

Article Information

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Updated CPS 511 introduces new remuneration disclosure requirements for APRA-regulated entities

On 1 August 2023, the Australian Prudential Regulation Authority (APRA) released the final version of an updated Prudential Standard CPS 511 (CPS 511), which sets out new remuneration disclosure requirements for authorised deposit-taking institutions (ADIs), insurers and registrable superannuation entities (RSEs).

Following several months of consultation on the amended CPS 511 that began in mid-July last year, the new CPS 511 requires APRA-regulated entities to annually publish information on the governance, design and structure of their remuneration frameworks and information on their remuneration policies. Larger and more complex entities must disclose additional quantitative information for the financial year, including information on remuneration outcomes, special payments and deferred and adjustable variable remunerations.

The new remuneration disclosure requirements are designed to ensure there is transparency on how APRA-regulated entities are meeting the objective of CPS 511, which is for entities to have remuneration arrangements which appropriately incentivise individuals to prudently manage risks they are responsible for and to have appropriate consequences for poor risk outcomes. The heightened requirements of CPS 511 on entities' remuneration arrangements were introduced in response to evidence that previous arrangements had been a factor driving poor consumer outcomes. CPS 511 was intended to address recommendations 5.1 to 5.3 of the Final Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

CPS 511 has been implemented in a staged approach:



A brief recap

The key elements of CPS 511 are unchanged in the new version. These include:

Application

The standard applies to all APRA-regulated entities, defined as ADIs, general insurers, life companies, private health insurers and RSE licensees.

The applicable obligations depend on whether an entity is a **significant financial institution (SFI)** or a **non-significant financial institution (non-SFI)**. These are defined terms:

- **Significant financial institution (SFI)** – means, in relation to RSE licensees, an RSE licensee that either:
 - has total assets in excess of AUD \$30 billion in the case of a single RSE operated by an RSE licensee, or if the RSE licensee operates more than one RSE where the combined total assets of all RSEs exceed this amount; or
 - is determined as such by APRA, having regard to matters such as complexity in its operations or its membership of a group.

In relation to other APRA-regulated entities, Prudential Standard APS 001 Definitions (APS 001), Prudential Standard GPS 001 Definitions (GPS 001), Prudential Standard LPS 001 Definitions (LPS 001) and Prudential Standard HPS 001 Definitions (HPS 001) define the term for the relevant type of entity.

- **Non-significant financial institution (non-SFI)** – means, in relation to RSE licensees, an RSE licensee that is not an SFI.

In relation to other APRA-regulated entities, APS 001, GPS 001, LPS 001 and HPS 001 define the term for the relevant type of entity.

Key requirements

The key requirements are largely unchanged:

- the Board of an APRA-regulated entity is responsible for the remuneration framework and its effective application, in line with the size, business nature and complexity of the entity;
- an entity is required to have a remuneration framework that facilitates effective management of both financial and non-financial risks;
- remuneration outcomes must align with performance and risk outcomes; and
- higher standards must be adhered to for key roles and particular large, complex entities.

What's new

Under the updates to CPS 511, APRA-regulated entities are required to make clear, comprehensive, meaningful, consistent and comparable public disclosures on remuneration.

The disclosures required must be published in a standalone document on the entity's website or, provided the information is clearly identified as disclosures for the purposes of complying with the standard, as part of other disclosures made by the entity available on its website.

The entity must make disclosures on a financial year basis for each full financial year of the entity. The disclosures must be made as soon as possible after the entity lodges its annual financial statements with the Australian Securities and Investments Commission (ASIC) and not more than six months after the end of the financial year to which the disclosures relate. If the entity is not required to lodge financial statements with ASIC, it must make the disclosures not more than six months after the end of the financial year to which the disclosures relate.

Disclosure requirements for SFIs

An entity that is an SFI must disclose information on its remuneration framework, remuneration outcomes for the financial year, special payments made in the financial year and deferred and adjusted variable remuneration, as set out in the standard. This includes:

- **Remuneration framework** – details regarding the governance of the framework, an overview of the framework (including its key features and objectives), a description of the design of variable remuneration plans and details of how the entity defers and adjusts variable remuneration to account for longer-term performance, including risk performance.
- **Remuneration outcomes** – details of fixed remuneration and variable remuneration outcomes for Chief Executive Officers (CEOs), other senior managers, 'highly paid material risk-takers'[\[1\]](#) and other 'material risk-takers'[\[2\]](#) for

the financial year.

- **Special payments** – certain payments made to CEOs, other senior managers, highly paid material risk-takers and other material risk-takers in the financial year. These include one-off guaranteed bonuses, sign-on awards to a newly appointed employee and severance awards to an employee ceasing employment, excluding any statutory entitlements.
- **Deferred and adjusted variable remuneration** – total remuneration outcomes for CEOs, other senior managers, highly paid material risk-takers and other material risk-takers in relation to:
 - deferred variable remuneration, net of downward-adjustments for the financial year;
 - paid and vested variable remuneration outcomes (i.e. not deferred), net of downward adjustments during the financial year; and
 - total downward adjustments applied to variable remuneration, as set out in the standard, during the financial year.

For each of these cohorts, an entity must describe the main triggers leading to downward-adjustments to variable remuneration as a result of consequence management.

Disclosure requirements for non-SFIs

A non-SFI entity must disclose qualitative information on the governance of its remuneration framework, design and structure of its remuneration framework and remuneration policy. This includes:

- **Governance** – information relating to the main bodies overseeing remuneration, how the Board exercises discretion in determining remuneration outcomes and the Board’s oversight of remuneration policies and input provided by key risk functions.
- **Remuneration framework** – a description of how the remuneration framework aligns with the entity’s business plan, strategic objectives and risk management framework, promotes the effective management of financial and non-financial risks, sustainable performance and long-term soundness, supports the prevention and mitigation of conduct risk and, for an RSE licensee, promotes the RSE licensee performing its duties and exercising its powers in beneficiaries’ best financial interests.
- **Remuneration policy** – information on how the entity aligns remuneration outcomes with performance, a description of types of positions included in specified roles, how consequence management is applied in the event of a material breach or misconduct, a description of variable remuneration offered to employees in specified roles or (where no variable remuneration is offered) the method used to ensure risk management is addressed and enforced and a description of how the entity defers and adjusts variable remuneration to account for longer-term performance.

APRA may also determine that a non-SFI is to comply with the quantitative disclosure requirements for SFIs set out in the standard.

Key takeaways

Disclosure obligations under the new standard will begin for all entities from their first full financial year after 1 January 2024 and will be required annually. For entities whose financial year ends on 30 June, these obligations will commence after 30 June. An entity will then have a period of time after the end of the financial year in which to make the disclosure, as outlined above.

In preparation for the 1 January 2024 start date, ADIs, insurers and RSE licensees should take steps now to familiarise themselves with the new requirements of CPS 511 to ensure effective frameworks, systems and policies are in place for compliance.

The remuneration requirements of the [Financial Accountability Regime \(FAR\)](#) overlap with those of CPS 511. Entities should consider applying both regulatory regimes concurrently to streamline implementation and ensure to meet all obligations

[\[1\]](#) Under paragraph 20 of CPS 511, a ‘material risk-taker’ means a person whose activities have a material potential impact on the entity’s risk profile, performance and long-term soundness, and in addition for an RSE licensee, means a person whose activities have a material potential impact on performing its duties and exercising its powers in the best financial interests of beneficiaries. A ‘highly paid material risk-taker’ means a material risk-taker whose total fixed remuneration (including salary, superannuation, allowances and benefits) plus actual variable remuneration is equal to or greater than 1 million AUD in a financial year of the entity.

[\[2\]](#) Refer to footnote 1 above.