CUSTOMER OWNED BANKING ASSOCIATION
www.customerownedbanking.asn.au
LEVEL 11, 35 CLARENCE STREET, SYDNEY NSW 2000 GPO BOX 4686, SYDNEY NSW 2001

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

via email: supervisorylevies@treasury.gov.au

Dear Manager

Proposed Financial Institutions Supervisory Levies for 2017-18

COBA welcomes the opportunity to comment on Treasury's Proposed Financial Institutions Supervisory Levies (FISL) for 2017-18.

COBA is the industry association for Australia's customer owned banking institutions, i.e. mutual banks, credit unions and building societies. Collectively, the sector we represent has $106 billion in assets and provides the full range of retail banking products to more than 4 million customers.

The customer owned model is the proven alternative to the listed model in the Australian banking market, delivering competition, choice, and consistently market leading levels of customer satisfaction.

Treasury's proposed 2017-18 levies see a $6.6 million increase in levies collected from ADIs in order to cover new measures announced in the 2017-18 budget and the previously announced ASIC 'improving outcomes in financial services' package.

To raise this additional funding, the discussion paper proposes that the:

- restricted rate remain approximately the same
- unrestricted rate increases to 0.001092 per cent of total assets from 0.001012 per cent of total assets
- minimum restricted levy increases to $10,000 from $6,000 in 2016-17
- maximum restricted levy increases to $3.0 million from $2.45 million in 2016-17

In order to promote greater discussion of the proposed levies, COBA recommends that APRA and Treasury consider aligning the release of the FISL discussion paper with the release of the APRA cost recovery impact statement (CRIS). At present, the CRIS appears to be released after the consultation period closes.

Through the CRIS process, COBA also requests greater transparency about proposed increases, as well as future increases, to the minimum restricted levy. The proposed minimum levy change will increase levies for the smallest ADIs by up to 70 per cent on top of last year's change which doubled the minimum levy.

While these increases seek to better align levies with supervision costs, affected entities desire certainty about the end point of this phase of levy increases.

COBA expects that the proposed levy changes will increase levies for COBA members above the minimum levy threshold by around 1 percent, while levies for the largest banks subject to the maximum levy by more than 10 per cent. This is consistent with the principle that larger and more complex institutions that require more intense supervision and pose greater systemic risk should bear the increased costs of this supervision.

Supporting the increase to maximum restricted levies

COBA supports Treasury's proposal to increase the maximum restricted levy to $3.0 million from $2.45 million in 2016-17. This increase represents the first material increase to the maximum levy since 2011-12.

COBA notes that the *ADI Supervisory Levy Imposition Act 1998* allows the Treasurer to increase the maximum levy in line with an indexation factor. COBA suggests that Treasury continue to increase the maximum levy through this mechanism to ensure that major banks pay a fairer share.

The rationale for increasing the maximum levy in the Treasurer's Budget press release: "in line with the Government's commitment that the cost of regulation is borne by those entities that create the need for it." In this regard, we note that it is largely the behaviour of major banks that has prompted the ASIC package and banking executive accountability regime.

Similarly, the Treasurer's second reading speech on the *Major Bank Levy Bill* noted that major banks "contribute to systemic risk through their scale and concentration to the financial system – risks that ultimately fall on the broader Australian community". This systemic risk leads to greater supervisory intensity which should be reflected in higher supervisory levies.

More transparency about increases to minimum restricted levies

The discussion paper proposes to increase the minimum levy to $10,000 from $6,000 in 2016-17. It justifies this increase by noting that this "brings the minimums for both ADIs and insurance entities into line and closer to the CRGs where the full cost of regulating institutions should be reflected"[1].

This increase was flagged in APRA's 2016-17 CRIS which notes that "APRA will continue to propose closer alignment of the cost of supervision with the actual cost incurred and therefore further increases to levy minimums are likely in future years."[2]

There have now been three consecutive years where there has been an increase to minimum restricted levies. This process first began with the 2015-16 CRIS identifying 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"[3]. COBA seeks more information on this 'multi-year process' and when Treasury/APRA expects these increases to end.

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[1] See page 21 of discussion paper
[2] See page 12 of 2016-17 CRIS
[3] See APRA Cost Recovery Impact Statement 2015-16 page 12

Aligning the CRIS and levy consultation processes

COBA notes that the paper states that the CRIS providing further transparency around levy changes, and potentially the 'multi-year process', will be released in June 2017:

> "An updated Cost Recovery Implementation Statement will be released by APRA by 30 June 2017, which will provide further transparency around the cost of APRA's activities and the corresponding impact on the levies."

At the time of this submission, the 2017-18 CRIS has not been released.

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

In addition, COBA seeks more industry level detail in the CRIS. For example, the graph on page 12 of the 2016-17 CRIS outlines cross-subsidisation across all of APRA's regulated industries. COBA believes that this information should be provided at the ADI industry level in order to help explain the proposed minimum levy increases.

Realising efficiencies in regulation

COBA recognises that APRA is looking to reduce regulatory burden on smaller ADIs through a "graduated framework for smaller ADIs with very simple business models".

COBA supports this process. COBA understands that this process primarily seeks to reduce the regulatory burden on the ADI-side but also has the potential to reduce regulation costs from APRA's perspective. If these changes do reduce APRA's minimum costs of regulation, COBA seeks assurances that minimum levies in future years will reflect this decrease.

Thank you for the opportunity to respond to this discussion paper.

Please contact Mark Nguyen at mnguyen@coba.asn.au or 02 8035 8443 if you wish to discuss any aspect of this submission.

Yours sincerely

LUKE LAWLER
Head of Public Affairs