



EXECUTIVE REMUNERATION - THE REGULATORY DEBATE

In March 2009, John Trowbridge, Executive Member of the Australian Prudential Regulation Authority ('APRA') in a speech delivered at the 2009 Remuneration Forum, not only expressed APRA's view on this topic but outlined possible new prudential standards to be issued by APRA.

Mr Trowbridge described the ten dimensions of the Remuneration Debate (as set out below) and outlined the range of possibilities available to regulators concerning the regulation of each of the "ten dimensions". Mr Trowbridge also indicated the direction that APRA would most likely be taking when it introduced prudential requirements for supervised institutions later in 2009.

The ten dimensions of executive remuneration outlined and APRA's likely position in relation to each are:

1. **Application** - APRA requirements will apply to prudentially regulated institutions only.
2. **Scope** - With each regulated institution APRA will take an interest in all personnel whose decisions can have a material effect on the financial performance of the organisation. This covers not only senior executives, but may also cover sales staff, traders and other personnel.
3. **Emphasis** - APRA's emphasis will be on structure rather than quantum of remuneration. The emphasis will relate to the management of risk to ensure that incentive payments do not encourage excessive risk taking.
4. **Format** - APRA's focus will be on implementing enforceable prudential principles.
5. **Accountability** - APRA supervisors will actively review each institution's remuneration landscape, in contrast to ASIC's approach which focuses on disclosure of arrangements.
6. **Governance** - APRA will focus on ensuring the accountability of each supervised institution's board remuneration committee.
7. **Components** - APRA will be looking at remuneration in relation to three elements, namely fixed pay, short term and long term incentive payments.
8. **Risk Adjustments** - APRA will be requiring incentive payments to be adjusted for risk.
9. **Time horizon** - APRA will be encouraging calculation of incentive payments over multi-year periods and expecting eligibility to go beyond one year periods.
10. **Performance Measurement** - APRA intends offering guidance on issues relating to performance measurement.

The approach foreshadowed indicates a much more "hands on" approach being taken by APRA to the issue of executive remuneration, consistent with its approach on supervision of institutions on other issues.

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