



OWNERSHIP MATTERS

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Neil Grummitt
General manager, policy development
Policy, research and statistics
Australian Prudential Regulation Authority

Email: Basel3capital@apra.gov.au

RE: Basel III disclosure requirements: composition of capital and remuneration

Dear Neil

Thank you for the opportunity to comment on APRA's discussion paper on proposed disclosure requirements for Australian authorised deposit taking institutions (ADIs). Ownership Matters (OM), formed in 2011, is an Australian owned governance advisory firm serving institutional investors. The principals of OM have extensive experience in assessing remuneration structures and outcomes for listed Australian ADIs and other listed financial services entities from the perspective of their alignment with shareholder interests. This submission reflects the views of OM and not those of our clients.

We wish to comment only on the proposed remuneration disclosure requirements in the discussion paper outlined on pages 12 and 13 of the discussion paper and at APS 330-5 – APS 330-6 and in attachment E.

OM notes some of the disclosures required under the proposed standard largely replicate disclosures already required of listed ADIs under the Corporations Act for key management personnel (KMP). Executives fitting the accounting standard definition of KMP will certainly be caught within the APRA standard definitions of "senior manager" and "material risk-taker" outlined in paragraphs 17 through 19. This definition will also catch a group of executives larger than executive KMP which at major banks usually consists of approximately 10 individuals.

The discussion paper notes listed ADIs may meet the proposed disclosure requirements "by including required information in the Remuneration Report" while clearly distinguishing between the prudential standard and remuneration report disclosures. Most of the qualitative disclosures listed in attachment E are already included by large listed financial services groups in remuneration reports or could easily be accommodated in – and improve - existing disclosures. In this case however specifically distinguishing between the information required under the prudential standard and that required by the Corporations Act may be cumbersome and lead listed entities to making prudential standard disclosures in a separate document referenced in the remuneration report.

The required quantitative disclosures under the prudential standard will greatly assist investors in listed ADIs in their analysis of executive remuneration policy. These requirements, which as noted above will apply to a group larger than the KMP group at most listed ADIs, include disclosure of guaranteed bonuses, sign-on awards and severance payments. This information will improve investor knowledge of the costs of executive appointments and departures across a broader group of executives who nonetheless may have a substantial impact on overall group performance.

The largest benefit to investors however from the proposed prudential standard requirements is the requirement for an ADI to disclose how much deferred pay for the senior manager group remains subject to "ex post implicit and/or implicit adjustments" as well as the total amount of explicit 'clawback' applied during the year. At present even when listed ADIs clawback remuneration from KMP this information is not presented in a straightforward way to shareholders apparently due to concerns over the impact on executives' reputations (for example, OM's own research shows clawback of deferred bonuses at NAB and CBA in 2012 was apparent only from careful perusal of detailed remuneration disclosures for individual executives).¹

The proposed changes to the Corporations Act requiring 'if not, why not' statements on whether remuneration was clawed back would not provide the same level of detail as required by the proposed prudential standard. It would also apply only to KMP and not the broader group covered by the standard. By requiring this disclosure in a format that will not identify individuals the prudential standard would allow investors to assess how genuine the clawback arrangements of ADIs are in practice and the extent to which adjustments to deferred incentives are meaningful. This will provide a meaningful insight into risk management practices at listed ADIs and alignment of risk management and remuneration outcomes.

We would be happy to discuss any of the above in more detail and our email details are provided below. Thank you once again for the opportunity of commenting on the discussion paper,

Yours sincerely,

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¹ See p. 19, Ownership Matters, 'Money for nothing and the risk for free: Pay in large cap financials', March 2013.