22 June 2017

Manager
Banking, Insurance and Capital Markets Unit
Financial System Division
The Treasury
Langton Crescent
PARKES ACT 2600

By email: supervisorylevies@treasury.gov.au

Dear Sir/Madam

Proposed Financial Institutions Supervisory Levies 2017-18

The Australian Financial Markets Association (AFMA) welcomes the opportunity to make this submission commenting on the Proposed Financial Institutions Supervisory Levies 2017-18.

The proposed levies reduce the maximum and the restricted levy rate applied to foreign ADIs (that is, foreign bank branches) from one-half of that for domestic ADIs to one-third.

The stated purpose of this change in calculation parameters is to 'better reflect the risk profile of these institutions.' This approach is consistent with the position advocated by AFMA that the supervisory levies should reflect bank risks and the cost of regulation by APRA. The reduction is supported by the affected AFMA member firms.

At the same time, AFMA notes the increased funding made available to APRA to administer new powers in relation to the provision of credit by non-ADI lenders, which is partially offset by an increase in the Financial Institutions Supervisory Levies of $1.9 million over the three years to 2018-19. This measure gives rise to an increased levy burden on ADIs, whereas it is the activities non-ADIs that have given rise to the need for extra powers to mitigate systemic risks.

As AFMA has noted in previous consultations in relation to cost recovery mechanisms, it is desirable from an equity standpoint that the burden of increased cost recovery levies falls mainly on those who are the subject of the increased regulation (in this case, non-

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ADI lenders) rather than already well-regulated institutions that just happen to be part of the existing levy base. This would be consistent with the Government's current policy position that those who create the need for regulation should bear the cost of that regulation. In this instance, if the additional cost cannot be imposed on those entities, it would be preferable if the increased funding were met from general revenue rather than cost recovered through the supervisory levies.

Yours sincerely

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Economist