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Assistance Banking Insurance Lifestyle

17 December 2021

Legislation Committee
Senate Standing Committee on Economics
c/o Committee Secretariat
Via economics.sen@aph.gov.au

RE: Submission on the *Financial Accountability Regime Bill 2021*

To the Senate Standing Committee on Economics – Legislative Committee

As a member-owned institution supporting almost 1.8 million members across Queensland, RACQ endorses the intent of the recommendations from the Royal Commission into Misconduct into Banking, Superannuation and Financial Services (Hayne Royal Commission).

Throughout the implementation of the Hayne Royal Commission reforms, RACQ has consistently advocated its concerns about the resulting increased regulatory costs which have disproportionately impacted the customer-owned banking sector, both in terms of cost of implementation and ongoing operating costs.

RACQ supports the intent of the Financial Accountability Regime Bill 2021 however we note the following improvements could be made (further details in Appendix 1):

a) Alignment of the Enhanced Disclosure Threshold (s31[3]) to the Australian Prudential Regulation Authority (APRA) Prudential Standard CPS 511: Remuneration (released in October 2021) that sets out the thresholds for Significant Financial Entities; and
b) Aligning the deferred remuneration obligations (Part 5) to the APRA Prudential Standard CPS 511: Remuneration; specifically, that it applies only to entities that are above the enhanced disclosure thresholds outlined in recommendation a).

We also note the Government has agreed to remove the significant financial penalties against individuals who breach their accountability obligations. RACQ supports this decision however if the Opposition, the Greens and/or the Crossbench wishes to reintroduce significant financial penalties to individuals, it should only apply these penalties to entities who meet the enhanced disclosure threshold as it would be more commensurate with remuneration levels and models.

Yours sincerely,

[redacted]

David Carter
Group CEO

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Appendix 1: Summary of Improvements

a) *Alignment of the Enhanced Disclosure Threshold with APRA CPS 511: Remuneration*

Whilst RACQ acknowledges the legislation details that the Enhanced Disclosure Thresholds will be set in the Regulations of the Legislation, the exposure draft legislation Q&A in July 2021[1] set out potential thresholds. RACQ suggests that the Treasurer consider aligning the thresholds to APRA Prudential Standard CPS 511: Remuneration[2]. The differences are summarised in the table below:

Type of Entity	Treasury Q&A Threshold[1]	APRA CPS 511 Threshold[2]
Authorised Deposit-taking Institutions	>$10bn	>$20bn
General Insurers	>$2bn	>$10bn
Life Insurers	>$4bn	>$10bn
Private Health Insurers	>$2bn	>$3bn
Registrable Superannuation Entities	>$10bn	>$30bn

b) *Aligning the deferred remuneration obligations (Part 5) with APRA CPS 511: Remuneration*

APRA Prudential Standard CPS 511: Remuneration[2] acknowledges the proportionality of regulation and only applies the specific requirements of "… applying a material weight to non-financial measures in variable remuneration arrangements, applying minimum deferral periods and clawback arrangements…" to Significant Financial Entities. Given the overlap of Part 5 of the Bill (deferred remuneration obligations) with APRA CPS 511: Remuneration; RACQ recommends that Part 5 of the Bill only apply to entities that meet the Enhanced Disclosure Threshold which should align to APRA's thresholds of a Significant Financial Entity.

Additionally, we note that the deferral mechanism for variable remuneration of smaller entities is often based on cash already earned (rated by employees at a 100% dollar valuation) versus long term, unearned share/equity option structures for larger entities which are often rated at a 50%-60% dollar valuation by employees. As such applying the deferred remuneration obligations will place smaller entities, which often do not have access to share/equity options, at a financial disadvantage to larger entities when it comes to hiring and retaining talent.

[1] https://treasury.gov.au/sites/default/files/2021-07/c2021-169627_questionsandanswers_2.pdf
[2] https://www.apra.gov.au/sites/default/files/2021-10/Final%20Prudential%20Practice%20Guide%20CPG%20511%20Remuneration_0.pdf