

13 June 2014

Manager
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Financial System and Services Division
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Dear Sir/Madam,

Proposed Financial Industry Levies for 2014/15 - Response to Consultation Paper

AUSfund has reviewed the consultation paper on the proposed financial industry levies for 2014/15 and advises as follows in response to the proposed APRA levy for superannuation funds. Our comments relate specifically to option 2A canvassed as a possible basis for calculating the levy base for SuperStream.

Our understanding is that the policy and legislative basis for imposition of APRA levies is "to ensure the full cost of regulation is recovered from those who benefit from it."

As a result of the consultation process some stakeholders expressed a desire for the SuperStream levy to be collected on a member basis. However, it is not clear whether the various categories of superannuation funds were considered during that process and AUSfund believes that this is material to the calculation basis that should be used.

It should be recognised that Eligible Rollover Funds (ERF's) such as AUSfund have different functionality from general superannuation funds. The sole purpose of an ERF is a temporary repository for amounts transferred from other regulated superannuation funds. These amounts are generally transferred in bulk. ERF's cannot accept member or employer contributions so their involvement in SuperStream is very limited. ERF's are simple funds: they do not offer insurance and do not provide investment choice and are therefore not exposed to risk in these areas.

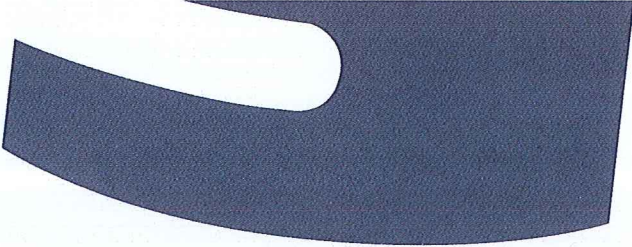

At 30 June, 2013 AUSfund had 1.27 million members and assets of \$501 million. The average account balance in AUSfund was \$393. The total cost of administering the Fund in 2012/13 was \$17.2 million including \$183,000 in APRA levies. APRA levies accounted for 1% of the total administration costs.

Members are charged an Administration Levy of \$14.00 per annum. In 2012/13 members also paid approximately 0.92% in other management costs.

In 2013/14 we estimate that AUSfund will have an average of about 970,000 members and assets of about \$505m. The average account balance will be about \$520. The total cost of administering the Fund in 2013/14 is estimated to be about \$16 million including \$116,000 in APRA levies. APRA levies will therefore account for about 0.70% of total administration costs.

In 2013/14 Members will pay the Administration Levy of \$14.00 and other management costs are estimated to be 0.10% including 0.03% attributable to the APRA levy.

We consider that AUSfund members do not receive the same level of benefit from the APRA levies as other general superannuation funds do and that imposing a cost per member would be unfair burden on those with low average member account balances. Should option 2A canvassed in the consultation paper proceed as outlined, the impact of APRA levies on AUSfund members, because of the low cost structure of the Fund and the low average member account balance, would be very large and disproportionate in relation to the overall activity and other risk exposures of the Fund.



If the current basis for calculation of the APRA levy continues, we estimate that in 2014/15 the \$14.00 per annum Administration Levy will cover all administration and management costs, including the APRA levy. If, for example, option 2A applied for 2014/15 instead of option 1 or option 2, we estimate that the APRA Levy applicable to AUSfund would be approximately 20% of total administration and management costs, an increase of about 1,900% over the impact of the estimated levy for 2013/14, i.e. \$2.2 million compared with \$116,000. This hardly seems an appropriate impost for the Fund to bear.

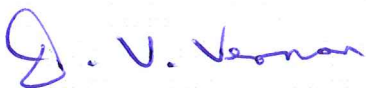
AUSfund would be unable to meet this increase from the \$14.00 per annum Administration Levy and would need to deduct it from member earnings. Consequently the adoption of option 2A as the basis for determination of the APRA levy would have a material adverse impact on AUSfund members due to the low average account balance.

We note that with a lower levy being applicable to Pooled Superannuation Trusts a precedent has already been set for determination of a lower rate for different classes of funds and we contend, having regard to the factors outlined above, that it is entirely appropriate that a lower rate apply to ERFs compared with other superannuation funds. The impost of such an increase would have a material impact on the viability of ERFs such as AUSfund and would seem to be in conflict with the Government's policy intent of ensuring that there are appropriate low cost funds available for temporary holding of inactive superannuation accounts.

Accordingly it is the view of AUSfund that option 2A is not an appropriate basis for determination of the APRA levy applicable for ERFs and that it is appropriate to have a separate and lower levy rate applicable to ERFs and which is based solely upon the value of assets.

We would appreciate the opportunity to meet with you shortly to discuss this matter and will make contact arrange a mutually convenient time.

Yours sincerely,



David Vernon
General Manager