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From 16 June 2014 we are moving to
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12 June 2014

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

via email: supervisorylevies@treasury.gov.au

Dear Sir/Madam

Proposed Financial Industry Levies for 2014/15 (the Paper)
- Superannuation Supervisory Levies

We refer to the above Paper which has been prepared by Treasury in conjunction with the Australian Prudential Regulation Authority (APRA). This Paper seeks submissions on the proposed financial institutions supervisory levies that will apply for the 2014-15 financial year.

Our comments below relate to the proposed levy arrangements for the superannuation segment of the financial services industry.

Our Position

In relation to the superannuation supervisory levies, we believe that Option 2 should be adopted. Under Option 2, there would be a difference between the amounts levied on superannuation funds (excluding small APRA funds (SAFs)) and pooled superannuation trusts (PSTs).

We believe that Option 2 is the preferred option as it is consistent with the intention of the supervisory levy arrangements. This is because PST-related superannuation members:

- Will not be subject to a "double charge" on the same assets held within the superannuation sector; and
- Will not be cross-subsidising non-PST related members as a result of the 'double charge'.

It is also consistent with the levy arrangements for SAFs which set a precedent for treating the sub-segments of the superannuation segment differently from each other.

We also believe Option 2 is consistent with the overall approach under the Stronger Super regime in relation to the fair and reasonable allocation of costs between members.

Our detailed comments are as follows.

Detailed Comments

For the purposes of the supervisory levy arrangements, the superannuation segment of the industry consists of:

- Superannuation funds (excluding SAFs and self-managed superannuation funds (SMSFs));
- PSTs; and
- SAFs.

We believe that:

- Operational costs should be allocated on a fair and equitable basis and should reflect the time spent by the various government agencies supervising a specific segment of the industry;
- Within a specific segment, assets should not be double-counted when allocating the operational costs for that segment; and
- Operational costs within a specific segment of the industry should be allocated on a fair and equitable basis between the sub-segments of that segment where there is a difference in the supervisory activity for each of those sub-segments.

As indicated in the Paper, levies are set to recover the operational costs of APRA and other specific costs incurred by certain Commonwealth agencies and departments.

As indicated above, we believe that these operational costs should be allocated on a fair and equitable basis. As such, the allocation should reflect the time spent by the various government agencies supervising the specific segments of the industry.

Effectively, the levies should be charged on a "user pays" basis. This belief is reflected in the statement on page 2 of the Paper that "the levies are imposed to ensure that the full cost of regulation is recovered from those who benefit from it ...".

We also believe that the levies should not give rise to any cross-subsidisation between the various sub-segments of a specific segment of the industry. This belief is consistent with the recent review conducted by Treasury and APRA of the methodology underpinning the current levy arrangements.

One of the findings of that review was that the lower supervisory activity required for prudentially regulating PSTs could be recognised through lower levy rates compared to other superannuation entities.

We agree with this position as the assets of PSTs are included in the asset base calculation for superannuation funds, which sees these members being levied twice on the same assets (once on the total assets in the fund, and once of the assets in the PST).

In addition, we also believe that such a reduction is justified as, under the current arrangement, these PST-related members are effectively subsidising the regulatory costs of non-PST related members across the superannuation segment. This is because the current levy arrangements effectively assume that all sub-segments within the superannuation segment (apart from SAFs) are treated as though the same supervisory activity is applied across the segment.

Splitting the superannuation segment into its different sub-segments is appropriate where APRA has identified that it has a different regulatory approach for the relevant sub-segments. The levy arrangements for SAFs set a precedent for this as these superannuation entities are treated differently from non-SAF superannuation funds and PSTs.

Given APRA has recognised that PSTs are subject to lower supervisory activity, we believe that it would be inappropriate and inconsistent with the above SAF precedent for the levy arrangements for PSTs to be the same as those for non-SAF superannuation funds.

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If the levy rates are not lower for PSTs compared to other non-SAF superannuation funds, the PSTs are effectively cross-subsidising other non-SAF superannuation funds (including those not invested in PSTs). This is because the total regulatory operating costs for non-SAF superannuation funds and PSTs is currently allocated across these sub-segments and does not recognise APRA's different regulatory approach between the two sub-segments.

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If you have any queries or require any further information, please call either of us on (03) 9911 3236 or (03) 9911 3141 respectively.

Yours sincerely

Stephen Rowe
Chief Executive Officer

Noelle Kelleher
Chief Financial Officer