CUSTOMER OWNED BANKING ASSOCIATION

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Mr Kurt Hockey
Financial System Assessment Unit
Financial System and Services Division
The Treasury
Langton Crescent
PARKES ACT 2600

By email: supervisorylevies@treasury.gov.au

Dear Kurt

Proposed Financial Sector Levies for 2014-15

Thank you for the opportunity to comment on Treasury and APRA's joint discussion paper regarding proposed financial sector levies for 2014-15.

COBA is the industry body for credit unions, mutual building societies and mutual banks and, on behalf of Friendly Societies of Australia, friendly societies. Collectively, the institutions we represent have around $85 billion in assets and serve more than 4.5 million customers. The customer owned model is the proven alternative to the listed model, delivering competition, choice, and consistently market leading levels of customer satisfaction.

COBA notes that this year's discussion paper presents two different options for calculating the 2014-15 levy. Consistent with our longstanding position on the levy calculation methodology, we support Option 2 as this represents a more appropriate allocation of costs between the restricted and unrestricted components of the levy. Our detailed comments on the discussion paper, and for developments around the APRA levy more generally, are set out below.

The levy calculation methodology

As noted above, COBA strongly supports the adoption of Option 2 for the 2014-15 levy calculation.

As detailed in the discussion paper, while Option 1 retains the 2013-14 levy calculation methodology, Option 2 shifts some costs from the "restricted" component to the "unrestricted" component.

In particular, the impact of Option 2 on the allocation of ASIC's regulatory and enforcement activities would have a significant impact on ADIs and friendly societies.

As noted in the discussion paper, "a component of the levies is collected to partially defray the expenses of ASIC in relation to consumer protection, financial literacy, [and] regulatory and enforcement activities relating to the products and services of APRA-regulated institutions…"[1] This component of the APRA levy also covers "…the cost of a number of Government initiatives including … the over the counter (OTC) derivatives market supervision reforms and ASIC's MoneySmart Teaching programmes."[2]

The ASIC component makes up a notable proportion of the total levy paid by ADIs, and it has increased significantly in recent years, from around $4 million per annum prior to 2013, to $12 million in 2013-14 and $10 million in 2014-15.

While these costs have been allocated to the "restricted" component of the levy in previous years, in COBA's view this allocation has been inappropriate. The restricted component is designed to recover costs which directly "relate to the cost of supervision,"[3] and a maximum cap is applied to the restricted component recognising the principle of these direct "regulatory costs being unlikely to increase indefinitely."[4]

Given this, Treasury has found that "…the restricted component is best placed to fund activities relating to the activities of specific institutions (for example supervisory activities), while the unrestricted component should be used to fund costs relating to a sector that are not tied to a specific institution…"[5]

Under the current arrangement, the four largest ADIs all pay the maximum cap for their restricted component, recognising that they are so big that an increase in their size will not result in an increase in APRA's supervisory effort. However, this has meant that these same institutions pay nothing for any other activities that are allocated to the restricted component.

The effective result of this is that in previous years, ASIC's regulatory and enforcement activities have only been financed by those ADIs paying less than the maximum cap. This is a perverse arrangement, and is particularly concerning given the significant increase in this component of the levy in more recent years.

Indeed, it is arguable that some elements of the levy should be collected solely from the largest ADIs. For example, ASIC's costs in implementing OTC derivative reform are currently collected through the APRA levy. This cost is borne by all ADIs, despite the largest ADIs making the most significant use of these products, while around three quarters of customer-owned ADIs do not use these derivatives at all.

[1] Treasury & APRA, *Proposed Financial Industry Levies for 2014-15,* 2014, p. 7.
[2] ibid.
[3] The Treasury, *The Financial Industry Supervisory Levy Methodology Review,* April 2014, p. 6.
[4] ibid.
[5] ibid.

While we believe that some of these broader issues should be considered in more detail as part of future levy review processes, the proposal in the discussion paper to shift some ASIC costs from the restricted to unrestricted component is a welcome first step.

Transparency and Cost Recovery

While the discussion paper contains less detail around APRA's activities and costs than we would have liked, we welcome the inclusion of a commitment by APRA to release a Cost Recovery Impact Statement (CRIS) by 30 June 2014,[6] which we understand will "provide industry with more transparency around the direct supervisory costs of different sized entities."[7] We note that this outcome is consistent with the ANAO's recommendation that Treasury and APRA "increase the extent of public information available about the levy methodology, and how APRA's prudential regulation activities are linked to its costs."[8]

We are strongly supportive of the increased transparency that the CRIS will provide, but would suggest that in future years its value would be enhanced if it could be released prior to the annual levy consultation.

More generally, we have previously raised concerns about the appropriateness of cost recovery for some of the activities captured within the APRA levy. This issue was acknowledged by the ANAO review, which recommended that Treasury and APRA consider the "appropriateness of applying the APRA financial levy methodology to calculate the levies collected by APRA on behalf of other Australian Government agencies."[9]

In this regard, we look forward to the government releasing its updated cost recovery guidelines, which we understand should be finalised in coming months. Given that Treasury would like the scope of the annual consultation process to be limited to the "application of the levies,"[10] this is an issue that we intend to pursue as part of the pre-Budget submission process in early 2015. In this regard we welcome Treasury's acknowledgement earlier this year that further consideration should be given to the appropriateness of applying cost recovery to ASIC's financial literacy and OTC derivative work,[11] and we look forward to these issues being considered ahead of the 2015-16 levy decision.

Consultation Timeframes

COBA has been concerned for a number of years about the limited time provided for stakeholder feedback in the annual consultation process. Typically stakeholders have been given two weeks (or less) to provide feedback. The ANAO has acknowledged this problem and noted that "While the timeframe for annual consultation is constrained by the Budget process and legislative framework, there

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[6] Treasury & APRA, *Proposed Financial Industry Levies for 2014-15,* 2014, p. 2.
[7] The Treasury, *The Financial Industry Supervisory Levy Methodology Review,* April 2014, p. 8.
[8] ANAO, *Determination and Collection of Financial Industry Levies,* 2013, p.58.
[9] ibid, p.24.
[10] The Treasury, *The Financial Industry Supervisory Levy Methodology Review,* April 2014, p. 5.
[11] ibid., p. 4.

would be merit in the Treasury and APRA considering ways to increase the level of consultation with industry about the annual levies process."[12]

COBA would therefore like to acknowledge the efforts of Treasury to release this year's consultation paper earlier and to provide stakeholders with more time to provide feedback. While still falling a short of the four weeks COBA would consider best practice, the 2014-15 consultation process is nonetheless a significant improvement on previous years.

Please contact me on 02 8035 8441 or Micah Green on 02 8035 8447 to discuss this submission.

Yours sincerely

MARK DEGOTARDI
Head of Public Affairs

[12] ANAO, *Determination and Collection of Financial Industry Levies,* 2013, p.19.