CORPORATE SUPER ASSOCIATION

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The Manager
Financial System Assessment Unit
Financial System and Services Division
The Treasury
Langton Crescent
PARKES ACT 2600

Email: supervisorylevies@treasury.gov.au

Dear Sir

PROPOSED FINANCIAL INDUSTRY LEVIES FOR 2014-15

We refer to the Consultation Paper issued on 26 May 2014 regarding the above. Our views expressed below are limited to levies for the superannuation sector.

Background: the Corporate Super Association

Established in 1997, the Association is the representative body for large corporate not-for-profit superannuation funds and their employer-sponsors. The Association represents a total of 27 funds controlling $75 billion in member funds. In general, these funds are sponsored by corporate employer sponsors, with membership restricted to employees from the same holding company group, but we also include in our membership several multi-employer funds with similar employer involvement and focus.

Summary of our views

We support the separation of elements of the levy into costs of supervision and other costs. We understand the rationale for collecting costs of institutional supervision by way of a component with a maximum levy amount per institution. We welcome the re-allocation of costs other than institutional supervisory costs to the unrestricted component. Hence we support Option 2 in the Paper as the method of determining the levies for 2014-15.

We support the move to reduce the levy on PSTs.

In relation to Super Stream cost recovery, we continue to hold the view that a per member charge should apply, rather than an assets related levy. Hence we support Option 2A for future years.

Comments

Restricted and unrestricted components

We understand the argument for collecting the costs of institutional supervision by way of a component restricted to a maximum annual levy amount per institution.

We note that the proposal under Option 2 would limit the restricted component of the levy per superannuation fund to a maximum of $260,000 (2013-14: $1,786,000). This carries an implication that it costs the same to supervise a very large superannuation fund ($50 billion in assets), as it does to supervise a fund with $5 billion in assets, and we presume that this is in line with APRA's experience.

We welcome the re-allocation of amounts that do not represent institutional supervisory costs to the unrestricted component.

Hence we support Option 2 in the Paper as the method of determining the levies for 2014-15.

SuperStream costs

We continue to hold the view that a per member charge should apply, rather than an assets related levy, in relation to the recovery of costs related the Super Stream measures. Hence we support Option 2A for future years.

1. Support for per member charge

There is no logical reason why the levy collections to recover the costs of SuperStream should be calculated on the basis of a percentage of assets.

The recovery on a per member basis is logical. The benefits of the SuperStream changes are anticipated (see Treasury's *Financial Industry Supervisory Levy Methodology Discussion Paper* of 5 April 2013, Section 5, page 5) to be savings of $1 billion each year in processing costs. These are costs which would otherwise fall on funds and would be recoverable, generally, through administration charges on member accounts. The equitable way of recovering such costs would be to recoup from the areas the savings are expected to occur. Hence if a saving per member account is anticipated, the additional supervisory costs should surely be recoverable through a charge per member account.

In Treasury's and APRA's Discussion Paper of 25 May 2012 *Proposed Financial Industry Levies for 2012-13*, in relation to the first imposition of the SuperStream element of the levy in 2012/13, there was reference on page 6 to the cost/benefit of allocating the SuperStream costs over the 33 million accounts then in the system, at a cost of $4 per account, to achieve savings of $30 per account per year. Hence, allocation of the costs as a charge per account would have been an equitable approach, the benefits exceeding the costs to each member.

2. Equitable result for low balance accounts

Our modelling suggests that for a $50 billion fund with an average member balance of $30,000 (per APRA statistics as at 30 June 2013 for industry funds), the implementation of Option 2A would cost 42 cents per year more than Option 2 in aggregate levies per member, at $3.57 per member. For a $2 billion corporate fund, with an average balance of $120,000 (per APRA statistics as at 30 June 2013 for corporate funds) the aggregate levy cost per member would fall from $18.92 to $12.43.

While we believe this involves a significant levy burden for the corporate fund member (without a huge change in the burden of the member of the $50 billion fund), this approach yields a more equitable result for members of the funds this Association represents.

Yours faithfully

Mark N Cerché
Chairman
Corporate Superannuation Association