



29 April 2013

Principal Advisor
Financial System Division
The Treasury
Langton Crescent
PARKES ACT 2600

By Email: fsleviesreview@treasury.gov.au

Dear Mr Douglas

Financial industry supervisory levy methodology

The Financial Services Council (FSC) welcomes the opportunity to make this submission to Treasury on the financial system supervisory levy methodology. The FSC represents Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advisory networks, private and public trustees. The FSC has over 130 members who are responsible for investing \$1.8 trillion on behalf of more than 11 million Australians.

The pool of funds under management is larger than Australia's GDP and the capitalisation of the Australian Securities Exchange and is the fourth largest pool of managed funds in the world. The FSC promotes best practice for the financial services industry by setting mandatory Standards for its members and providing Guidance Notes to assist in operational efficiency.

The FSC supports cost recovery being used to meet the costs incurred in regulating the industry. Consistent with the Government's Cost Recovery Guidelines, cost recovery can help to improve equity by "ensuring that those ... who create the need for regulation bear the costs."¹

There are, however, specific issues arising from the levy methodology as detailed below and the FSC has sought to provide recommendations on how these issues could be addressed.

Pooled Superannuation Trusts

Since the last review of the methodology in 2008-09 there has been a significant shift in the amount of the levy borne by superannuation entities and in the costs that the levy is seeking to fund.

At the time of the last review in 2008-09 the amount of the levy raised from superannuation funds was approximately \$25 million. For 2012-13, largely driven by the costs of implementing

¹ Dept. of Finance and Administration, *Australian Government Cost Recovery Guidelines*, July 2005, p 11

Super Stream, the estimated levies have grown to \$180.9 million. Super Stream costs represented some \$121.5 million of the total levies.

Given this fundamental shift in the amount and purpose of these levies we believe that it is appropriate to now review the methodology for setting these levies so that the amount of the levy on an organisation better aligns with the benefits that customers (or members) of that organisation receive from these costs.

In particular we note that a number of these costs including establishment of the Super Stream system, approval of early release requests by DHS and regulation of consumer matters by ASIC are designed to benefit individual superannuation fund members. These costs do not directly benefit wholesale superannuation arrangements like pooled superannuation trusts (PSTs).

PSTs are a wholesale vehicle. As such, individual consumers do not access PSTs directly. It is therefore difficult to see relevance of the SuperStream reforms or ASIC and DHS regulation to PSTs.

Only superannuation funds may invest in PSTs. Under the current approach to levying superannuation funds and PSTs every dollar invested via a PST receives twice the levy of a dollar invested outside of any PST (subject to any cap on the levy in the fund or PST).

The argument set out in the discussion paper that PSTs also require APRA regulation is correct, but it ignores the SuperStream, ASIC and DHS costs. Given that SuperStream makes up a large part of current levies we believe it is inequitable that some members are making a double contribution to that reform.

We submit that it would be equitable to establish a separate levy for PSTs that is reflective of the cost of their regulation by APRA and the ATO.

Transparency

The FSC is of the view that greater transparency in levy formulation and collection would promote the integrity of the cost recovery process. Clearer guidelines around the appropriate size of the levy, in addition to how monies are spent, ensures that the levies being collected provide an appropriate level of regulation, and that “over-regulation” is not occurring.

In particular, the FSC is concerned that in the annual Levies Consultation Papers there is little information explaining the costs incurred by regulators in any given year. Stakeholders cannot make any assessment of the appropriateness of regulator expenditure (and therefore the appropriateness of the aggregate levy) in the absence of this information.

The original explanatory memorandum to the levies Bills from 1998 notes that one of the advantages of imposing levies is that: “this method of funding may also tend to encourage the institutions paying the levy to act as a constraint on empire building or other excessive cost increases on the part of the regulator.”² However, the low level of transparency makes it difficult to see how this objective can be achieved.

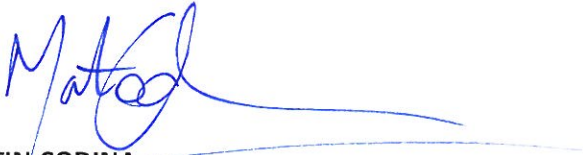
² Regulation Impact Statement to Financial Institutions Supervisory Levies Collection Bill 1998
<http://www.aph.gov.au/binaries/library/pubs/explanmem/docs/1998authoriseddeposittakinginstitutionssupervisorylevyimpositionem.pdf>

Partial recovery

The FSC suggests that partial cost recovery would be an effective way of ensuring that the Government maintain some responsibility for financing a proportion of any increase the costs of the industry regulators, thereby creating an incentive to ensure that these costs are efficient. It would also recognise the public good elements of prudential regulation.

Please contact me on 02 8235 2566 with any questions or concerns in relation to these comments.

Regards



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DIRECTOR OF POLICY