QSuper Submission to Treasury Consultation

Proposed Industry Funding Model for the Australian Securities and Investments Commission

Introduction

QSuper is Queensland's largest superannuation fund and, with around $90 billion in accounts, including more than $59 billion in direct funds under management, is one of the largest funds in Australia. QSuper is the default fund for Queensland's public sector employees and has around 540,000 members made up of current and former public servants and their spouses.

QSuper has a 'member for life' philosophy and is committed to continually improving its products and services for members, from their commencement in the Fund through to retirement. This philosophy has seen the Fund extend its investment options and services to members who leave the public service to work in the private sector, and to their spouses.

QSuper's products and services are made up of large complex superannuation fund services such as our financial services business QInvest and our mortgage broking service QInvest Loanfinder. Unlike many other funds, QSuper manages much of our end-to-end administration in-house.

QSuper welcomes the opportunity to comment on the Proposed Industry Funding Model for the Australian Securities and Investments Commission. Comment in this submission is confined to Questions 2, 23, 30-37, 39 and 41 where QSuper desired to make a specific comment. For convenience and to aid understanding, comments are provided using the relevant question reference numbers provided in the consultation paper dated 28 August 2015.

Chapter 2: ASIC's Activities

<u>*Question 2:*</u> *Are there any other specific regulatory activities undertaken by ASIC, such as those that support innovation, that should not be cost recovered from industry? If so, please provide examples.*

As a profit for members organisation, any new/additional costs will ultimately be borne by our membership resulting in either:

- increased cost in products/services provided; or
- a potential degradation in members' retirement outcomes.

Whilst the efficient operation of the regulator correlates to the interest of QSuper's membership, we want to ensure that costs/levies borne by industry sectors are done so in a fair and equitable manner.

We are concerned that attributing the cost of ASIC's general enforcement activities to relevant industry sectors potentially creates:

- the opportunity for cross-subsidisation to occur; and
- a significant conflict of interest for ASIC to manage.

Should the proposals be adopted, ASIC's general enforcement activities will account for a large portion of regulatory activities for AFS and Credit Licensees (48% and 62% respectively). The sliding scale approach proposed will result in organisations funding a proportion of the general enforcement costs depending on their size. The proportion funded by larger organisations is unlikely to correlate to the volume of enforcement activities they generate, resulting in a risk of inequitable cross-subsidisation.

The potential cross-subsidisation coupled with sliding scales also has the potential for consumers and the industry to perceive a significant conflict of interest - i.e. Industry participants providing a greater proportion of general enforcement funding looking to influence the actual enforcement activity undertaken. ASIC will need to ensure that it provides sufficient transparency to enable consumers to validate appropriate levels of independence.

Given the issues raised above, in relation to general enforcement activities we request Treasury considers either;

- excluding general enforcement activities from the industry cost recovery model; or
- introducing a mechanism to reduce the magnitude of potential cross-subsidisation across industry sectors. This could be in the form of a discount/penalty based on the effectiveness of an organisation's risk management and compliance systems. ASIC could assign a rating to individual participants based on their compliance performance (audit, complaints, breaches, bad debts & arrears, evidence of responsible lending etc). The rating would then act as a multiple, either decreasing/increasing levies due in subsequent periods.

Chapter 6: Phase-in arrangements and levy administration

<u>Question 23:</u> *Is it appropriate for the Government to handle the over or under collection of levies through a reduction or increase in the levies payable for the next year? If not, why not?*

The proposed strategy for over/under collections to be remediated the following year creates uncertainty for industry participants. The financial budgeting process is normally conducted numerous months and potentially years in advance. To reduce the potential for significant annual fluctuations we request Treasury consider the merits of introducing an annual increase cap mechanism pegged to a national index such as CPI. Shortfalls could be met from either preceding surpluses or additional Government funding.

Attachment B: Funding Model for Australian Credit Licensees

<u>Question 30:</u> *Do you support the proposed arrangements for Australian Credit Licensees' levies? Why or why not?*

Please see response to Question 2.

<u>Question 31:</u> *Will the proposed levy arrangements for Credit Licensees be competitively neutral? If not, why not?*

No, the proposed levy arrangements for Credit Licensees will not be competitively neutral. As a profit for members organisation we will be forced to either:

- pass the new costs detailed in the proposal onto our members through increased fees for service; or
- reduce the scope/nature of services provided.

Other industry participants may have the option for shareholders to absorb the cost instead, creating a potential competitive disadvantage to QSuper.

<u>Question 32:</u> *Will the proposed tiering arrangements support the growth of Credit Licensees? Why or why not?*

No, the proposed tiering arrangements do not support the growth of Credit Licensees. The structure favours consolidation or fragmentation depending on a Credit licensee's scale at the time of reporting. The levy increases at each step in the proposed thresholds could lead to distorted decision making.

<u>Question </u>*33: Will the proposed levy arrangements for Credit Licensees support innovation? If not, why not?*

Please see response to Question 32.

Question 34: *Will the proposed levy arrangements for Credit Licensees support small business? If not, why not?*

Please see response to Question 32.

Question 35: *Do you believe that a graduated approach to determining the levy payable by Credit Licensees would be preferable to the proposed levy arrangements? Why or why not?*

Yes, we believe that a graduated approach to determining the levy payable by credit licensees would be preferable to the proposed levy arrangements. For credit licensees at the margin of a proposed credit volume threshold, the increase in cost at $201m is punitively disproportionate. A sliding scale with more differentiation in fees, along the lines of the 'proxy' in the proposal, would be a fairer solution. Quantifying the amount of credit provided in any particular period should not pose a challenge to Credit Licensees given it is a figure they generally actively measure and report internally.

Attachment C: Funding Model for AFS Licensees

Question 36: *Do you support the proposed arrangements for AFS Licensees' levies? Why or why not?*

Please see response to Question 2.

Question 37: *Will the proposed levy arrangements for AFS Licensees be competitively neutral? If not, why not?*

No, the proposed levy arrangements for AFS Licensees will not be competitively neutral. As a profit for members organisation we will be forced to either:

- pass the new costs detailed in the proposal onto our members through increased fees for service; or
- reduce the scope/nature of services provided.

Other industry participants may have the option for shareholders to absorb the cost instead, creating a potential competitive disadvantage to QSuper.

Question 39: *Will the proposed levy arrangements for AFS Licensees support innovation? If not, why not?*

Please see response to Question 37.

Question 41: *Will the proposed levy arrangements for AFS Licensees support access to financial services in regional Australia? If not, why not?*

No, the proposed levy arrangements for AFS Licensees have the potential to reduce access to financial services in regional Australia. As Queensland's largest superannuation fund, a significant portion of our membership base is located in regional areas. QSuper is committed to significantly improving members' financial wellbeing through the provision of personal advice. The inherent cost challenges posed to service members in regional areas, coupled with increases in cost due to the levy arrangements, may inhibit our ability to provide advice to members in regional areas.