

Senate Economics Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates

2016 - 2017

Department/Agency: Australian Prudential Regulation Authority
Question: 194
Topic: MySuper transition remuneration structures
Reference: Hansard page no. 18 - 20 October 2016
Senator: Gallagher, Katy

Question:

Senator GALLAGHER: I know you are having a look at remuneration structures more broadly, but if, for example, executives and trustees have remuneration incentives attached to the profitability of the fund—that is, the more fees that the fund charges the more profitable they are likely to be and the executives and trustees may be rewarded for that profitability—how are you looking at that issue? Or, are you looking at that issue?

Mrs Rowell: That would be one of the issues that we would look at in the general governance and management of the funds—what the remuneration structures were and how conflicts are being managed.

One of the pieces of work we are doing at the moment is looking more deeply into related-party arrangements—how those are structured and what the nature of those arrangements are. We expect to have completed that work by the middle of next year and we will report our findings then.

So we have done some general work around conflict management, remuneration structures and the like, but at a relatively high level. We are now taking a deeper-dive look across a sample of funds.

Senator GALLAGHER: Will you look at this issue—the one that I have raised about how that might work in the transitioning to the My Super products?

Mrs Rowell: That is not specifically within this particular piece of work. It is more looking at the nature of administration, insurance investment and other arrangements that might be in place: marketing arrangements and the like—those sorts of arrangements.

Senator GALLAGHER: Perhaps on notice, could you provide me with an answer about whether you think this is an issue? From your team's dealings—whoever is looking at the transition arrangements to My Super—is this an issue that has cropped up? And what is APRA's view on it and how it is being managed?

Mrs Rowell: Sure.

Answer:

Prudential Standard SPS 510 Governance sets out requirements for RSE licensees to have in place a policy on remuneration, which outlines the objectives and structure of remuneration arrangements. APRA has taken a principles-based approach in this area, by requiring the board of each regulated institution, including each RSE licensee, to have a remuneration policy that aligns remuneration arrangements with the long term financial soundness of the institution and its risk management framework; at the same time, boards are able to design remuneration arrangements that suit the structure of their business operations.

Consistent with this approach, APRA has not sought to prescribe an absolute level of remuneration but instead emphasises the need to align remuneration incentives with good

stewardship of the RSE licensee's business operations, hence the remuneration requirements being located in APRA's governance standards. The risks associated with remuneration arrangements must be managed as part of the RSE licensee's risk management framework.

RSE licensees are held accountable for compliance with APRA's prudential requirements for remuneration. APRA's principles-based approach, together with its active supervision of regulated institutions, is aimed at ensuring compliance with both the intent and the substance of these requirements.

To date APRA has not seen evidence of ADA transition being delayed due to remuneration structures at RSE licensees. APRA remains alert to the possibility of this risk and if identified would take appropriate supervisory action.