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29 April 2013

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

By email: fsleviesreview@treasury.gov.au

Dear Sir/Madam

Submission on the Financial Industry Supervision Levy Methodology

Thank you for the opportunity to make a submission on the financial industry supervision levy methodology.

Russell Investments (Russell) is a global asset manager and one of only a few firms that offer actively managed, multi-asset portfolios and services that include advice, investments and implementation. Working with institutional investors, financial advisors and individuals, Russell's core capabilities extend across capital markets insights, manager research, Indexes, portfolio implementation and portfolio construction.

Russell has about $163 billion in assets under management (as of December 2012) and works with 2,500 institutional clients, more than 500 independent distribution partners and advisors, and individual investors globally. As a consultant to some of the largest pools of capital in the world, Russell has $2.4 trillion in assets under advisement (as of June 2012). It has four decades of experience researching and selecting investment managers and meets annually with more than 2,200 managers around the world. The Russell Global Indexes calculate over 700,000 benchmarks daily covering 85 countries and more than 10,000 securities.

In Australia we manage the Russell SuperSolution Master Trust with almost 70,000 members and $5.5 billion of net assets. We also manage the Russell Pooled Superannuation Trust with $8 billion of net assets.

Overview

We support this review of methodology for financial industry supervision. Since the last review of the methodology in 2008/09 there has been a significant shift in the amount of the levy on 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 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 the wholesale superannuation arrangements like pooled superannuation trusts.

We would also believe that the benefit an organisation and its customers receive from these costs is closely related to the number of members or customers that the organisation has. That is quite different to the costs incurred by APRA, where a number of the components of the supervision that APRA undertakes are the same regardless of the size of an organisation.

Responses to Specific Questions

6.1 'Is the current setting for restricted (supervisory) and unrestricted (systemic) levy amounts appropriate? Are the current minimum and maximum restricted levy parameters appropriate?'

The result of the restricted and unrestricted levies is that smaller superannuation funds pay a higher average rate of levy. As indicated above we believe that the costs associated with the implementation of Super Stream and regulation by ASIC and DHS relate to individual superannuation fund members. The members of a large superannuation fund will not receive less benefit from SuperStream or from ASIC or DHS regulation simply because of the size of their superannuation fund.

We do not believe that it is equitable for some superannuation fund members to make a greater contribution to the cost of implementing SuperStream simply because they are in a smaller superannuation fund.

Given that issue of equity across members we submit that the consumer regulation elements of the levy and the costs associated with SuperStream should be largely funded from the unrestricted levy component.

We support the suggestion in the discussion paper that the minimum and maximum caps should be set so that the majority of, if not all, superannuation funds pay the marginal rate of the levy. Rapid consolidation in the industry, including since the last review in 2008/09, has increased the size of the largest institutions and the benefit that they receive from the maximum cap.

6.6 'Is the current levy methodology appropriate for pooled superannuation trusts?'

Pooled superannuation trusts (PSTs) are a wholesale vehicle. Individual consumers do not access PSTs directly. As such there is no direct relevance of the SuperStream reforms or ASIC and DHS regulation to PSTs.

We also note that 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 superannuation 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.

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If required, we would be pleased to provide more information on any of the matters raised in this submission.

Yours sincerely

Tim Furlan
Director, Superannuation
Russell Investments