

7 October 2022

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

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Dear Sir/Madam

Remuneration disclosure and reporting requirements – CPS 511

Brief

AIST supports the overarching objectives of APRA's proposed disclosure and reporting requirements to improve the transparency of remuneration arrangements and facilitate more consistent comparisons across financial services but notes that variable remuneration practices in the profit-to-member superannuation are not consistent within the sector nor directly comparable to other sectors.

AIST cautions about the potential exposure of personal information where data that is to be publicly reported only in aggregate cohorts is collected and stored on a granular per-individual basis.

About AIST

Australian Institute of Superannuation Trustees is a national not-for-profit organisation whose membership consists of the trustee directors and staff of industry, corporate and public sector superannuation funds. As the principal advocate and peak representative body for the \$1.7 trillion profit-to-members superannuation sector, AIST plays a key role in policy development and is a leading provider of research. AIST advocates for financial wellbeing in retirement for all Australians regardless of gender, culture, education, or socio-economic background. Through leadership and excellence, AIST supports profit-to-member funds to achieve member-first outcomes and fairness across the retirement system.

Submission

AIST thanks APRA for the opportunity to provide input to this consultation.

AIST strongly supports the principles of transparency and disclosure and agree with the discussion paper's assertion that public disclosure of remuneration arrangements improves transparency, market discipline and reinforces accountability. Measures to address the failings identified in the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry are welcomed.

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We also acknowledge the challenges in developing industry-wide rulesets for a broad set of participants and that elements of such rulesets will apply differently in each sector. Capturing banking and insurance in the same net as superannuation, and the different business models within superannuation as a stand-alone sector, means the application of such rules and the outcomes they deliver will vary.

While we welcome the broad uplift in remuneration practices that the proposed disclosures will provide, AIST has some concerns that they may be counterproductive to the stated aims of improving comparability and facilitating appropriate benchmarking across financial services, particularly in the profit-to-member superannuation sector.

The remuneration landscape in profit-to-member funds is different than in other financial services and variable remuneration practices, organisational structures, role divisions and performance rating systems are not consistent across the industry. The assertion that SFIs (i.e. funds with over \$30 billion in assets under management) "are more likely to have complex remuneration arrangements and higher proportions of variable remuneration" is not reflective of actual industry practice.

A survey conducted by AIST in 2019 indicated that 61% of profit-to-member funds do not employ variable remuneration and, of those that do, almost all offer it to the investment function. The limited pool of funds that qualify as a SFI combined with the differences in remuneration structures will mean that the public disclosure and reporting requirements will only apply to a very small pool of funds and a very small pool of people employed within those funds. The limited pool of reporting entities and variably remunerated roles captured within the requirement will not necessarily allow for meaningful analysis of the data collected.

The discussion paper acknowledges this, stating "Generally, due to the lack of complex variable remuneration in current remuneration structures in the superannuation industry, CPS 511 would not result in significant additional quantitative disclosures for most RSE licensees."

All super funds, regardless of size, already have remuneration disclosure obligations for the Directors, CEO and executive officers on an individual basis per the SIS Act and Regulations, aggregate remuneration disclosure obligations on their websites as well as in Annual Member Meeting Notices and variable remuneration governance obligations per the incoming Financial Accountability Regime (FAR). Further remuneration disclosure obligations apply to listed

companies per the Corporations Act which creates a potential asymmetry between reporting entities depending on their ownership structure. It would be beneficial to streamline remuneration reporting obligations to ensure operational efficiency, clarity of requirements and reduce the risk of misinterpretation from similar but misaligned obligations.

The proposed disclosure extends remuneration reporting beyond the C-suite roles to capture other senior managers, material risk takers and risk and financial control personnel. Clarification of the captured roles would be beneficial, particularly any intended linkage to the specified roles in FAR.

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According to the discussion paper:

“The proposed requirements would allow entities to not disclose remuneration outcomes relating to specified role cohorts with fewer than five individuals, with the exception of the CEO. This is intended to address the risk that individual outcomes may be discernible from cohort disclosures where the cohort size is small.”

This does not discount the risk that with so few entities being required to report, individuals within cohorts may become identifiable. APRA’s draft reporting template seeks information relating to the individuals employed in specified roles. It would be helpful to understand how this granularity is beneficial when only aggregates are to be publicly disclosed. Individual Performance and Risk and Conduct Ratings are of particular sensitivity when linked to personally identifying details. Any collection of this information needs to come with strong assurances about its current or potential future use, and strict controls for data protection.

Any public benchmarking of remuneration risks driving up salary expectations. Since the advent of the members’ Best Financial Interests Duty, funds have been conscious of the cost to benefit of any reform that may drive up fund expenditure. All operational expenditure, including remuneration, is funded from the fees levied on members by way of their administration fees. The industry would benefit from a Best Financial Interests Duty / Member Outcomes lens to be applied to any reform affecting superannuation.

Alternative ways that APRA’s stated purpose could be met in a more cost-effective way include:

- Using salary and variable remuneration proportion thresholds instead of differentiating at the fund size level (SFI versus non-SFI). This would improve comparability of roles across the sector.
- Delaying the application of the reporting regime in super until the Financial Accountability Regime has been in place for 12 months, then applying enhanced remuneration reporting obligations once accountability changes have been embedded.
- Enhancing existing remuneration disclosure requirements in the SIS and Corporations Act to include a summary of the remuneration policy framework and a variable remuneration report for certain captured roles.

- Factor trustee remuneration decision-making into the Best Financial Interest Duty that applies to super funds, and use APRA's investigation and enforcement powers to target potential breaches of the covenant.

For further information regarding our submission, please contact [REDACTED], Senior Manager, Advocacy & Research via email at [REDACTED].

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Yours sincerely,

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Chief Executive Officer