Australian Government

The Treasury

PROPOSED FINANCIAL INDUSTRY

LEVIES FOR 2013-14

THE TREASURY

AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY

INTRODUCTION

The purpose of this paper is to seek industry views on the proposed financial industry levies that will apply for the 2013-14 financial year. The financial industry levies are set to recover the operational costs of the Australian Prudential Regulation Authority (APRA), and other specific costs incurred by certain Commonwealth agencies and departments.

The paper, prepared by APRA in conjunction with Treasury, sets out information about the total expenses for the activities to be undertaken by APRA and certain other Commonwealth agencies and departments in 2013-14 to be funded through the commensurate levy revenue to be collected in 2013-14. The paper also provides an explanation of the cost drivers resulting in the change in the total levy revenue from 2012-13 to 2013-14.

AUSTRALIAN GOVERNMENT COST RECOVERY

In December 2002, the Government adopted a formal cost recovery policy to improve the consistency, transparency and accountability of cost recovery arrangements and promote the efficient allocation of resources. The underlying principle of the policy is that agencies set charges to recover all the costs of a product or service where it is efficient and effective to do so, where the beneficiaries are a narrow and identifiable group and where charging is consistent with Government policy objectives. The cost recovery policy is administered by the Department of Finance and Deregulation and outlined in the Australian Government Cost Recovery Guidelines.

The policy applies to all *Financial Management and Accountability Act 1997* (FMA Act) agencies and to relevant *Commonwealth Authorities and Companies Act 1997* (CAC Act) bodies that have been notified. In line with the policy, individual portfolio ministers are ultimately responsible for ensuring entities' implementation and compliance with the Cost Recovery Guidelines.

POLICY AND LEGISLATIVE BASIS FOR FINANCIAL INDUSTRY LEVIES

The Government agreed that APRA and the cost of additional consumer protection functions in the financial system will be funded through levies on those industries that will be prudentially regulated by APRA. Essentially, the levies are imposed to ensure that the full cost of regulation is recovered from those who benefit from it (i.e. institutional categories that are regulated).

The legislative framework for levies is established by the *Financial Institutions Supervisory Levies Collection Act 1998*, which prescribes the timing of payment and the collection of levies. A suite of imposition Acts impose levies on regulated institutions, set a CPI-indexed statutory upper limit and provide for the Minister to make a determination as to certain matters such as the levy percentages for the restricted and unrestricted levy component, the maximum and minimum levy amounts applicable to the restricted levy component, and the date at which the entity's levy base is to be calculated.

Annually, the Minister makes a separate determination under each of the following Acts to provide the legal basis to impose a levy:

- *Authorised Deposit-taking Institutions Supervisory Levy Imposition Act 1998*;
- *Authorised Non-operating Holding Companies Supervisory Levy Imposition Act 1998*;
- *Life Insurance Supervisory Levy Imposition Act 1998*;
- *General Insurance Supervisory Levy Imposition Act 1998*;
- *Retirement Savings Account Providers Supervisory Levy Imposition Act 1998*;
- *Superannuation Supervisory Levy Imposition Act 1998*; and
- *First Home Saver Account Providers Supervisory Levy Imposition Act 2008*.

The Government has also provided authority to APRA to recover other specific costs incurred by certain Commonwealth agencies and departments. The Minister's determination in this regard, under the *Australian Prudential Regulation Authority Act 1998,* is to recover the costs of:

- providing certain market integrity and consumer protection functions undertaken by the Australian Securities and Investments Commission (ASIC) and the Australian Taxation Office (ATO);
- administering claims for early release of superannuation benefits on compassionate grounds by the Department of Human Services (DHS); and
- implementing the *Stronger Super — SuperStream* initiative.

The total funding for all agencies raised under the financial industry levy is set through the Budget process and finalised prior to the release of this paper.

METHODOLOGY REVIEW FOR FINANCIAL INDUSTRY LEVIES

Treasury and APRA are currently conducting a review of the methodology behind the financial industry supervisory levies. As part of its review, a discussion paper was released seeking submissions on the design and operation of the methodology by 29 April 2013. The paper and the resulting submissions from industry identified a number of issues for consideration, including:

- the appropriateness of the current method of recouping the SuperStream costs in the same manner as the supervision costs of APRA in relation to the split between the restricted and unrestricted components;
- the appropriateness of recovering SuperStream costs based on assets rather than another base such as member numbers;
- the application of the levies to pooled superannuation trusts (PSTs); and

- a call for further transparency in the levy formulation process including improving the disclosures in the annual consultation paper.

The full range of issues raised in the levy methodology review will be considered and a formal response and position paper issued by Treasury in due course. As part of finalising the review, further consultation will be undertaken with stakeholders, with a view to responding to identified issues in the context of the 2014-15 levies process.

APRA'S 2013-14 ACTIVITIES

APRA's supervisory activities in 2012-13 have been conducted against a backdrop of strong swings in sentiment in global financial markets. Bouts of market volatility that have characterised the global financial crisis continued up to the latter part of 2012, as eurozone tensions, concerns about the US fiscal outlook and faltering growth in the US and Chinese economies weighed heavily on sentiment. Over subsequent months, however, global financial conditions improved significantly. Confidence was buoyed by the assertive stance of monetary policy in major economies, signs of recovery in the US economy and positive policy commitments in Europe to deal with its sovereign debt and banking system problems. Nonetheless, the bailout for Cyprus was a reminder of the scale of the challenge facing European policymakers and the fragility of market sentiment.

The Australian financial system remained in a relatively strong position in the face of the unsettled global environment in 2012-13, supported by the underlying momentum of the Australian economy. APRA has maintained a heightened level of supervisory intensity throughout this period and has made considerable progress on its substantial prudential policy agenda.

APRA's activities will continue at this tempo in 2013-14. Its supervisory oversight will focus, in particular, on how regulated institutions adapt to the continued caution of households and much of the business sector, which has reflected in only moderate growth in business volumes that may continue for some time.

On the policy front, with substantial reforms to capital adequacy regimes in the authorised deposit-taking (ADI) and insurance industries now in place, APRA will focus on implementing the new global bank liquidity framework in Australia, on finalising a new prudential framework for conglomerate groups and a revised framework for securitisation, and on bedding-down relevant aspects of the Government's Stronger Super reforms.

In 2013-14, APRA's main strategic objectives are to:

- conduct effective, ongoing supervision of all APRA-regulated institutions in accordance with a consistent APRA-wide supervisory approach;
- consolidate the prudential framework by enhancing prudential standards where appropriate, in line with the global reform initiatives endorsed by the G-20 and overseen by the Financial Stability Board;

- enhance the efficiency and effectiveness of APRA's supervisory tools and systems through better integration of and greater analytical support for its risk-rating systems, including workflow and document management;
- enhance APRA's effectiveness by continuing to ensure it recruits and retains the right people for the job, develops the skills and knowledge of its staff and deploys them where they are most needed in APRA; and
- remain well prepared for a crisis affecting APRA's own operations, a financial crisis in a regulated institution or a systemic crisis.

Some of APRA's activities are not funded by levies. Rather, the costs are recovered by direct user charges or through direct Government funding. For 2013-14 the cost of various activities will not be recovered through the financial institutions supervisory levies such as:

- accreditation of ADIs with sophisticated risk management systems to adopt the 'advanced' approaches for determining capital adequacy permitted under the Basel II Framework, and ongoing specialised supervision of accredited ADIs;
- accreditation of general insurers with robust internal models to use these models to meet capital adequacy requirements; and
- the provision of statistical reports to the Reserve Bank of Australia, the Australian Taxation Office and the Australian Bureau of Statistics that are recovered through a fee for service arrangement.

SUMMARY OF APRA SUPERVISORY LEVY FUNDING REQUIREMENTS FOR 2013-14

APRA's 2013-14 levy funding requirements

APRA's net levy funding requirements for 2013-14 are shown in Table 1. The budgeted total cost for APRA for 2013-14 is $130.4 million, a $5.2 million (4.1 per cent) increase over the budget for 2012-13. $8.0 million of these costs will be met through cost offsets and government appropriations, including a special levy for the National Claims and Policies Database (NCPD).

Taking into account the deferral of $3.6 million in expenditure to 2013-14, and $3.2 million in over-collected 2012-13 levies to be returned to industry, APRA's underlying net levy funding requirement is $115.6 million, an increase of $2.7 million (2.4 per cent) over the budget for 2012-13.

Table 1: APRA — levies funding required ($ million)

	2012/13	2013/14		
	Budget ($)	Budget ($)	Change ($)	Change (%)
APRA — operating expenses	120.4	124.7	4.3	3.6
APRA — capital expenditure	4.8	5.7	0.9	18.1
Budgeted total cost	125.2	130.4	5.2	4.1
Net cost offsets (Table 2)	(9.2)	(8.0)	1.3	(13.6)
Unspent 2012-13 expenses re-phased into 2013-14	-	(3.6)	(3.6)	-
Under/(over) collected revenue (Table 3)	(3.1)	(3.2)	(0.1)	3.8
Net funding met through industry levies	112.9	115.6	2.7	2.4

Table 2 outlines the other sources of APRA revenue, referred to as net cost offsets, available to partially fund APRA expenditures.

Table 2: Net cost offsets ($ million)

Net cost offsets		2012/13 Budget ($)	2013/14 Budget ($)	Change ($)	Change (%)
Appropriations	— NCPD	(0.7)	(0.7)	(0.0)	1.7
	— Other	(3.3)	(3.1)	0.2	(7.4)
Sale of goods and services		(5.2)	(4.2)	1.0	(19.8)
Total		(9.2)	(8.0)	1.3	(13.6)

Adjustment for over-collected APRA levy revenues

To ensure that industry does not pay any more or less than the cost of prudential regulation and to maintain the integrity of the levy funding mechanism, APRA's levy funding requirement is adjusted by over- and under-collected levies from prior periods.

Based upon 2012-13 expected collections, there will be an over-collection in APRA levies of $3.2 million that will be refunded through the 2013-14 levies (Table 3).

Table 3: (Under)/Over-collected APRA levies ($ million)

Source of revenue	2012-13 Budget	2012-13 Forecast	2012-13 Difference	Difference to be refunded to (recovered from) industry.			
				ADI	LI	GI	Super
Supervisory levies	110.7	116.5	5.8	(0.1)	0.1	0.9	4.9
Levy waivers and write-offs	(1.0)	(3.6)	(2.6)	-	-	-	(2.6)
Total	109.7	112.9	3.2	(0.1)	0.1	0.9	2.3

SUMMARY OF TOTAL FINANCIAL INDUSTRY LEVY FUNDING REQUIREMENTS FOR 2013-14

Total financial industry levy funding required in 2013-14 for all relevant Commonwealth agencies and departments is $259.0 million. This is a $7.4 million (2.8 per cent) decrease on the 2012-13 levy requirement. The components of the levies are outlined below (Table 4).

Table 4: Financial industry levy funding required ($ million)

	2012/13	2013/14		
	Budget ($)	Budget ($)	Change ($)	Change (%)
APRA	112.9	115.6	2.7	2.4
ASIC	20.7	32.2	11.5	55.6
ATO	7.1	7.3	0.2	2.8
DHS	4.2	4.4	0.2	4.0
SuperStream	121.5	99.5	(22.0)	(18.1)
Total	266.4	259.0	(7.4)	(2.8)

ASIC Component

An additional component of the levies is collected to partially defray the expenses of ASIC in relation to consumer protection, financial literacy, regulatory and enforcement activities relating to the products and services of APRA-regulated institutions.

Under the current methodology, the cost of the general ASIC functions funded by the 2013-14 levy would be $35.1 million, which includes $5.8 million for the operation of the Superannuation Complaints Tribunal (SCT) and $1.2 million for work supporting the Government's *Stronger Super — MySuper* initiative. However, only $20.9 million of this funding will be recovered through the levies. The balance will be funded via general appropriations from the Commonwealth budget. ASIC intends to review its costing methodology in the 2013-14 financial year.

The reason for the increase in ASIC's levy funding requirement to $32.2 million in 2013-14 is new policy measures announced in the 2013-14 Budget. These measures include:

- over-the-counter derivatives reform, which will provide additional resourcing for ASIC to fulfil Australia's international commitments in this area at a cost of $3.0 million in 2013-14;
- funding of $1.3 million in 2013-14 for payments to States and Territories as part of the MoneySmart Teaching strategy; and
- additional funding to increase the capacity of the SCT, at a cost of $1.0 million in 2013-14.

ATO Component

Funding from levies collected from the superannuation industry includes a component to cover the expenses of the ATO in administering the Superannuation Lost Member Register (LMR) and Unclaimed Superannuation Money (USM). The estimated total cost to the ATO of undertaking these functions in 2013-14 is $31.6 million, of which $7.3 million will be recovered through the levies. The difference reflects changes to the administration of the LMR and USM over time, most of which have been funded from general taxation revenue rather than the financial industry levy.

The majority of this funding provides for the ATO's activities in managing accounts, payments and processing, which include:

- the implementation of strategies to reunite individuals with lost and unclaimed superannuation money such as phone and letter campaigns;
- the processing of lodgements, statements and other associated account activities;
- processing of claims and payments, including the recovery of overpayments;
- reviewing and improving the integrity of data on the LMR and in the USM system; and
- reviewing and improving data matching techniques.

The funding also provides for the ongoing upkeep and enhancement of the ATO's administrative system for USM and the LMR and for continued work to improve efficiency and automate processing where applicable.

DHS Component

Following amendments to the *Superannuation Industry (Supervision) Act 1993,* the *Retirements Savings Accounts Act 1997* and other subordinated legislation, the DHS assumed responsibility for the administration of early release of superannuation benefits on specific compassionate grounds (EROB) in November 2011.

In line with the cost recovery principles, the annual EROB administration cost for 2013-14 is estimated at $4.4 million and is to be recovered as part of the supervisory levy on the superannuation industry.

SuperStream Component

Announced as part of the Government's *Stronger Super* reforms, SuperStream is a collection of measures that are designed to deliver greater efficiency in back-office processing across the superannuation industry. Superannuation funds will benefit from standardised and simplified data and payment administrative processes when dealing with employers and other funds and from easier matching and consolidation of superannuation accounts.

The costs associated with the implementation of the SuperStream measures are to be collected as part of the superannuation industry levies. The levies will recover the full cost of the implementation of SuperStream reforms and are to be imposed as a temporary levy on APRA-regulated superannuation entities from 2012-13 to 2017-18 inclusive. The amount of levy payable is subject to the Minister's determination.

The costs associated with the implementation of the SuperStream reforms are estimated to be $99.5 million in 2013-14, $74.7 million in 2014-15, $62.1 million in 2015-16, $35.7 million in 2016-17 and $35.5 million in 2017-18.

Further information on the break-down of funding to support the implementation of SuperStream is contained at Attachment A.

First Home Saver Accounts

The *First Home Saver Account (FHSA) Providers Supervisory Levy Imposition Act 2008* came into effect from 1 July 2009. The Act refers to three types of entities that provide FHSA facilities: ADIs, life insurers and trustees of public offer superannuation entities.

The amount of levy payable by a FHSA entity is subject to the Minister's determination. Considering the limited number of approved FHSA entities (18 ADIs and one superannuation trustee) and the small amount of FHSA deposit balances held ($401 million) at 31 December 2012, APRA will recommend to the Minister that no separate FHSA levy be charged in 2013-14.

SUMMARY OF APRA SUPERVISORY SECTORAL LEVY ARRANGEMENTS FOR 2013-14

The levies framework for the APRA supervisory levies consists of two components: one based on cost of supervision (the restricted component) and the other on system impact (the unrestricted component). APRA's activities and the time spent on them are first allocated into one of the two levy components. Each component is then apportioned across the different industries based on the total resources APRA dedicates to each industry. Currently, the restricted and unrestricted components account for 67 per cent and 33 per cent of APRA's overall supervisory effort, respectively.

To reduce the volatility in levies charged to industry, APRA smooths supervision costs through use of a moving average. The four-year averages of APRA's costs are used to derive the 2013-14 levy allocations for each industry.

For each of the two components, Table 5 provides a comparison of the time spent by APRA to supervise each industry as a share of the total.

Table 5: APRA's supervisory effort by industry (%)

Industry sector	2010-11 Actual	2011-12 Actual	2012-13 Forecast	2013-14 Estimate	2013-14 Four year average
Restricted component — % of time					
ADIs	46	47	43	45	45
Life insurance/Friendly societies	9	9	12	10	10
General insurance	18	18	19	19	19
Superannuation	27	26	26	26	26
Total	100	100	100	100	100
Unrestricted component — % of time					
ADIs	43	43	42	43	43
Life insurance/Friendly societies	11	11	12	11	11
General insurance	23	22	22	22	22
Superannuation	23	24	24	24	24
Total	100	100	100	100	100

The average percentage of time spent supervising industries for each levy component is then used to apportion APRA's estimated costs to each industry.

APRA'S SUPERVISORY LEVY REQUIREMENT

Table 6 illustrates APRA's 2013-14 levy funding required for both levy components from each industry and compares this with the levy funding required from each industry for 2012-13.

Table 6: Estimated levies by industry for APRA's levy requirement ($ million)

Industry	2012-13 Restricted component	2012-13 Unrestricted component	2012-13 Total	2013-14 Restricted component	2013-14 Unrestricted component	2013-14 Total
ADIs	30.3	16.6	46.8	33.4	15.7	49.1
Life insurance/ Friendly societies	6.2	4.4	10.6	7.3	4.0	11.3
General insurance	11.2	8.2	19.4	13.4	7.7	21.1
Superannuation	23.5	12.6	36.1	23.3	10.8	34.1
Total	71.1	41.8	112.9	77.5	38.1	115.6

TOTAL FINANCIAL INDUSTRY SECTORAL LEVY ARRANGEMENTS FOR 2013-14

Table 7 itemises the total supervisory levy requirement by industry.

Table 7: Total levy required by industry ($ million)

Industry	APRA	ATO	ASIC	DHS	Super Stream	Total 2013-14 Levy	Total 2012-13 Levy	Inc (Dec) ($)
ADIs	49.1	-	12.2	-	-	61.3	50.3	11.0
Life insurance/ Friendly societies	11.3	-	2.9	-	-	14.2	12.9	1.3
General insurance	21.1	-	4.2	-	-	25.3	22.3	3.0
Superannuation	34.1	7.3	12.9	4.4	99.5	158.2	180.9	(22.7)
Total	115.6	7.3	32.2	4.4	99.5	259.0	266.4	(7.5)

INDUSTRY STRUCTURE

Table 8 compares the number of institutions and their asset values used to determine levies for 2012-13 with those estimated to apply to 2013-14. Asset values used for estimating the levy may differ from the assets used to invoice the levy, since more up-to-date information may be available at the time of invoicing.

Table 8: Institutional asset base used for modelling levies ($ billion)

Industry sector	December 2012		December 2011	
	Number	Total asset base($b)	Number	Total asset base ($b)
ADIs				
Banks	67	2,965.3	63	2,821.8
Building societies	9	22.4	9	21.1
Credit unions	91	47.2	97	53.6
Other ADIs, including SCCIs	7	7.6	7	7.8
Sub-total	174	3,042.5	176	2,904.3

Industry sector	December 2012		December 2011	
	Number	Total asset base($b)	Number	Total asset base ($b)
Life insurers	28	247.3	31	230.2
Friendly societies	13	6.2	14	6.1
Sub-total	41	253.5	45	236.3
General insurers	121	115.8	124	115.7
APRA-regulated superannuation entities				
Excluding small funds[1]	393	989.4	413	867.6
Small Funds[2]	3,315	1.9	3,265	2.0
Sub-total[3]	3,708	991.1	3,678	869.6
Total	4,044	4,402.9	4,032	4,126.0

1. Excluding small funds consist of public offer funds, non-public offer funds, multi member approved deposit funds, eligible rollover funds and pooled superannuation trusts.
2. Small funds consist of small APRA funds and single member approved deposit funds.
3. For the purpose of levies modelling pooled superannuation trust assets are included in the sub total for superannuation entities. For APRA's statistical publications pooled superannuation trust assets are not included in asset totals as these assets are already recorded in other superannuation categories.

SUMMARY OF IMPACTS ON INDIVIDUAL INDUSTRIES

Authorised deposit-taking institutions (ADIs)

The ADI industry comprises large and small banks as well as building societies, credit unions, Purchased Payment Facilities (PPF) and Specialist Credit Card Institutions (SCCI). Total levy funding of $61.3 million consists of $49.1 million for APRA's supervision of the ADI industry (Table 7) and $12.2 million to fund the financial literacy and consumer protection work undertaken by ASIC.

The total compares to $50.3 million in 2012-13. Excluding the SuperStream levy, which is not borne by the ADI industry, supervisory levy funding from ADIs in 2013-14 represents 38.4 per cent of total levies, compared with 34.7 per cent in 2012-13.

The funding will support APRA's heightened supervisory intensity of the ADI industry and enhancements to the prudential framework, particularly the Basel Committee reforms on liquidity and capital, and new prudential requirements for conglomerate groups and securitisation.

In 2013-14, the levy for SCCI's and providers of PPF's will be subject to a minimum of $10,300 for the restricted component and to the same restricted maximum amount and unrestricted levy rate as other ADIs.

Life insurance/Friendly societies

Total levy funding of $14.2 million consists of $11.3 million for APRA's supervision of the life insurance industry (Table 7) and $2.9 million for ASIC costs.

The total compares to $12.9 million in 2012-13. Excluding the SuperStream levy, which is not borne by this industry, supervisory levy funding from life insurers/friendly societies in 2013-14 represents 8.9 per cent of total levies, in line with the 2012-13 contribution.

In 2013-14, APRA will continue its focus on the capital adequacy of life insurers and friendly societies given the continued volatility in investment markets and the fundamental changes to life insurance capital standards now in place.

General insurance

Total levy funding of $25.3 million consists of $21.1 million for APRA's supervision of the general insurance industry (Table 7) and $4.2 million for ASIC costs.

The total compares to $22.3 million in 2012-13. Excluding the SuperStream levy, which is not borne by this industry, supervisory levy funding from general insurers in 2013-14 represents 15.9 per cent of total levies, compared with 15.4 per cent in 2012-13.

In 2013-14, APRA will continue to apply its specialist skills to issues of insurance risk, liability valuations and the quality of reinsurance cover, particularly in view of the recent spate of natural disasters.

National Claims and Policies Database special levy

In addition to the main supervisory levy for general insurers, a separate levy to cover the costs of operating the National Claims and Policies Database (NCPD) will continue in 2013-14. The NCPD collects policy and claims information relating to public/product liability (PL), and professional indemnity (PI) insurance from institutions within the general insurance industry. The total amount of the NCPD levy for 2013-14 is $0.7 million, in line with the prior year.

The NCPD levy is based on gross earned PL and PI premium. General insurers that no longer write policies in those two categories but still receive claims relating to previously written policies are classified as 'runoffs', and are subject to a flat rate for each category of insurance. Table 9 summarises the minimum and maximum levies and the rates to be used for 2013-14.

Table 9: Parameters for NCPD levy

	2012-13		2013-14	
	Professional indemnity	Public and product liability	Professional indemnity	Public and product liability
Minimum ($)	5,000	5,000	5,000	5,000
Maximum ($)	32,000	50,000	32,000	50,000
Rate (%)	0.0155	0.0172	0.0158	0.0201
Runoff amount ($)	2,500	2,500	2,500	2,500
Total levy ($m)	0.32	0.4	0.31	0.41

Following consultation in 2012-13, the prescribed NCPD levy for a general insurer that issues both PL and PI products is calculated as the simple addition of the PL and PI levy components.

Superannuation

Excluding the SuperStream levy, levy funding of $58.7 million consists of $34.1 million for APRA's supervision of the superannuation industry and $24.6 million for ongoing ASIC, ATO and DHS costs.

This total compares to $59.4 million in 2012-13. Excluding the SuperStream levy, supervisory levy funding in 2013-14 represents 36.8 per cent of total levies, compared with 41.0 per cent in 2012-13.

In 2013-14, APRA's supervisory activities in the superannuation industry will cover a range of issues, including risk management issues, data integrity, the liquidity of superannuation funds and the solvency of defined benefit schemes. APRA will also devote considerable resources to the implementation of relevant aspects of the Government's *Stronger Super* initiatives.

Separately, $99.5 million is required to fund the continued implementation of SuperStream, bringing the total 2013-14 levy to $158.2 million.

The levy amount for Small APRA Funds (SAFs) is maintained at a flat rate of $590 per fund.

Non-operating holding companies

Authorised non-operating holding companies (NOHCs) will continue to contribute to the financial institutions levies at a flat fee of $10,000.

SUPERVISORY LEVY COMPARISON BETWEEN PREVIOUS YEARS AND 2013-14 PROPOSED SCENARIO

This section compares the modelled 2013-14 scenario with the levy structure that applied in 2012-13. The modelled scenario for 2013-14 retains the features of the 2012-13 levy structure, updated for changes in the cost of existing levy-funded activities and the measures in the 2013-14 Budget. As they are systemic in nature, the costs of funding the 2013-14 Budget measures are included in the unrestricted levy component.

Many submissions to the methodology review argued that including funding for SuperStream implementation, financial literacy and the Superannuation Complaints Tribunal in the restricted component of the levies has the effect of recovering these costs as a fixed amount per institution, rather than based on their relative size or market share. In addition, some submissions identified that one consequence of this mechanism was that small and mid-sized entities implicitly cross-subsidise the contributions made by larger entities. This issue will be considered in the context of finalising the methodology review (which will involve further consultation) and will inform the 2014-15 levies process.

The modelled 2013-14 levy scenario is compared to the 2012-13 levy parameters for information.

Table 10: Levy scenarios

		2012-13	2013-14
Industry	Criteria	Actual	Modelled Scenario
Authorised deposit-taking institutions — locally incorporated	Restricted:		
	Rate %	0.00414%	0.00499%
	Minimum	490	490
	Maximum	2,100,000	2,341,000
	Unrestricted rate (%)	0.000566%	0.000776%
Authorised deposit-taking institutions — foreign branches	Restricted:		
	Rate %	0.00207%	0.00250%
	Minimum	490	490
	Maximum	1,050,000	1,170,500
	Unrestricted rate (%)	0.000566%	0.000776%

		2012-13	2013-14
Industry	Criteria	Actual	Modelled Scenario
Life insurers/ Friendly societies	Restricted:		
	Rate %	0.00689%	0.00786%
	minimum	490	490
	maximum	1,103,000	1,320,000
	Unrestricted rate (%)	0.001856%	0.001563%
General insurers	Restricted:		
	Rate %	0.01316%	0.01505%
	minimum	4,900	4,900
	maximum	887,000	1,064,000
	Unrestricted rate (%)	0.007195%	0.006983%
Superannuation funds	Restricted:		
	Rate %	0.02434%	0.01848%
	minimum	590	590
	maximum	2,000,000	1,786,000
	Unrestricted rate (%)	0.006535%	0.004614%

Tables 11 to 15 compare the impact of the levy payable for different asset values in each industry between 2011-12, 2012-13 and the modelled scenario for 2013-14.

Table 11: Levy amounts on ADIs ($'000)

Asset base		$50m	$500m	$5b	$25b	$100b	$500b
2011-12	Actual	2.3	22.6	226.4	1,132.1	2,272.6	4,565.2
2012-13	Actual	2.4	23.5	235.3	1,176.5	2,666.0	4,929.9
2013-14	Modelled Scenario	2.9	28.8	288.5	1,442.4	3,116.6	6,218.9

Table 12: Levy amounts on foreign ADI branches ($'000)

Asset base		$500m	$5b	$25b	$50b
2011-12	Actual	12.8	127.5	637.7	1,136.3
2012-13	Actual	13.2	131.8	659.0	1,318.0
2013-14	Modelled Scenario	16.4	163.6	818.2	1,558.3

Table 13: Levy amounts on life insurers/friendly societies ($'000)

Asset base		3m	50m	500m	3b	10b	50b
2011-12	Actual	0.5	4.2	41.9	251.5	838.5	2,042.4
2012-13	Actual	0.5	4.4	43.7	262.4	874.6	2,031.1
2013-14	Modelled Scenario	0.5	4.7	47.1	282.7	942.4	2,101.7

Table 14: Levy amounts on general insurers ($'000)

Asset base		$5m	$25m	$250m	$750m	$3b	$9b
2011-12	Actual	5.1	6.7	60.2	180.6	722.2	1,592.4
2012-13	Actual	5.3	6.7	50.9	152.7	610.7	1,534.5
2013-14	Modelled Scenario	5.2	6.6	55.1	165.3	661.1	1,692.5

Table 15: Levy amounts on superannuation funds (excluding SAFs) ($'000)

Asset base		$1m	$3m	$50m	$250m	$5b	$20b	$50b
2011-12	Actual	0.6	0.6	7.1	35.4	336.7	566.8	1,026.9
2012-13	Actual	0.7	0.9	15.4	77.2	1,543.7	3,306.9	5,267.3
2013-14	Modelled Scenario	0.6	0.7	11.5	57.7	1,154.8	2,708.7	4,092.9

ATTACHMENT A

Impact of the SuperStream levy for 2013-14

SuperStream is a package of reforms that will move Australia's $1.5 trillion superannuation industry from largely paper-based processing of contributions and rollovers to mandatory electronic transactions and introduce standardised simplified administrative processes for routine functions. These reforms will ultimately yield significant reductions in costs across the industry and make the system easier to use.

Analysis undertaken by the superannuation industry suggests that savings of $1 billion per year will be achieved in efficiency gains across the industry. Commonwealth funding of the SuperStream measures will be $99.5 million in 2013-14 and $428.9 million across the period 2011-12 to 2017-18.

Commonwealth costs associated with the implementation of the SuperStream measures are paid for by a SuperStream levy imposed on APRA-regulated funds that is collected within the existing superannuation supervisory levy.

Table 1 provides an overview of the total amount of Commonwealth funding that will be directed to the ATO, Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (DIISRTE) and Treasury for the purpose of implementing the SuperStream measures and the total amount of SuperStream levy that is to be collected over the period 2012-13 to 2017-18.

Table 1: Total amount of SuperStream funding and SuperStream levy collection 2011-12 to 2017-18 ($ million)

	2011-12 ($m)	2012-13 ($m)	2013-14 ($m)	2014-15 ($m)	2015-16 ($m)	2016-17 ($m)	2017-18 ($m)
SuperStream funding (Total expenses)	(31.4)	(90.0)	(99.5)	(74.7)	(62.1)	(35.7)	(35.5)
SuperStream levy collection (Total revenue)	0.0	121.5	99.5	74.7	62.1	35.7	35.5
Net Impact	(31.4)	31.4	0.0	0.0	0.0	0.0	0.0

Table 2 provides a break-down of high-level SuperStream deliverables across the seven years of the program. IT and non-IT costs are separately identified for each deliverable.

Table 2: SuperStream high-level deliverables 2011-12 to 2017-18 ($'000)

	IT Costs ($'000s)	Non-IT costs ($'000)	Total ($'000)
Data and e-commerce standard, enabling services and on-boarding	$260,955	$18,871	$279,826
SuperSeeker, account consolidation and data matching	$50,195	$112,530	$162,725
Program management and governance	$0	$7,738	$7,738
Communications and research	$0	$16,820	$16,820
Administrative savings	$0	($38,200)	($38,200)
Total	$311,150	$117,759	$428,909

The activities funded by the SuperStream levy include:

- data and e-commerce support facilities;
- development and inclusion of superannuation terms in the Standard Business Reporting (SBR) taxonomy, since SBR will be used as the platform for elements of SuperStream transactions;
- enhanced matching of member information to accounts by the ATO to aid account consolidation;
- provision of an interactive online portal by the ATO for members to view their superannuation accounts, including active accounts;
- enhancement of systems by the ATO to facilitate re-report of superannuation accounts by funds;
- provision of a TFN validation service by the ATO for funds and employers; and
- extension of the VANguard authentication service to support the use of the AUSkey functionality — this provides for user authentication when accessing online services or making online transactions.

The majority of these functions will be carried out by the ATO. The other activities, and the levy allocations, are attributable to the following agencies:

- $1.9 million of the 2013-14 levy will be provided to DIISRTE. This relates to the cost of extending the VANguard authentication service to support the use of the AUSkey functionality in business-to-business transactions. VANguard, together with AUSkey, is the government's preferred authentication solution for secure business-to-government and government-to-government transactions. Further information on VANguard is available at http://www.vanguard.gov.au; and
- $0.1 million of the 2013-14 levy will be provided to Treasury. The funding will be used for annual evaluations of the SuperStream initiative.