

6 October 2022

[REDACTED]
General Manager Policy
Policy and Advice Division
Australian Prudential Regulation Authority
Email to policydevelopment@apra.gov.au

Dear [REDACTED],

QBE Submission: Consultation – Remuneration disclosure and reporting requirements

QBE welcomes the opportunity to comment on the draft *Discussion Paper: Remuneration disclosure and reporting requirements* (the “Discussion Paper”) which was released on 6 July 2022.

This submission is on behalf of QBE Insurance Group Limited and the Level 1 insurers comprising QBE Australia Pacific (collectively “QBE”).

QBE is supportive of APRA’s objectives to improve accountability through increasing transparency of remuneration design, governance and consequence management practices. However, certain aspects of the proposed disclosures raise significant challenges for QBE. These include:

- excessive collection of remuneration data across cohorts which has limited value to stakeholders;
- additional compliance costs, with compressed timeframes; and
- significant duplication of existing disclosures will cause unnecessary confusion.

QBE is in favour of meaningful reporting and disclosure around consequence management actions and outcomes, and we recommend quantitative reporting on the number of issues, their severity and the types of consequences applied. Appendix A of this letter outlines QBE’s views on the opportunities and the implementation challenges the Discussion Paper raises, including where the guidance creates new concerns or goes beyond the requirements of *Prudential Standard CPS 511 Remuneration* (CPS 511). This submission does not re-state all the issues we have raised in our previous submissions on CPS 511 (in October 2019, February 2021 and July 2021), although these concerns remain.

We would be pleased to provide any further information that assists APRA’s consideration of our feedback.

Yours sincerely

[REDACTED]

[REDACTED]
Chair



Appendix A: QBE's feedback on the *Discussion Paper: Remuneration disclosure and reporting requirements*

For ease of interpretation, QBE has provided the feedback to the Consultation Questions listed in Table 6 of the Discussion Paper. As such, the order of the feedback is not reflective of QBE's views on the importance of any of the issues raised.

Disclosure Requirements

1. Do the proposed disclosures provide sufficient information to support greater transparency and market discipline on remuneration practices, and if not, how could they be improved?

QBE does not believe the proposed additional disclosures will provide further clarity and market discipline on remuneration practices. Rather, it will confuse stakeholders by providing them with an excess of highly detailed data tables. For example, QBE reports in US\$, whereas the proposed APRA reporting will collate and disclose remuneration outcomes in AUD. A reported movement may be attributable to foreign currency variances rather than a change in remuneration.

QBE's Remuneration Report (published in QBE's Annual Report for the respective year) is prepared and audited in accordance with the *Corporations Act 2001* (the "Corporations Act"), provides significant and transparent disclosures regarding QBE's remuneration framework and practices of the organisation. The Remuneration Report also details alignment of remuneration outcomes with the organisation's business and risk performance and is used as a basis for engagement with external stakeholders, including investors and proxy advisors. Investors vote on the remuneration report annually at the annual general meeting and may use the advice of proxy advisors in their deliberations. Together with the regular engagement activities, the existing legislation gives investors adequate opportunity to raise any concerns about remuneration. It is noted that unlisted financial services organisations are not required to disclose the same level of remuneration reporting as listed organisations. Before additional reporting is introduced, APRA may wish to consider initially aligning the proposed external reporting of APRA regulated entities with those required by the Corporations Act to bring a common standard across the entities under its regulations.

Whilst it is recognised that there is an opportunity across the financial services sector to improve the disclosure of how boards have addressed in-year material adverse risk, compliance and other issues, and to the extent that prior years' issues became evident in the current year, there are more simple ways of achieving this outcome.

Proposed disclosure enhancement

Whilst there are currently no requirements in the *Corporations Act* regarding remuneration report disclosures of consequences applied for misconduct, the introduction of consistent reporting across listed APRA-regulated entities regarding material issues would provide enhanced transparency.

Organisations could disclose either in their remuneration reports or publish on their corporate websites. If neither of these alternatives are available, organisations could provide this information to APRA independently. A suggestion of how this could be achieved is shown below:

1. A summary of the consequence management framework;



2. The types (misconduct/breaches/failures) and severity (serious/ general) of issues identified;
3. The number of employees impacted for issues in each category; and
4. The range/level of consequences applied in each category (for example, termination, reduction of variable pay opportunity to zero or other percentage).

An illustration of how the detail could be presented is set out below:

Conduct Category	Total # of Cases	# of employees where a consequence was applied				
		Variable Remuneration Consequences			Other Consequences	
		In-year adjustment	Malus	Clawback	Termination	Other
CATEGORY A: <i>Serious misconduct, breaches or failures</i>						
CATEGORY B: <i>General misconduct, breaches or failures</i>						
Other						

Focussing on the transparency and adequacy of consequences applied, rather than the actual remuneration impacts by cohort, will provide stakeholders with assurance that poor risk performance is appropriately addressed.

2. Are there any further items that should be disclosed, or items that should not be disclosed?

QBE does not believe the level of disclosure being proposed is appropriate, rather, it is an excessive collection of remuneration data that significantly duplicates existing reporting, without enhancing the value to stakeholders. It is noted that there may be several APRA regulated entities within an APRA regulated Group, and any reporting for the Group should already encompass the subsidiaries. The data and reporting should not be duplicated for each entity.

Further disclosure worth considering:

As referred to in question 1 above, expanding disclosures at the organisation level for material adverse issues, numbers and consequences, provides transparency to the relevant stakeholders (most notably investors and customers) that boards are serious about effecting positive risk culture change and holding employees accountable in the industry. An example of a more efficient, yet as effective, way of delivering transparency that does not require organisations to reconcile various external reporting sources, provide duplicative information, increase administration, upgrade systems and incur unnecessary workload and cost, is provided.

Additional disclosure not beneficial

The cohorts proposed by the Discussion Paper are wide-ranging and will contain significant variations across different companies

The remuneration outcomes for Risk and Financial Control Personnel ("RFCP") should not be disclosed, whether it is on an aggregate basis or otherwise for the following reasons:

- This proposed inclusion goes beyond international comparison requirements – for example, there is no requirement to disclose these roles in the United Kingdom;



- Comparisons across the cohort and across companies will be meaningless as companies may apply the RFCP definition in different ways;
- It is likely to require significant additional resources to analyse the data and assemble disclosures due to the large global population spread across many of QBE's 27 countries of operations;
- As all organisations require significant numbers of financially skilled employees, it is likely to be used as a supplemental free benchmarking data source across all industries, albeit fairly meaningless, having the unintended consequences of driving higher remuneration levels for this cohort. This inflationary impact was seen when KMP remuneration disclosures were introduced; and
- Where there are several APRA-regulated entities within a consolidated Group, the cohort data could inadvertently disclose smaller cohorts within the Group. For example, if there were seven individuals in the Group cohort, and five individuals in the subsidiary cohort, it would be easy for individuals within the Group to identify the two individuals and their remuneration.

The benefits of disclosing remuneration outcomes on a cohort basis for Material Risk Takers ("MRTs") is also unclear. For MRT and the RFCP cohort, the level of disclosure recommended in the Discussion Paper will not enhance the transparency and understanding of stakeholders. If anything, it will further confuse stakeholders as the consolidated cohort data compared side by side across industry participants with no reference to underlying company performance. For example, the banks currently disclose cohort information for Senior Managers and Material Risk Takers under *Prudential Standard APS 330 Public Disclosures*. While this disclosure provides the number of employees in the cohorts and the number of payments in different categories, the disclosure lacks in specifics and does not allow for meaningful comparisons across entities. The irrelevance of the consolidated cohort data will be influenced by:

- a different composition, level and number of employees within cohorts;
- fixed remuneration levels set with reference to different jurisdictions, markets, seniority levels, skills, capabilities and experience;
- variable remuneration determined by the underlying fixed remuneration, compounded further by different jurisdictions' variable pay practices, performance conditions, business performance, economic drivers, individual performance and risk assessment ratings and time horizons;
- Remuneration mix across (notably small) cohorts will distort outcomes, reducing the value derived by users. For example, some organisations weight certain senior RFCP roles' fixed remuneration higher than variable remuneration to reflect the independence these roles need from the areas they review. In contrast, other more finance-based roles may have a different weighting; and
- Consequence management adjustments to these cohorts are likely to be sporadic, resulting in any meaningful quantum being lost in mean and/or median reporting across large cohorts.

Aggregated data will provide little benefit and few insights to external stakeholders on a cohort basis.

Remuneration reporting can be very complex and challenging to understand, particularly in relation to valuing and reporting deferred remuneration provided in the form of equity instruments. This can make it challenging to compare like with like remuneration outcomes



across organisations, a complexity which will be exacerbated by inconsistency in approaches between the requirements in this draft standard and existing reporting (for example, Corporations Act requirements in accordance with accounting standards). In relation to share-based payments, the draft standard requires disclosure of face value at different dates whilst accounting standards which underly existing remuneration disclosures are based on grant date fair value for equity settled share-based payments. We recommend that APRA seeks to align the valuation approach with existing remuneration reporting to avoid duplication of effort as well as inconsistent disclosures which are potentially confusing for users of the information and other stakeholders.

3. What are the implementation challenges of APRA's disclosure proposals?

QBE is concerned about the large volume of data for additional cohorts that needs to be collated, reviewed, reported, and approved by Board for external reporting purposes within four months of year end.

Reporting of Key Management Personal ("KMP"), comprising approximately 20 executives and non-executives, for disclosures in the Remuneration Report requires at least four months (before and after year end) of intense effort by remuneration and finance professionals at their most time critical period of the year. The Remuneration Report is disclosed to the market within two months of QBE's year end, following a rigorous process of internal and external review and board approval. Further, simultaneously the board, and subsidiary boards as required, approve remuneration outcomes based on (at this stage market sensitive) company results and individual performance, risk assessments and consequence management outcomes for all specified individuals, across all regulatory regimes and all jurisdictions (e.g., Solvency II, Prudential Regulatory Authority and APRA). QBE's year end results and necessary risk adjustments feed into the performance and remuneration review outcomes of our ~12,000 employees. This is communicated three months after year end, being 31 March each year. Given reporting will be required to be submitted to APRA within four months of year end (being 30 April for QBE), this will leave only one month for QBE to collate the data for the various cohorts, from various sources within the organisation, review the reporting (internally and externally), obtain board approval, and report the data to APRA. This timeframe is insufficient to produce accurate reporting for such a large dataset. Further, the deadline for reporting to APRA, coincides with the time in which the remuneration and finance teams are supporting the board, executives and company secretariat with investor road shows and preparing for QBE's Annual General Meeting (held around the start of the fifth month after year end). We would recommend that limited reporting, beyond existing Corporations Act and other disclosures is required to be disclosed within 6 months of the year end.

4. How would RSE licensees seek to address the disclosure proposals in CPS 511 in a manner consistent with existing SIS Act obligations, particularly in relation to CEO disclosures?

Not Applicable.

5. What is the appropriate level of assurance over disclosed information?

QBE recommends that entities be enabled to review their submissions internally in a manner that satisfies their internal controls and processes, and not be prescribed to have external, and likely duplicative, review of the submissions which will add time, cost and complexity. There is already substantial assurance through the external audit over the remuneration



report disclosures regarding remuneration frameworks and outcomes of the most senior accountable KMP with extensive reporting on the link to performance and risk.

6. What are the compliance costs of APRA's proposed disclosure requirements in CPS 511 and how could APRA reduce compliance costs and impacts?

As a direct consequence of the requirements of CPS 511, costs are expected to rise significantly in the following areas:

- External consulting costs – reviewing the remuneration framework and operations for the effectiveness review, providing advice on the implementation of the standard (and practice guide);
- Internal team expansion – across remuneration, internal audit, governance and compliance functions. Teams will need to be expanded to cover the additional requirements as most of the activities occur simultaneously to the normal cadence of work. Additional cost of turnover of employees who leave when the workload becomes untenable, or being headhunted to other organisations, resulting in increased hiring, training, and development costs;
- Attraction and retention of senior employees into the financial services industry and progressing talent into higher roles within the industry noting additional reporting will likely negatively impact both privacy of personal data and extended deferral arrangements; and
- Board – additional meetings and consultation to meet additional cohort reporting requirements four months after year end.

Reporting Requirements

7. Are there any systems or implementation challenges with reporting remuneration data?

QBE has concerns with:

- Complexity of reporting for four cohorts (CEO, Senior Manager, MRTs, RFCP) and sub-categories of reporting (Highly Paid Material Risk Taker ("HPMRT") and the RFCP reporting to Senior Managers) as there are many more roles to include, review, consolidate and approve in a short time frame.
- Duplication of reporting for multiple regulators globally as well as the Corporations Act requirements of KMP which cover many of the same personnel, but in different data cuts and nuances in definitions, requirements and currencies;
- Requiring the reporting to be in a currency other than the reporting currency of an organisation will impact the transparency and comparability of QBE's public disclosures. QBE reports in US\$ and by requiring reporting to APRA in AU\$ will require additional explanations, reconciliations on currency differences and resources to respond to stakeholders' questions, particularly if comparing year on year remuneration data.
- Additional system development (formal HRIS upgrades, fields and enhancements and excel based models) will be required to meet the additional data and disclosure requirements, for example – employee benefits arise in many different systems and jurisdictions, few of which are reported in a single system.
- Administering longer deferral reporting times will increase complexity, particularly where there are leavers within the population. Leavers are usually excluded from HRIS systems and are manually managed. Expanding the population across numerous cohorts will



significantly increase the complexity, increase the risk of errors and drive-up costs of operating activities.

- APRA's request for entities to provide the Remuneration Policy (and Consequence Management policy, if separate) should be outlined in the Prudential Standard, as opposed to the general instructions for CRS 511.0. This would align with APRA's approach for other Prudential Standards, where this type of requirement is set out.

8. What are views of interested parties on declaring CRS 511.0 to be non-confidential?

QBE has significant privacy concerns (for roles not already disclosed as KMP) in relation to submitting data on an individual basis, particularly sensitive data relating to new joiners, leaver reasons, conduct ratings and other incentive pool information which could be cross matched to other publicly available information about the individuals in the cohort. These are senior roles, and individuals can be readily identified and matched according to their role title.

In addition, members of the cohort will be able to access APRA's proposed disclosures to see where they are placed relative to their peers in the same and other organisations, which may cause undue upward pressure on remuneration levels. QBE does not support the notion of cohort reporting, however, if APRA is reporting data on a cohort basis, it is QBE's recommendation that organisations prepare and provide aggregated data for cohort reporting to APRA. This will enable the board to review and approve the accurate reflection of the cohort.

9. What is the appropriate level of external assurance over remuneration data reported to APRA?

If any external assurance is required, QBE recommends that it forms part of existing reviews required by APRA's requirements, and external review provides assurance over the process and/or controls for preparing the data, rather than the data reported to APRA. For example, external assurance over the process and/or controls could form part of the:

- Triennial comprehensive review as required by CPS 511 (preferred approach); or
- Limited Assurance Review Report as required by *GPS 310 Audit and Related Matters*.

The triennial comprehensive review is QBE's preferred approach as it is already required by CPS 511 and would not result in additional and duplicative work, albeit that the external assurance would not be completed annually. Whereas the timing of the Limited Assurance Review Report would necessitate the compression of the timeframe to bring a broader population into the assurance process within the year end reporting timeframe and obtain external assurance prior to 31 March (as opposed to 30 April) of each year. This compression of timing would present a significant challenge for QBE.

10. What are the compliance costs associated with the proposed CRS 511.0? Do the reporting proposals meet APRA's objectives in an efficient and least-cost manner for industry?

As mentioned in question 7, above, there are significant implementation efforts and resultant cost increases to comply with CRS 511.0. Completing the analysis and disclosures for the Remuneration Report for around 10 executive KMP and 10 non-executive KMP requires months of effort, expertise and resources. Adding ~70 roles globally, within a similar timeframe, will incur significant time and expense. This was experienced recently with the APRA Data Study, particularly where data was not easily collatable in the required formats or not readily



available, with the time required to produce the data (approximately 2 weeks of a critical remuneration resource full time equivalent) compounded by our complex global organisational structure.

These costs are expected to be over and above the already significant compliance costs required for the external independent third-party triennial compliance review.

APRA Publication

11. Is the proposed publication sufficient to provide comparability of remuneration outcomes across entities?

Question 2 provides numerous reasons why the data tables will not provide comparability across entities, notably, but not limited to, the composition, remuneration mix, skills, experience and location of employees within a particular cohort.

Entities already provide significant amounts of remuneration data to provide comparability of similar senior roles across organisations. Proxy advisors and other remuneration advisors and consultants already use this information to provide extensive comparisons between companies at the individual KMP role levels.

12. What other remuneration data should APRA publish for all entities?

There is extensive information already published on remuneration practices and data for KMP. QBE considers that the remuneration data is sufficient, and that the existing qualitative disclosures provide more value to investors and other interested parties than accounting valuations of share-based payments which can confuse all but the most sophisticated investors. Organisations should manage their own data and publish it in the form most appropriate for their organisation.

APRA may want to conduct surveys and publish results on an industry wide basis in lieu of detailed reporting. The results would be provided to participants with their own results compared to others to understand market relativities and may safeguard highly sensitive information more effectively.

QBE recommends additional qualitative information relating to board decisions around material adverse risk, compliance and other issues raised in relation to conduct and consequence management (referred to in Question 1 above) may be beneficial to stakeholders, however, extending that to detailed remuneration outcomes and ratios would not add more value to stakeholders.

13. Is the masking of small cohort sizes sufficient to address the risk that remuneration outcomes of individuals are discernible from published data?

No – small cohorts increase the risk of individually discernible data, particularly when there is movement in the cohort from one year to another. For example, individuals within a subcategory of HPMRT, will be discernible within an organisation based on matching movements of personnel, divisional performance and other relevant factors. QBE does not believe the value in publishing cohort data exceeds the risk of inadvertent privacy breaches.