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PROPOSED FINANCIAL INSTITUTIONS SUPERVISORY LEVIES FOR 2015-16

The Financial Services Council (FSC) is pleased to provide feedback on the proposed financial institutions supervisory levies that will apply for the 2015-16 financial year. The FSC supports supervisory levies that are both attributable and proportional to the costs of operating the regulatory system.

The FSC represents Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advisory networks, trustee companies and public trustees. The FSC has over 125 members who are responsible for investing more than \$2.3 trillion on behalf of 11 million Australians.

Levies which help underpin the security and stability of Australia's financial system are an important part of the financial framework that helps underpin consumer confidence. This has been a standing position of the FSC over time and continues to be the case. We make a number of additional comments, however, on the cost recovery model, the apportionment and the need for further focus on ensuring that the consultation process meets the needs of all stakeholders.

Cost recovery impact statement

We remain concerned that industry is responding to the consultation process in the absence of the cost recovery impact statement to be prepared by APRA. It also remains unclear how the cost impact upon insurance customers and superannuation fund members can be assessed in isolation from APRA consulting with industry.

We appreciate the portfolio budget process and the annual levy consultation process occur somewhat closely together. Despite this, we encourage Treasury to ensure APRA make available their cost recovery impact statement at the time the levies consultation commences.

Transparency and uncertainty

On 27 November 2013, the Australian National Audit Office (ANAO) tabled their report on the determination and collection of financial industry levies. By and large the report found that the process and systems used to raise and collect levies was effective. We also acknowledge and appreciate that the consultation window on levies has improved from the average of 10 days as noted in the ANAO's report.

However, the report recommended the need for “a formal opportunity at an early stage in the financial year for APRA and relevant stakeholders to discuss issues relating to the levies processes. This could involve the establishment of a stakeholder panel, potentially led by the Treasury, and including all Australian Government agencies with responsibilities for financial industry levies”.

We support the ANAO’s recommendation and urge Treasury to respond to this recommendation.

There still remains a lack of detail, beyond regulator’s own internal estimates of resource utilisation by sector, on the way in which resources will be used. Given industry strongly support well-targeted regulatory activity that reduces systemic and consumer risks; we consider there is the potential for better transparency and understanding of regulatory priorities.

For instance, the FSC holds some concerns that levies paid by APRA regulated superannuation funds could be used to the benefit of self managed superannuation fund members. The FSC is seeking clarification from APRA and Treasury with respect to items listed in Table 10, including DHS early release of superannuation and SuperStream about whether these items have the potential to benefit SMSFs.

New funding for Early Release of Superannuation Benefits programme, Unclaimed Superannuation Moneys programme and the Lost Member Register

We support the compliance related review to ensure agencies are fully meeting the cost recovery guidelines. We also note the material increase noted in early release of superannuation benefit applications and the burden that this has upon the Department of Human Services.

However, we are mindful that the additional \$46.9 million in supervisory levies being collected from the superannuation industry between 2015-16 and 2018-19 adds a further level of cost to the superannuation sectors. This is in addition to fund direct costs for funding also rising due to the increase in handling early release applications.

Trustees will face further decisions about their ability to absorb these costs or to pass them onto members, whilst the 2015-16 determination is being registered by government. Industry must take this alongside the recommendation in the Financial System Inquiry for the industry to continue to focus on managing the cost of funds.

Fund member benefits

We are concerned that the attribution of levies to individual superannuation fund members is becoming increasingly tenuous. Whilst we support levies being charged on an fund asset basis rather than a per member basis, we recognise that the growth in assets makes it more challenging for fund trustees to demonstrate the effect of a proportional increases to members.

It is the FSC’s view that there should be a higher minimum for the restricted component of the levy for superannuation funds. Currently, very large superannuation funds are paying more year-on-year for basic prudential supervision and funds smaller than approximately \$20bn are paying the same or less year-on year.

The restricted component minimum (\$1,000) and the rate for small funds in Table 11, which equates to only a few thousand dollars, is not contributing sufficient amounts to cover the cost of prudential supervision by APRA. We have highlighted this problem in Appendix A to this submission.

Furthermore, the decrease in levies for super funds overall does not reflect economies of scale of larger funds. Table 16 shows that reduction in levies based on size of superannuation fund is benefitting smaller funds and disadvantaging larger funds. For instance, funds with \$50m, \$250m and \$5bn enjoy a decrease of 20 per cent while funds with \$20bn and \$50bn are discounted by only 10-11 per cent.

Red tape reduction

The financial services sector appreciates the ongoing commitment that government and regulators have to red tape reduction. Indeed regulators have consulted well with industry over the last 12 months to assess the opportunity for savings and refinements.

Whilst the tracking of announced savings associated with red tape is to be welcomed there is an argument to say that the financial services sector has seen little tangible benefit of the promised \$1 billion in annual savings. Whilst red tape savings are not expect to be limited to regulatory levies alone, the financial services industry and government could benefit from further dialogue on how red tape reduction can be better identified and realised through the annual levy consultation process.

One such area where information should be provided by APRA and Treasury is “Attachment A” to the document, which provides a breakdown of funding and lists activities that will be covered by the SuperStream Levy. Currently this does not clarify how the funding from the levy will be allocated and the year it will be collected.

Furthermore, the FSC seeks clarification with respect to the reduction in SuperStream costs include whether the regulatory changes announced (such as the removal of Inter-fund consolidation of accounts) have been factored into levy costings.

If you have any questions about this submission please do not hesitate to contact William de Haer, Policy Manager—Life Insurance via e-mail at wdehaer@fsc.org.au or by phone on 0434 566 764.

Yours sincerely



ANDREW BRAGG

Director of Policy & Global Markets

Appendix A

The following calculations are based on assumptions regarding SuperStream share of overall levies.

Financial year	Superannuation fund	AUM	Expected APRA levy (restricted)	Expected APRA levy (unrestricted)	Expected APRA levy (total)	Expected APRA levy (SuperStream)	Expected APRA levy (excl SuperStream)
2012-2013	Sample fund	1,000,000	590.00	65.35	655.35	439.00	216
2013-2014	Sample fund	1,000,000	590.00	46.14	636.14	401.00	235
2014-2015	Sample fund	1,000,000	590.00	98.41	688.41	68.00	620
2015-2016	Sample fund	1,000,000	1,000.00	87.16	1,087.16	52.00	1,035
Total APRA levies			2,770.00	297.06	3,067.06	960.00	
2012-2013	Sample fund	3,000,000	730.20	196.05	926.25	621.00	305
2013-2014	Sample fund	3,000,000	590.00	138.42	728.42	459.00	269
2014-2015	Sample fund	3,000,000	590.00	295.23	885.23	204.00	681
2015-2016	Sample fund	3,000,000	1,000.00	261.48	1,261.48	155.00	1,106
Total APRA levies			2,910.20	891.18	3,801.38	1,439.00	
2012-2013	Sample fund	50,000,000	12,170.00	3,267.50	15,437.50	10,343.00	5,095
2013-2014	Sample fund	50,000,000	9,240.00	2,307.00	11,547.00	7,275.00	4,272
2014-2015	Sample fund	50,000,000	2,565.00	4,920.50	7,485.50	3,406.00	4,080
2015-2016	Sample fund	50,000,000	1,655.00	4,358.00	6,013.00	2,590.00	3,423
Total APRA levies			25,630.00	14,853.00	40,483.00	23,614.00	
2012-2013	Sample fund	250,000,000	60,850.00	16,337.50	77,187.50	51,716.00	25,472
2013-2014	Sample fund	250,000,000	46,200.00	11,535.00	57,735.00	36,373.00	21,362
2014-2015	Sample fund	250,000,000	12,825.00	24,602.50	37,427.50	17,028.00	20,400
2015-2016	Sample fund	250,000,000	8,275.00	21,790.00	30,065.00	12,948.00	17,117
Total APRA levies			128,150	74,265	202,415	118,065	
2012-2013	Sample fund	5,000,000,000	1,217,000.00	326,750.00	1,543,750.00	1,034,313.00	509,437
2013-2014	Sample fund	5,000,000,000	924,000.00	230,700.00	1,154,700.00	727,461.00	427,239
2014-2015	Sample fund	5,000,000,000	256,500.00	492,050.00	748,550.00	340,550.00	408,000
2015-2016	Sample fund	5,000,000,000	165,500.00	435,800.00	601,300.00	258,966.00	342,334
Total APRA levies			2,563,000	1,485,300	4,048,300	2,361,290	
2012-2013	Sample fund	20,000,000,000	2,000,000.00	1,307,000.00	3,307,000.00	2,215,690.00	1,091,310
2013-2014	Sample fund	20,000,000,000	1,786,000.00	922,800.00	2,708,800.00	1,706,544.00	1,002,256
2014-2015	Sample fund	20,000,000,000	260,000.00	1,968,200.00	2,228,200.00	1,362,200.00	866,000

2015-2016	Sample fund	20,000,000.00	260,000.00	1,743,200.00	2,003,200.00	1,035,863.00	967,337
Total APRA levies			4,306,000.00	5,941,200.00	10,247,200.00	6,320,297.00	
2012-2013	Sample fund	50,000,000.00	2,000,000.00	3,267,500.00	5,267,500.00	3,529,225.00	1,738,275
2013-2014	Sample fund	50,000,000.00	1,786,000.00	2,307,000.00	4,093,000.00	2,578,590.00	1,514,410
2014-2015	Sample fund	50,000,000.00	260,000.00	4,920,500.00	5,180,500.00	3,405,500.00	1,775,000
2015-2016	Sample fund	50,000,000.00	260,000.00	4,358,000.00	4,618,000.00	2,589,658.00	2,028,342
Total APRA levies			4,306,000.00	14,853,000.00	19,159,000.00	12,102,973.00	