Commercial in Confidence

Level 1, 165 Bouverie Street
Carlton VIC 3053
PO Box 666 Carlton South VIC 3053

Tel: 1300 360 988
Fax: 1300 362 899
Email: mail@firstsuper.com.au
firstsuper.com.au

First Super Pty Ltd ABN 42 053 498 472
Trustee of First Super ABN 56 286 625 181
AFS Licence # 223 988

10 June 2024

A/g Director
Regulator Engagement and Powers Unit
The Treasury
Langton Crescent
PARKES ACT 2600

Via email: supervisorylevies@treasury.gov.au

Dear A/g Director,

Re: Proposed Financial Institutions Supervisory Levies for 2024-25

First Super wishes to make a submission in relation to APRA's proposed restricted supervisory levy for the superannuation industry.

First Super is an industry superannuation fund drawing its membership from the forestry, wood processing, furniture and cabinet manufacturing sectors and rural and regional Australia.

First Super submits that over this and last financial year funds with less than $20b in assets have borne an unreasonable and unjustifiable burden from the substantial increase in the restricted levy.

Further, if the proposed levy for 2024/25 is approved, this situation will continue, which we submit should not be permitted. There is a fairer alternative to this which is discussed below.

We note that (a) the restricted levy is capped at $800,000, (b) there is a mechanism to increase it by applying legislated indexation factor and (c) that this mechanism has not been used.

The consequence of the continuing failure to increase the maximum restricted levy (MRL) is that more funds have paid the MRL and in future, additional funds will also pay the MRL. It is not beyond the realms of probability that, in the absence of indexation, all funds will pay the MRL.

For financial year 21/22, the MRL was reached when funds undermanagement was $20.5b. In FY 22/23 it was $17.5b. For this financial year it was on $9.5b. This, in our

submission, is unreasonable and contrary to the cost recovery guidelines and at odds with the increased supervisory efforts for large funds relative to smaller less complex funds

We note that in this year's Cost Recovery Implementation Statement (CRIS) that it is stated that APRA's focus on system-wide risks that are becoming greater due to the increasing size of the superannuation sector. It is also noted that these risks are being amplified by trustees internalising their investment functions.

Additionally, APRA's risk assessment of the industry includes tiering funds according to their capacity to impact the broader community, the level of tiering determining the level of routine supervision required. Treasury has further identified the importance of managing system wide risks. Together, these highlight that larger funds drive additional supervision effort making them far more costly to regulate.

This will continue to be the case and is likely to become exacerbated by future increased growth.

If the proposed restricted levy is approved a fund with approximately $7b in assets will pay the same amount as $335b fund. It cannot be that the supervisory effort is the same for the former fund as the latter, which is nearly 48 times larger in funds under management. This is supported by the current model's linear application of restricted fees below the MRL and unrestricted fees in which the first billion dollars is charged at the same rate of supervision as the one-hundredth billion. It is plausible that a fund 100 times larger in AUM would be more than 100 times more expensive to supervise because of the exponential rather than linear increase in risk.

The CRIS demonstrates the rapid increase in fees from FY2022-23 to FY2022-24 for smaller funds. The change for fees levied against funds with an asset base of $250m and $1b have increased 52.6% while funds with $20b and $100b have increased 2.6% and 4.7% respectively. This is more pronounced when considering just the restricted levy which for $1b funds has increased 183% with no change for funds at the MRL. This demonstrates that smaller funds are having their fees rapidly increase to offset the damaging impact of the MRL's current setting.

What is causing this unfair outcome is that the MRL for the superannuation sector has not been indexed, at all. The superannuation sector is different from the other supervised sectors as it has experienced considerable growth in size and complexity as the system matures. Whereas other supervised sectors have not experienced similar levels of growth.

If indexation had been applied from FY 21/22 onward the MRL for this financial year would have been $849,818[1]. This would have reduced the burden on smaller funds and been a fairer outcome. This would be a fairer outcome, but not an equitable one. Further consideration should be given to APRA's linear modelling of the costs of supervision in which $1bn at a small fund is seen as the same cost as the one-hundred billionth at a large fund.

In our submission, the appropriate course of action for the Treasurer when he or his delegate is considering approving an instrument to increase supervisory levies for the superannuation sector is to:

(a) index the MRL by the relevant annual CPI amount;
(b) require APRA to recalculate the restricted levy percentage given the increase in levy recovery from those funds that would have otherwise paid the $800,000 MRL; and
(c) approve the recalculated restricted levy percentage.

In our submission the Treasurer should also require APRA when calculating the restricted levy percentage for future financial years do it on the basis of that the MRL will continue to be indexed for the superannuation sector.

If we can provide any additional information in relation to our submission or to clarify matters please do not hesitate to contact me on bill.watson@firstsuper.com.au .

Yours sincerely

Bill Watson
CEO

[1] All groups CPI, Australia, quarterly and annual movement (%) https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/mar-quarter-2024 Date of access 7 June 2024.