Industry Super Network

Head Office:
Melbourne
Casselden Place
Level 30, 2 Lonsdale Street
Melbourne Victoria 3000
P: 03 9657 4321

Sydney
Level 2, 50 Pitt Street
Sydney, NSW 2000
P: 02 8076 5270

Canberra
Level 3, 39 Brisbane Ave
Barton, ACT 2600
P: 02 6273 4333

29 April 2013

Our ref: SB1342

Principal Adviser
Financial System Division
The Treasury
Langton Crescent
PARKES ACT 2600

Via email: fsleviesreview@treasury.gov.au

Dear Sir/Madam

Re: Financial industry supervisory levy methodology - Treasury discussion paper. ISN submission

ISN makes the following brief submissions in response to Treasury's Financial industry supervisory levy methodology discussion paper released in April 2013.

ISN recognises the ongoing need for industry levies that fund a major component of the costs of regulation of Australia's financial sector. It is understood that the discussion paper focuses on the methodology that is applied to the calculation of the levies applied. ISN's brief submissions relate to the six consultation issues raised in the April 2013 discussion paper. ISN recognises that there will be further opportunities to raise issues relating the actual calculation of the proposed levy for the 2013-2014 financial year.

All levies on the superannuation industry will have a direct impact on the cost borne by beneficiaries. The recent significant increase in levies will have a direct impact on returns to members and as such it is appropriate that the allocation of levies be both fair and appropriate.

Consultation issues

6.1 Is the current setting for restricted (Supervisory) and unrestricted (Systemic) levy amounts appropriate? Are the current minimum restricted levy parameters appropriate?

ISN believes it is appropriate to base the methodology used to recoup regulatory costs on the level of supervisory time estimated to be applied to the relevant industry sector, and other expenditures involved in conducting regulation (e.g., technology spend). Accordingly it is appropriate that there be stringent and transparent cost apportionment processes within the relevant regulatory agencies to ensure cost recovery is achieved and reimbursed from the appropriate sector of the industry, and on an appropriate base (e.g., fees based on transactions, or fees based on funds under management, depending on the nature of the regulation). ISN believes that given the significant increase in the size of the levy there should be a proportionate increase in accountability relating to costs.

6.2 Is the current levy base appropriate for each industry sector?

ISN offers no alternative method to the existing basis for the levy calculation which uses the asset value of the superannuation and non-superannuation entities. ISN recognises that there may be a need for greater supervisory regulation in sectors or sub-sectors of the industry where there is a greater propensity for the movement of funds between products, investments or investment options. These movements are often driven by profit considerations, including those gained by related third parties and other service providers. ISN believes there is merit in further consideration of these factors in any future change in the levy base for industry sectors or sub-sectors.

6.3 Is the levy structure appropriate for regulated institutions within conglomerates?

ISN notes the previous levy review concluded that there is little, if any, regulatory efficiency where an institution is part of a conglomerate. ISN offers no additional insights on this matter.

6.4 Does the current levy methodology provide adequate transparency and is it appropriate for industry sub-sectors?

In answer to question 6.1 ISN called for greater transparency. It is recognised that there are processes in place and that there is a need to balance accountability with the cost of greater transparency. The forthcoming performance audit by the Australian National Audit Office (ANANO) will better inform all parties.

The recent changes to the levies applied to SMSF's which bring the period that the levy is collected into line with APRA regulated funds and increase the size of levy from $191 to $259 are designed to ensure regulatory costs are fully recovered. Given the size and growth within the SMSF sector and recent regulatory changes which will require increased supervision, it is suggested that close scrutiny on the actual costs of regulation be closely observed and further changes applied if required.

6.5 Should the current levy methodology take into account reinsurance recoveries and the resultant impact upon the levy calculation [based on asset value] for general insurers?

ISN does not offer a view on this matter.

6.6 Is the current levy methodology appropriate for pooled superannuation trusts?

ISN believes the current methodology is not appropriate for pooled superannuation trusts (PSTs) as the current methodology creates a duplication of costs over the same pool of funds. The same issues may arise when considering the operations of Wholesale Unit Trusts (WUT) which operate side by side with the same client base, and essentially the same operational structure as PSTs except for the fact that WUT's are supervised by ASIC and PSTs by APRA.

Whilst the discussion paper notes on page 8 that the last levy review found that "PSTs require supervision by APRA and adequate mechanisms are in place within the imposition of Acts to address any special cases where waiving of the levy is justified." It is suggested that this is not an appropriate response. It is generally recognised that where PSTs are in operation there is a regulatory fee attached to the same funds twice. The methodology should recognise that this is the case and the levies accordingly adjusted.

ISN recognises that there is a level of supervision that applies to PSTs and that there are different models in operation in market that in turn require differing levels of regulatory supervision. It is reasonable that the methodology should apportion a fair cost associated with the level of supervision required. However, it is not in the best interests of beneficiaries that grouped assets of members be levied twice.

It is suggested that it would be more appropriate that the methodology recognise that discretion be applied to a decision as to when a levy is again attached to the same funds rather than when it should not be.

ISN is available to discuss the views expressed.

Yours sincerely,

Richard Watts
Policy & Legal Counsel
Industry Super Network

rwatts@industrysuper.com