Queensland's building super

10 June 2024

A/g Director
Regulator Engagement and Powers Unit
The Treasury
Langton Crescent
PARKES ACT 2600

Via email: supervisorylevies@treasury.gov.au

Re: Proposed Financial Institutions Supervisory Levies for 2024-25

BUSS (Queensland) Pty Ltd ("the Trustee") wishes to make a submission in relation to APRA's proposed restricted supervisory levy for the superannuation industry.

The Trustee is an industry superannuation fund drawing its membership from the building, construction, civil and allied industries predominantly in the Queensland market.

The Trustee has observed that smaller funds, those with less than $20 billion in assets, have faced an unreasonable and unjustifiable burden due to the substantial increase in the restricted levy over the past financial year. If the proposed levy for 2024/25 is approved, this situation will persist, which we believe should not be allowed. We propose a fairer alternative, which we discuss below:

Several key points are worth noting:

1. The restricted levy is currently capped at $800,000.
2. There exists a mechanism to increase the levy through legislated indexation, but this mechanism has not been utilised.
3. The failure to adjust the maximum restricted levy (MRL) has resulted in more funds paying this levy, and it is possible that all funds may eventually be subject to it if indexation is not implemented.

For instance, in the financial year 21/22, the MRL was triggered when funds under management reached $20.5 billion. In FY 22/23, it was $17.5 billion, and in the current financial year, it stands at $9.5 billion. This situation appears unreasonable and runs counter to cost recovery guidelines, especially considering the increased supervisory efforts for larger funds compared to smaller, less complex ones.

The Cost Recovery Implementation Statement (CRIS) for this year highlights APRA's focus on system-wide risks, particularly as the superannuation sector grows. These risks are further amplified by trustees internalising investment functions. Additionally, APRA assesses industry risks by tiering funds based on their impact on the broader community, with the level of tiering determining routine supervision requirements. Treasury also emphasises the importance of managing system-wide risks, underscoring that larger funds necessitate additional regulatory effort and are more costly to oversee.

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Trustee ABN BUSS(Queensland) Pty Ltd 15 065 081 281. **Fund ABN** BUSSQ 85 571 332 201. **AFS Licence** 237860.

The proposed restricted levy would result in a fund with approximately $7 billion in assets paying the same amount as a $335 billion fund. Clearly, the supervisory effort required for the former cannot be equivalent to that for the latter, given the substantial difference in funds under management. The current linear application of restricted fees below the MRL and unrestricted fees exacerbates this issue. It is plausible that a fund 100 times larger in AUM would be significantly more expensive to supervise due to the exponential increase in risk.

The CRIS data reveals a rapid fee increase for smaller funds from FY 2022-23 to FY 2023-2024. Fees levied against funds with asset bases of $250 million and $1 billion rose by 52.6% while funds with $20 billion and $100 billion experienced much smaller increases (2.6% and 4.7% respectively). Notably, the restricted levy for $1 billion funds surged by 183%, while there was no change for funds at the MRL. This disparity underscores the impact of the MRL's current setting on smaller funds.

The root cause of this inequitable outcome lies in the lack of indexation for the superannuation sector's MRL. Unlike other supervised sectors, superannuation has seen significant growth in size and complexity as the system matures. Implementing indexation from FY 2021-22 onward would have set the MRL for this financial year at $849,818.

In addition, the Trustee acts as Trustee of the Building Unions Superannuation Scheme (Queensland) ("BUSSQ or the Fund") and the BUSS(Q) Pooled Superannuation Trust ("the PST") in which BUSSQ is the sole investor. The PST's sole purpose is to hold the investments of the Fund for the members who are the same beneficial owners of the investment as for the Fund.

We note that due to the unique structure of our entity, we are inadvertently subjected to paying higher fees than other entities of similar size and complexity under the Australian Prudential Regulation Authority Supervisory Levies Determination 2024. While we understand that fees are necessary to support the regulatory functions, we also believe that the level of oversight and supervision required remains consistent with that of other entities subject to a single fee.

Therefore, we respectfully request the Treasurer considers, where the entities holding 100% of superannuation assets within the PST and have the same beneficial ownership and no extra complexity nor extra requirement for oversight, that only one fee is payable.

We appreciate your suggestion for a fairer approach to supervisory levies within the superannuation sector. While the proposed changes would indeed reduce the burden on some funds, it's essential to recognise that fairness doesn't always equate to equity. We agree that further examination of APRA's linear modelling of supervision costs is warranted, particularly regarding the treatment of $1 billion at a small fund versus the one-hundred billionth at a large fund.

In our submission, we recommend the following steps for the Treasurer or their delegate when considering approving an instrument to increase supervisory levies:

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1. **Index the Maximum Restricted levy (MRL):** the MRL should be indexed annually by the relevant Consumer Price Index (CPI) amount. This adjustment would ensure that the levy keeps pace with inflation and reflects the changing economic landscape.
2. **Recalculate the Restricted levy Percentage:** given the increased levy recovery resulting from funds that would otherwise have paid the fixed $800,000 MRL, APRA should reevaluate the restricted levy percentage. This recalculation would account for the evolving financial landscape and the impact on different fund sizes.
3. **Approval of the Recalculated Restricted Levy Percentage:** once the recalculated percentage is determined, the Treasurer should approve it. This step ensures that the levy aligns with the actual costs of supervision and promotes a more equitable distribution across funds.
4. **Entities with 100% of superannuation funds held within a PST have only one fee charged:** where the entities holding 100% of superannuation assets within the PST and have the same beneficial ownership and no extra complexity nor extra requirements for oversight, that only one fee is payable rather than a fee for the RSE and one for the PST.

Additionally, we recommend that APRA consistently factor in the continued indexation of the MRL when calculating the restricted levy percentage for future financial years. This approach would contribute to a more transparent and sustainable levy framework for the superannuation sector.

If you have any questions regarding this submission, I will welcome meeting with you to discuss further. I can be contacted on 0418 158 449 or by email at dwills@bussq.com.au .

Yours sincerely

Damian Wills
Chief Executive Officer
BUSS (Queensland) Pty Ltd