Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates

21 – 22 October 2009

Question: sbt 66

Topic: Executive Salaries

Hansard Page: E88-89 (22/10/09)

Senator CAMERON asked:

Senator CAMERON—In terms of the Productivity Commission report, I think it was quite predictable, from my perspective. It was quite conservative and quite timid in terms of its approach. It is not an issue for you; I raised some of these issues late in the evening with the Productivity Commission itself. But one of the issues it has raised is quite a timid approach and it is called the 'two-strike rule'. Have you had a look at that?

Dr Laker—I have read the report, but it is not one that I have focused on in particular—not that particular aspect.

Senator CAMERON—But it is one that has created quite a lot of concern amongst the executives of various boards, including the banking industry. So you have not paid any attention to that?

Dr Laker—We are still in consultation with the industry about our proposals. We have spoken to the Productivity Commission about their proposals—

Senator CAMERON—I am happy for you to be in consultation with the industry about your proposals. I am asking: have you paid any attention to the controversy that has arisen over this two-strike rule?

Dr Laker—At the member level, we have not yet addressed the consequences of the Productivity

Commission report; it has only come out recently. Mr Littrell, who works on this issue in the Basel context, is looking at a range of other matters. It will be part of our overall assessment of where APRA goes on the remuneration issue. But I cannot engage you in a debate on that particular rule; it is not party to our—

Senator CAMERON—I am not asking you to put a debate. I do not want you to debate me. I want you to answer my questions, thanks. At the moment, I am looking for some idea as to whether APRA agrees with the arguments that are being put up by some executives who come under your purview that this two-strike rule is a step too far and would be a Trojan horse for corporate raiders. I would have thought that APRA would have been concerned about something that meant corporate raiders could disrupt the stability and proper governance of a bank or any other organisation. You have not considered that at all?

Dr Laker—We have a range of other protections against corporate raiders. We are talking here about regulated financial institutions that are subject to very strict shareholder requirements, subject to the Financial Sector (Shareholdings) Act. We are not talking here about industrial or other companies. We are very careful about the capital and the ownership structure of regulated finance institutions. I will take your question on notice. It will be something that we will look at. But, with our focus on these issues, we have set a strong principles based approach to remuneration. The boards will be very clear about what accountabilities they have to us and to their shareholders on risk and reward.

Senator CAMERON—Given that you have not paid much attention to this and you have been focusing on your own approach to this, can I ask you to take on notice whether, with the Productivity Commission proposal, there should be a two-strike rule in relation to executive salaries? Could you take on notice whether that will create the problems that some executives are screaming about, which is the Trojan horse issue and that it will unduly consume the attention of boards? Is that an issue for APRA?

Dr Laker—I will take that on notice.

Senator CAMERON—Thank you.

Answer:

This issue is relevant to the relationship between a company's directors and its shareholders, and accordingly is not directly relevant to APRA. APRA's interest is in the remuneration arrangements themselves and the role of the board in determining those arrangements, rather than in the way that directors interact with the shareholders.