CUSTOMER OWNED BANKING ASSOCIATION

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9 June 2015

Mr Daniel McAuliffe
Banking and Capital Markets Regulation Unit
Financial System and Services Division
The Treasury
Langton Crescent
PARKES ACT 2600

By email: supervisorylevies@treasury.gov.au

Dear Daniel

Proposed Financial Sector Levies for 2015-16

Thank you for the opportunity to comment on Treasury and APRA's joint Discussion Paper regarding proposed financial sector levies for 2015-16.

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 $98 billion in assets and serve more than 4 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 as part of the 2014-15 levy review process, the costs of several initiatives were shifted from the "restricted" to the "unrestricted" component of the APRA levy. COBA welcomes the proposal in this year's Discussion Paper that the same methodology will be used to determine the 2015-16 APRA levy. Such an approach ensures that the largest ADIs make a contribution to the cost of these initiatives.

COBA also makes the following specific comments on elements of this year's proposal.

Appropriate cost recovery

The ANAO's 2013 review of APRA levies noted the broad range of initiatives that were being cost-recovered, and 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."[1]

[1] ANAO, *Determination and Collection of Financial Industry Levies,* 2013, p.24.

Similarly, in 2014 Treasury acknowledged that further consideration should be given to this issue, and proposed that "following the release of the revised Cost Recovery Guidelines the activities whose costs are recovered through the levies be further examined."[2] Treasury specifically identified ASIC's financial literacy and OTC derivative work (both of which form part of ADI levies) as cost recovery items which should be reviewed.

However, despite the Cost Recovery Guidelines being finalised in July 2014,[3] it appears that the appropriateness of cost recovering these activities has yet to be investigated, or if it has, no public consultation has occurred.

Instead, the Discussion Paper simply notes that "…it has been determined that the levies to fund the activities of the Australian Securities and Investments Commission (ASIC), the Department of Human Services (DHS), and the Australian Tax Office (ATO) have not been collected in a manner wholly consistent with the [Cost Recovery Guidelines]."[4] The Discussion Paper goes on to note that, as a result of this finding, the level of cost recovery associated with several superannuation initiatives will be increased.

COBA remains concerned about the appropriateness of the costs of financial literacy and OTC derivative implementation being collected from ADIs as part of the APRA levy. While we acknowledge that the annual levy consultation process does not include consideration of the aggregate levy, we nonetheless wish to flag that this issue remains unresolved.

We believe that cost recovery of these initiatives should be reviewed through an open and transparent process, with affected stakeholders given the opportunity to comment through a normal consultation process. As a minimum, this review should be completed in time for any changes to take effect ahead of finalising the 2016-17 APRA levy.

The maximum cap

COBA has some concerns about the current levy distribution proposed in the discussion paper.

COBA notes that in 2015-16, the ADI component of the APRA levy will increase from $49.0 million to $53.1 million, an overall increase of $4.1 million. The majority of this increase has been driven by the "restricted" component of the levy, which has increased by 11.7 per cent ($3.9 million) while the "unrestricted component" has only increased by 1.9 per cent ($0.3 million). This would suggest that the increase this year has been driven almost entirely by the costs of prudential regulation (this is the only part of the ADI levy which has a restricted component).

COBA believes that it is critical that the increase in the restricted component be borne equitably by all ADIs. Unfortunately, the current levy approach does not achieve this outcome. The largest ADIs currently pay the maximum cap for the

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[2] The Treasury, *Response Paper – The Financial Industry Supervisory Levy Methodology Review,* April 2014, p. 4.
[3] Department of Finance, *Australian Government Cost Recovery Guidelines,* July 2014.
[4] The Treasury, *Proposed Financial Industry Levies for 2015-16,* May 2015.

restricted component, which in 2014/15 was $2.34 million. The consultation paper proposes increasing this to $2.45 million, an increase of 4.7%. While all other ADIs will see the rate of their restricted component increase by the same amount in percentage terms (going from 0.00390% to 0.00408%), the average increase in mutual ADI size over the past 12 months (6.9%),[5] means that the actual increase in the restricted component for these ADIs will be closer to 12%.

The impact of this disparity becomes more apparent when looking at aggregate levies for the 2015/16 financial year. Under the current proposal, ADIs with assets of $5 billion will see their levy increase by 2.6% (before ADI growth is taken into account), while ADIs with assets of $500 billion will see their levy *fall* by 2.7% (due to the reduction in the unrestricted rate from 0.000774% to 0.000718%).

The proposal for friendly societies and life insurers delivers a similar outcome, with the maximum cap remaining unchanged despite a 9.9% increase in the restricted levy component. The Discussion Paper does not appear to provide any justification for this discrepancy. As a result, levies on small institutions in the sector will increase by 7.8%, while levies for the largest institutions will *fall* slightly.

COBA strongly recommends that larger increases in the maximum cap for these sectors – along with offsetting reductions in the restricted levy rate – be adopted in 2015/16 to avoid this inequitable outcome.

An increased minimum levy

The Discussion Paper proposes introducing a dramatic increase in the minimum levy payable by ADIs and friendly societies, with the minimum levy increasing from $490 to $3,000 in both cases. This Discussion Paper states that this change has been proposed "…to better match the cost of supervision to the levy collected," and that "Further details on this increase will be available in the APRA CRIS [Cost Recovery Impact Statement] to be published in June 2015."

As we noted in our 2014 levies submission:

> *"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."*

Unfortunately, as of 9 June, APRA's 2015 CRIS remains unpublished. We again recommend that APRA considers changes to their CRIS preparation process which would see it released before, or at the same time as, the Annual Levies Consultation Paper.

As it currently stands, it is impossible for COBA to comment on the appropriateness of proposed changes to the minimum levy in the absence of the detailed explanation contained in the CRIS. COBA believes that it would be inappropriate for Treasury and APRA to proceed with this change to the levy methodology without first completing a proper consultation process, and that this cannot occur until after the CRIS is released.

[5] APRA, *Quarterly Authorised Deposit-taking Institution Performance,* March 2015, Table 9b.

COBA therefore recommends that this change to the levy methodology not be introduced in 2015-16. Instead, a consultation process should be completed following the release of APRA's CRIS, with any potential changes to take effect no earlier than the 2016-17.

Please contact me on 02 8035 8448 or Micah Green on 02 8035 8447 to discuss this submission.

Yours sincerely

LUKE LAWLER
Head of Public Affairs