

# SUBMISSION

Submission to Treasury —  
Discussion Paper:  
*Proposed Financial  
Institutions Supervisory  
Levies for 2021-22*

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15 June 2021

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Via email: [supervisorylevies@treasury.gov.au](mailto:supervisorylevies@treasury.gov.au)

15 June 2021

Dear Mr Milnes

**Discussion Paper: *Proposed Financial Institutions Supervisory Levies for 2021-22***

The Association of Superannuation Funds of Australia (ASFA) is pleased to provide this submission in response to the Discussion Paper: *Proposed Financial Institutions Supervisory Levies for 2021-22*.

**About ASFA**

ASFA is a non-profit, non-political national organisation whose mission is to continuously improve the superannuation system, so all Australians can enjoy a comfortable and dignified retirement. We focus on the issues that affect the entire Australian superannuation system and its \$3.1 trillion in retirement savings. Our membership is across all parts of the industry, including corporate, public sector, industry and retail superannuation funds, and associated service providers, representing almost 90 per cent of the 16 million Australians with superannuation.

If you have any queries or comments in relation to the content of our submission, please contact Andrew Craston, Director – Economics, on (02) 8079 0817 or by email [acraston@superannuation.asn.au](mailto:acraston@superannuation.asn.au).

Yours sincerely

Glen McCrea  
Deputy Chief Executive Officer and Chief Policy Officer

## Executive summary

ASFA supports the adequate and appropriate funding of APRA, ASIC and other regulators for the superannuation industry. Further, ASFA considers that all regulated entities should contribute to that funding. That outcome is, in ASFA's view, far more equitable and appropriate than funding regulators solely from consolidated revenue.

That said, where industry does contribute to regulators' funding, it is incumbent upon those regulators to provide genuine transparency and accountability regarding the manner in which they determine their funding requirements and utilise their funding. Genuine transparency and accountability provides industry with greater insight into regulators' activities, and builds confidence within industry that regulators are functioning well.

With respect to the Financial Institutions Supervisory Levies (FISLs), ASFA considers that the Treasury paper for the proposed FISLs for 2021-22 (the FISLs Paper) does not provide sufficient detail for industry to adequately understand how the 2021-22 levies are determined and how they are allocated between, and utilised by, the relevant agencies. ASFA has expressed similar concerns in submissions to consultation processes for prior years' FISL determinations.

With respect to APRA, the FISLs Paper proposes a substantial increase in the levy component for the recovery of APRA's costs, from \$44.8 million for 2020-21 to \$57.8 million for 2021-22. While a portion of the increase relates to the 2021-22 Budget measure *Stronger Consumer Outcomes for Members of Superannuation* (\$1.9 million in 2021-22), the Paper does not provide sufficient detail regarding the drivers of the remainder of the increase.

For the ATO, the FISLs Paper proposes an amount similar to the previous two years, however the composition of the ATO component has changed markedly. The combined cost of the Superannuation Lost Member Register and the Unclaimed Superannuation Money frameworks has declined, while the cost of the early Compassionate Release of Super programme has increased. The Paper does not provide sufficient detail regarding the drivers of these changes.

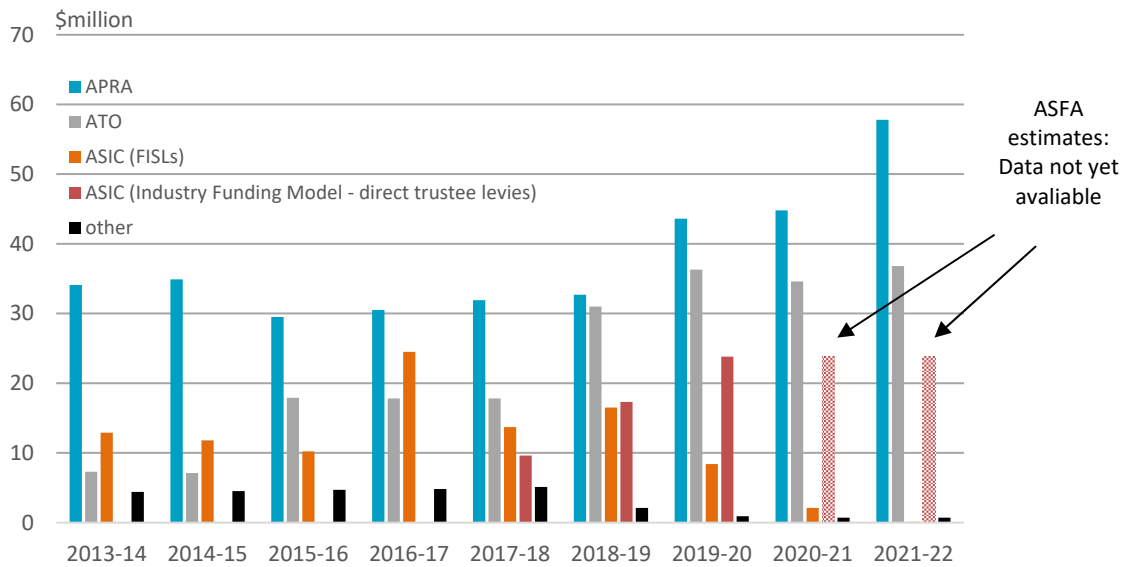
The superannuation industry is currently facing increased scrutiny, including as a result of the Government's *Your Future, Your Super* reforms. In particular, the proposed performance benchmarking of MySuper products (as part of the *Your Future, Your Super* package), will incorporate administration fees. Any increase in FISLs, or other similar industry levies, will ultimately be borne by members – as higher fees (or indirect costs) than otherwise would be the case. As such, ASFA considers it appropriate that a high level of scrutiny should apply with respect to the costs recovered from industry via the FISLs.

## Detailed comments on levy components for the superannuation sector

The FISLs Paper proposes an aggregate levy requirement for each relevant agency with respect to their regulation of the superannuation sector. However, generally speaking, there is little detail on how the levy amounts for each agency relate to their regulatory activities – as has been the case in prior years' FISLs determinations.

With respect to the superannuation sector, the total estimated FISLs for 2021-22 are \$95.5 million. This represents a 16 per cent increase on 2020-21. The superannuation sector FISLs for 2021-22 largely relate to the estimated (recovered) cost of regulatory activities of APRA and the ATO (Chart 1). Minor components of the FISLs relate to ASIC, the Gateway Network Governance Body and Treasury (the latter two components are in the *other* component in Chart 1).

**Chart 1: Superannuation sector levies: FISLs and ASIC Industry Funding Model**



Source: APRA, Treasury and ASFA calculations

With respect to ASIC, the recovery of costs from the regulation of the superannuation sector has shifted gradually over time from FISLs to levies paid under the ASIC Industry Funding Model (IFM). For 2021-22 the estimated FISL component for ASIC totals \$0.1 million. This is in relation to the wind-up of the Superannuation Complaints Tribunal.

Separately, ASIC has yet to publish its levy estimates (under the ASIC IFM) for 2021-22. For 2019-20, ASIC’s IFM levies associated with the direct regulation of superannuation trustees totalled \$23.8 million. Additional IFM levies on superannuation funds included those related to the provision of advice, and the provision of life insurance products. Overall, it is estimated that total IFM levies on superannuation trustees for 2019-20 were in the order of \$30 million.

There were no major announcements in either the 2020-21 or 2021-22 Budgets for ASIC’s regulatory activities in respect of the superannuation sector. However, factoring in cost inflation, total ASIC levies via the ASIC IFM may be higher than \$30 million for 2021-22.

Thus, for superannuation funds, the combination of FISLs and ASIC levies (under its IFM) are likely to be in the order of \$130 million for 2021-22. This would represent an increase of around 120 per cent on the combined levies for 2013-14.<sup>1</sup>

For superannuation funds, levies are typically funded through administration fees charged to members’ accounts. For the APRA-regulated superannuation industry, the latest annual data show that total administration fees were around \$3.5 billion for 2019-20, or around 0.2 per cent of total assets (as at June 2019).<sup>2</sup> Based on this figure, the total levy amount payable by industry in 2021-22 would represent around 4 per cent of total administration fees.

An estimated impact on MySuper members can be calculated (assuming that the cost of levies for funds are distributed on a pro-rata basis, according to assets, across superannuation fund members). For all MySuper

<sup>1</sup> Does not include levies for Super Stream.

<sup>2</sup> As at end of June 2019, total assets of the APRA-regulated sector were \$1.923 trillion. As at March 2021, total assets of the APRA-regulated sector were \$2.132 trillion.

products, the average administration fee (weighted by total assets) is around \$150 per annum for a representative member (with a balance of \$50,000).<sup>3</sup> For the representative member, the amount payable with respect to the combined levies is around \$6. Given that combined levies have increased by around 120 per cent since 2013-14, the equivalent amount payable for a representative member would have been just under \$3 (in today's dollars) in 2013-14.

The superannuation industry is currently facing increased scrutiny, including as a result of the Government's *Your Future, Your Super* reforms. In particular, the proposed performance benchmarking of MySuper products (as part of the *Your Future, Your Super* package), will incorporate administration fees charged to member accounts. Any increase in FISLs, or other similar industry levies, will ultimately be borne by members – as higher fees (or indirect costs) than would otherwise be the case. Therefore, ASFA considers it appropriate that a high level of scrutiny should apply with respect to the costs recovered from industry via the FISLs.

### APRA levy component

The FISLs Paper does not provide sufficient detail on the particular regulatory costs that the proposed APRA component will recover.

The proposed APRA component for the superannuation sector totals \$57.8 million, up from \$44.8 million for 2020-21. This is an increase of \$13.0 million, or 29 per cent. Compared to 2018-19, the APRA component for the superannuation sector is now \$25.1 million (or 77 per cent) higher.

The proposed increase for 2021-22 reflects, in part, the impact of the 2021-22 Budget measure *Stronger Consumer Outcomes for Members of Superannuation*, which provides APRA with \$1.9 million in 2021-22 (as well as ongoing annual funding), “to supervise and enforce increased transparency and accountability measures as part of the Government's *Your Future, Your Super* reforms”.<sup>4</sup> The Budget measure includes an increase in the FISLs to recover fully APRA's costs. This measure accounts for a small portion of the overall increase in the APRA component.

There is not sufficient information in the FISLs Paper for industry to determine whether the additional increase in funding for 2021-22 (that is, \$11.1 million) is justified (in whole or in part), or whether it would be more appropriate for APRA to reprioritise other activities.

The FISLs Paper notes that recoverable costs (for APRA), will include assessment of superannuation product performance, and resolution of persistently underperforming funds and products. These activities may relate to the Government's proposed *Your Future, Your Super* reforms – that include an annual benchmarking of the performance of MySuper products. However, there is no information in this regard.

More broadly, the FISLs Paper does not provide sufficient detail regarding the overall regulatory costs the APRA component levies will recover – as has been the case in prior years' FISLs determinations. With respect to the superannuation sector, the FISLs Paper states that APRA's supervisory activities “will continue to focus on improving outcomes for superannuation members, including thematic deep dives on drivers of member outcomes and areas of heightened risk”.

ASFA considers that future years' FISLs Discussion Papers should provide a more detailed disaggregation of APRA's regulatory activities in respect of the superannuation sector, and the corresponding levy amounts.

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<sup>3</sup> Based on *APRA MySuper Product Heatmap*.

<sup>4</sup> The Commonwealth of Australia, *Budget 2021-22: Budget Paper 2*, p. 192.

## ATO levy component

As has been the case in previous years, the FISLs Paper proposes full recovery of costs related to the Superannuation Lost Member Register (LMR), and the Unclaimed Superannuation Money (USM) frameworks, as well as the early Compassionate Release of Super (CRS) programme. In 2021-22, \$16.0 million will be recovered for the ATO to support its activities in relation to the LMR and USM frameworks, and for the upkeep and enhancement of the required administrative systems.

ASFA supports enhanced ATO strategies and processes to reunite individuals with lost and unclaimed superannuation. However, ASFA considers that industry should be provided with more detailed information to help industry understand the nature of the expenditure. Comparing previous year's FISLs, the ATO's stated costs in respect of the LMR and USM frameworks appear to have declined over recent years – from \$25.7 million in 2018-19 to \$16.0 million in 2021-22. It is likely that this relates to the falling number of lost and unclaimed superannuation accounts over time – however details in this regard are not provided.

Regardless of the drivers of the decrease in funding, ASFA considers the ATO should assess the effectiveness of its programmes to reunite individuals with lost and unclaimed superannuation when the required data is available, and publish that assessment. In addition, the ATO should make available data on the inward and outward flows of lost/unclaimed monies (in addition to data on the stock of lost/unclaimed monies that the ATO publishes currently). The ATO should also provide data on a biannual basis, rather than annual (as is the case currently).

With respect to the CRS programme, the ATO assumed responsibility for administering the programme during 2018. The cost of administering the CRS programme has increased markedly over recent years. The FISLs Paper states that the estimated cost of administering the CRS programme is \$20.7 million in 2021-22. For previous years, the (recoverable) cost of the programme was \$5.3 million in 2018-19, \$12.9 million in 2019-20 and \$15.3 million in 2020-21.

The FISLs Paper does not provide any information on the drivers of the increase in costs – which likely reflects an increase in the number of CRS applications. The FISLs Paper states that the cost of administering the *COVID-19 Early Release of Super* measure is not included in levy amounts.

ASFA considers that industry should be provided with more detailed information to help industry understand the nature of the ATO's expenditure.

## Transparency around minimum and maximum levies for the FISLs needs to improve

Future years' FISLs Papers should provide more detailed explanations for changes in the minimum and maximum levy amounts for the restricted component of the FISLs.

ASFA understands that ongoing adjustments to the minimum and maximum levy amounts (for the restricted component) may be required, from time to time, to try to limit cross-subsidisation. The FISLs Paper references APRA analysis which indicates that current minimum amounts are generally too low, but that maximum amounts are slightly higher than required. The minimum and maximum amounts have been adjusted accordingly.

Treasury has previously acknowledged industry's concerns that the annual consultation papers provide little explanation for the setting of minimum and maximum amounts, and indicated that APRA would, via its annual Cost Recovery Implementation Statement (CRIS), provide more transparency regarding the calculation of the minimum and maximum amounts. As has been the case in previous years, an updated CRIS was not released with the FISLs Discussion Paper to inform industry's consideration of the proposed levies.