CUSTOMER OWNED BANKING ASSOCIATION
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3 June 2015

Manager
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 Sir/Madam,

Proposed Financial Sector Supervisory Levies for 2016-17

Thank you for the opportunity to comment on Treasury and APRA's joint Discussion Paper regarding proposed financial sector supervisory levies for 2016-17.

COBA is the industry body for credit unions, mutual building societies and mutual banks. Collectively, the institutions we represent have around $97 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 the proposed levy changes will increase levies for most COBA members by 3 percent, and this is consistent with the principle that the larger and more complex organisations that require more intense supervision and pose greater systemic risk should bear the increased costs.

However, COBA does not support the increase to the minimum restricted levy as this change has not been justified and may limit competition and diversity in the banking sector.

The change to the minimum levy will increase levies for smaller ADIs by up to 100 per cent on top of last year's change which increased the minimum levy by 500 per cent. Over a two year period, this represents an up to 1100 per cent increase in the restricted levy for some of the smallest institutions. This is a significant and inequitable impost on those institutions.

COBA provides the following detailed comments:

Increase in unrestricted levies to fund ASIC

As a principle, COBA believes that the costs of the increased regulatory oversight by ASIC should be borne by those institutions that require more intense supervision. Customer-owned banking institutions consistently have market leading levels of customer satisfaction and importantly have delivered well in terms of ethical behaviour and consumer trust. Most customer-owned ADIs do not have the complex products or remuneration structures that have been linked to adverse consumer outcomes. The customer ownership model also allows our members to make the right decisions for the long term benefit of their customer rather than short term decisions designed to maximise returns to shareholders.

The consultation paper proposes to increase the overall levy amount on ADIs by more than 20 per cent to cover authorised deposit-taking institutions' (ADIs) share of the additional 2016-17 ASIC funding. This amount will be raised by increasing the unrestricted levy by 41 per cent.[1] This will significantly increase the levies paid by larger institutions as the unrestricted levy comprises a large part of their total levy. As noted in the consultation paper, levies for ADIs with $500 billion in total assets will increase by $1.5 million (24 per cent increase). In comparison, ADIs with $5 billion in total assets will pay an extra $7,900 (3 per cent). For COBA members above $150 million, these changes will translate into a 3 per cent increase in the total levy.

COBA is concerned about the appropriateness of collecting the costs of ASIC's financial literacy and over the counter derivative implementation from ADIs as part of the unrestricted APRA levy. While this annual levy consultation process does not include consideration of the aggregate levy, COBA wishes to flag that this issue remains unresolved. COBA understands that Treasury will consider the appropriateness of cost recovering these activities through the ASIC funding model consultation process and we look forward to these issues being addressed in that process.

COBA also understands that the unrestricted levy increase is a temporary measure and that in future, ASIC costs will be recovered from all ASIC-regulated entities under the new ASIC funding model. The consultation paper notes that "the Government will consult extensively with industry to refine and settle an industry funding model for ASIC." COBA looks forward to engaging with the Government on the new ASIC funding model.

More evidence required to justify increasing minimum levies

The Discussion Paper proposes increasing the minimum levy payable by ADIs, with the minimum levy increasing from $3,000 to $6,000 in 2016-17. This follows an increase from $490 to $3,000 in 2015-16. The paper notes that this change seeks "…to better match the cost of supervision to the levy collected" and that "details on this increase will be available in the APRA Cost Recovery Impact Statement (CRIS) to be published in June 2016."

COBA notes that paper states that CRIS will be released in June 2016. At the time of this submission, the CRIS has not been released. COBA cannot comment on the appropriateness of proposed changes to the minimum levy in the absence of any detailed justification. At best, we can use the justification provided in the 2015-16 CRIS.

COBA noted in our 2014-15 levies submission that:

"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."

While a timely CRIS may help explain changes, COBA notes that previous CRIS' have not contained sufficient explanation to increase minimum levies. To justify the 2015-16 increase, the 2015-16 CRIS notes that according to APRA's analysis "the levy minimum appeared a little low". This explanation does not provide sufficient evidence to justify the increase to the minimum levy. Without this detail it is also unclear whether the cost drivers are better alignment with supervision costs or increasing supervision costs.

Furthermore, the 2015-16 CRIS identifies the increase in minimum levies as "a first step in a multi-year process to better align APRA's cost of supervision across the industries it supervises with the actual cost incurred by APRA".[2] It also notes that "Further increases to levy minimums are likely in future years". COBA requests greater transparency of this multi-year process.

COBA recommends that APRA consider changing its CRIS preparation process to ensure that a more detailed CRIS is released, at the latest, in conjunction with the annual Financial Institutions Supervisory Levies Consultation Paper. This would allow stakeholders to have greater understanding of any proposed changes.

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[1] The unrestricted rate is proposed to increase from 0.000718 per cent to 0.001011 per cent of total assets
[2] See APRA Cost Recovery Impact Statement 2015-16 page 12

Support a pro-competitive levy system

COBA believes that Treasury should consider other factors than solely recovering the cost of supervision when setting minimum levy values.

The Australian Government's Cost Recovery Guidelines suggest that when developing the policy rationale for cost recovery staff should, amongst other things:

> "analyse the effect on competition, innovation and the financial viability of the directly affected individuals and organisations, including the cumulative effect from other government activities."

Excess minimum levy values, when taken together with the disproportionate impact of regulation on smaller ADIs, act as a barrier to entry and can reduce the financial viability of smaller ADIs. This restricts competition and diversity in the financial sector.

The recent Financial System Inquiry found that: "there is a complacency about competition, and that the current framework does not systematically identify and address competition trade-offs in regulatory settings."

COBA believes that there are alternative changes to levy funding parameters that will not restrict competition in the financial sector.

The proposed minimum restricted levy represents an up to 100 per cent increase in levy for ADIs below $150 million in assets.[3] COBA estimates this change would raise an additional $70,000. COBA believes that this is an inconsequential amount in APRA's overall 'supervision' budget of $37.1 million (0.2 per cent). It is hard to suggest that APRA could not improve the efficiency of supervision to cover this amount.

COBA notes that there is no proposed change to the maximum restricted levy. Under the *ADI Supervisory Levy Imposition Act 1998*, the statutory upper limit for the maximum restricted levy increases each year in line with a designated consumer price index. COBA believes the consultation paper should disclose the statutory upper limit for the restricted levy maximum and justify why the proposed maximum levy does or does not change. COBA believes that even a below inflation increase could raise a similar amount without placing excess burden on maximum levy payers.[4]

While COBA understands that the increase to minimum restricted levies seeks to recover the cost of supervision, such a mechanical application of this policy does not consider the impacts on competition, innovation and consumer outcomes from increasing costs on smaller ADIs.

Please do not hesitate to contact me on +61 2 8035 8450 or Mark Nguyen on +61 2 8035 8443 to discuss any aspect of this submission.

Yours sincerely

SALLY MACKENZIE

Acting Head of Public Affairs

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[3]Under the proposed restricted rate, the minimum restricted levy will affect entities with less than $152 million in assets.
[4]ABS notes that All Group CPI for March 2016 year on year was 1.3%. An increase in the maximum levy of 1.3% would raise the maximum levy to $2.48m and raise $30,000 per maximum levy paying institution. Treasury's 2014 Financial Industry Supervisory Levy Methodology Review response paper noted that 8 institutions paid the maximum levy.