening internal processes to provide notifications to APRA (such as notifications of changes to accountability statements and/or maps to keep information current) and to identify any breaches of accountability obligations.

APRA's expectations for the accountability regime will mature as institutions implement and embed, and as APRA actively supervises, the accountability regime. Over time, and as experience grows, APRA may refine or enhance certain aspects of the guidance contained in this paper to reflect a more refined application of the regime.

As requirements of the accountability regime are set out in detail in the legislation, APRA has not, to date, amended prudential standards or prudential practice guides and does not anticipate the need to do so prior to commencement for medium and small ADIs.

However, post-commencement, APRA will review its existing prudential requirements and consider amendments to refine prudential standards and guidance relating to governance, accountability, remuneration and fitness and propriety to better align with the accountability regime.

Attachment A - Accountability statement key functions

The list below illustrates key functions that an ADI could consider when developing accountability statements. The list is not intended as a check-list. While key functions are listed by particular responsibility, accountability statements should reflect actual practice and understanding of where accountability rests. A function therefore may be more appropriately allocated to a different particular responsibility than as listed in Figure 9.

The level of detail expected to explain the accountability in relation to any particular function will depend on the complexity of the organisation, in terms of size, risk profile, business lines or organisational structure.

An institution is encouraged to carefully consider the wording of the role's key accountabilities in relation to any key function, avoiding non-specific language while expanding upon generic terms such as 'manage' or 'oversee' in sufficient detail to properly describe the accountabilities. An expected outcome may be usefully described by specific action-oriented terms including, but not limited to: delivering, monitoring, approving, reviewing, recommending, challenging or escalating.

Figure 9 *Key functions typically covered in accountability statements*

Member of the board of the ADI

- Role as chair or member of specific board committees (where relevant)
- Contribution to:
 - board's role in providing oversight and approvals
 - board approval of risk appetite and risk management framework
 - board approval of Internal Capital Adequacy Assessment Process (ICAAP) and dividend payments
 - board approval and application of the Remuneration Policy
 - board oversight of audit
 - board oversight of compliance
 - board view and actions on risk culture

Overall business activities of the ADI or ADI group

- Overall strategy and business plan
- Risk appetite
- Major transactions (e.g. acquisitions and originations)
- Escalate to and brief the board on material risk issues

- Organisational structure and internal governance

Financial resources of the ADI

- Capital management, including ICAAP and capital instruments
- Liquidity and funding operations
- Liquidity and funding risk appetite, frameworks, policies and reporting
- Funding plan and contingency funding plan
- Financial reporting and accounting
- Regulatory reporting
- Market risk management, including interest rate risk and foreign exchange risk
- Financial planning, forecasting and budgeting
- Market disclosure obligations
- Investments spending and capital deployment
- Stress testing
- Recovery planning

Overall risk controls and risk management of the ADI

- Risk appetite and risk management framework
- Risk advice to the board
- Risk culture
- Review, challenge and provide risk advice to business lines
- Escalating material risk issues to the board
- Reporting material breaches to the board and regulators
- Risk modelling
- Assessing the effectiveness of business line risk management and assurance
- Sufficient resourcing for risk function (capabilities, training and tools)

Operations of the ADI

- General project/programme management
- Outsourcing management
- Business continuity plans and delivery
- Operations controls, frameworks, policies and reporting

Information management of the ADI, including information technology (IT) systems

- IT strategy, information management and IT frameworks
- Data quality and management

- Information security, cyber security and data protection/privacy
- Business continuity and disaster recovery
- Payments systems
- Supporting regulatory reporting

Internal audit function of the ADI

- Review and report on risk management framework
- Recommendations to improve risk management, controls and monitoring
- Internal audit plan
- Reporting progress and findings to board and management
- Resourcing of the internal audit function

Compliance function of the ADI

- Compliance framework and monitoring compliance with framework and policies
- Compliance Obligations Register
- Assessing effectiveness of the business line compliance functions
- Resourcing of the compliance function

Human resources function of the ADI

- Human resources management and performance management frameworks
- Remuneration and reward policy

Anti-money laundering (AML) function of the ADI

- AML framework (including counter terrorism financing, anti-bribery, corruption and sanctions responsibilities)
- Assessing the effectiveness of AML framework and compliance functions

General responsibilities

- Management (strategy, culture, people, risk, systems, performance and resourcing)
- Business division's strategy and risk appetite
- Reporting on performance
- Compliance with group policies, laws and regulations
- Escalating or reporting breaches (to the Chief Executive Officer, board, or regulators)
- Products and services – design, distribution, compliance
- Prudent lending standards, including responsible lending obligations
- Consumer complaint handling



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