SUBMISSION

PROPOSED FINANCIAL INDUSTRY LEVIES FOR 2012-13

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The Association of Superannuation Funds of Australia Limited – ABN 29 002 786 290
ASFA Secretariat
PO Box 1485, Sydney NSW 2001
T 02 9264 9300 (1800 812 798 outside Sydney)
F 1300 926 484
W www.superannuation.asn.au

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About ASFA

ASFA is a non-profit, politically non-aligned national organisation whose mission is to protect, promote and advance the interests of Australia's superannuation funds, their trustees and their members. We focus on the issues that affect the entire superannuation industry. Our membership, which includes corporate, public sector, industry and retail superannuation funds, plus self-managed superannuation funds and small APRA funds through its service provider membership, represent over 90% of the 12 million Australians with superannuation.

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Executive Summary

ASFA's position on the proposed Financial Industry Levies for 2012-13, and other reforms, is determined by ASFA's Policy Principles, these are:

1. Working to enhance retirement outcomes for all Australians;
2. Superannuation members should be informed and engaged;
3. The Government and industry should work towards and for industry efficiency gains; and
4. Governance and the regulation of super funds should be effective and transparent.

We use the following policy screens to further develop our position, these screens include:

1. Equity across the system;
2. The benefits of implementation outweigh the costs;
3. The system is simplified rather than complicated;
4. Ethical behaviour is addressed;
5. A level playing field is achieved;
6. The outcome is an open, fair, transparent and competitive market; and
7. The best long term interests of the majority of fund members are protected and improved

In relation to the proposed Financial Industry Levies for 2012-13, ASFA recommends that,

1. Further detail should be provided about the calculation and breakdown of the supervisory levies (including the APRA, ASIC, ATO and DHS components);
2. A comprehensive audit of each component of the levy should be undertaken by the relevant Government Agency;
3. Scenario 3 provides the most equitable outcome for the majority of super members who pay the levy directly from their super benefit;
4. That the supervisory levy calculation method should be reviewed to take into account the size of a super fund's member base;
5. The levy calculations be reviewed for Pooled Superannuation Trusts;
6. Further detail is provided on the calculation of the SuperStream levy and that SMSF's should also pay part of this levy;
7. That the SuperStream levy does not relate to regulatory supervisory activity and as such should not be determined by the current supervisory calculation. Legislative amendments should be made to allow this to happen; and
8. A SuperStream Governance body should be formed to oversee the implementation, development and review of the SuperStream reforms. This body should have strong industry representation and delegated regulation making powers.

1. General comments

The Association of Superannuation Funds of Australia (ASFA) would like to provide this submission with respect to the Proposed Financial Industry Levies for 2012-13 (the Consultation Paper).

ASFA does not oppose the recovery through the supervisory levy of expenses incurred by APRA, ASIC, the ATO and DHS, which are relevant to the supervision of super funds. ASFA recognises the important role our regulators and other Government agencies play in supervising and governing Australia's superannuation industry.

It is important that the Government agencies that regulate our super funds are well resourced to conduct their usual supervisory activities as well as implementing the Stronger Super reform agenda.

That being said, levies imposed on APRA regulated funds in recent times have been increasing. ASFA recommends that transparency is provided to the industry about how the levies are arrived at and calculated.

ASFA also notes that under a recommendation in the Australian National Audit Office's 2011 report, *The Administration of the Lost Members Register*, the ATO undertook a comprehensive audit of the LMR function resulting in a decrease of estimated expenditure for 2012-13 of $0.1million (or 1.4%) over the 2011-12 levy.

ASFA recommends that a similar comprehensive audit be undertaken on all components of the proposed levies.

2. APRA, ASIC, ATO and DHS components of the levy

ASFA notes that in 2012-13 there is an increase in APRA's levy of $7.2 million compared to the APRA component of the 2011-12 levy. This does not include the DHS levy of $4.2 million, which would have been part of APRA's 2011-12 levy.

We note that the ASIC superannuation component of the levy, which includes the Superannuation Complaints Tribunal (SCT) is $12.1 million, which is an increase of $1.3 million. This component also includes a $3.7 million levy for ASIC to continue its work relating to its Stronger Super implementation.

As with previous year's Consultation Papers, there is no detail provided about the breakdown of the components of the levy. ASFA recommends that the superannuation industry is provided further detail about the calculation and breakdown of the various levies paid by super funds to Government agencies other than APRA.

Levy amounts should only relate to direct and indirect costs associated with the supervision of APRA regulated funds.

2. The levy parameters for 2012-13

In the Consultation Paper, Scenario 2 is the recommended approach however, Scenario 2 disadvantages smaller to medium funds. That being said, the increase in the maximum restricted rate in scenario 2 and 3 is substantial for larger funds with Scenario 2 providing the better outcome for larger funds.

ASFA recommends that Scenario 3 provides the most equitable outcome for the majority of super members who will pay for the levy directly out of their benefit.

ASFA also recommends that the formula to calculate the amount payable by superannuation funds should be considered from an equity perspective. We believe that it is timely for the calculation method to be reviewed to take super fund's member base into account.

A number of our members have also raised concerns about using funds under management (FUM) to calculate the levy, where Pooled Superannuation Trusts (PSTs) pay effectively a double levy.

3. SuperStream levy

ASFA is supportive of the SuperStream reforms and supports its phased introduction for super funds and employers. ASFA agrees that there will be significant saving for super fund members, employers, super funds and Government, if SuperStream is properly designed, implemented and governed. We recognise the need to fund the SuperStream initiatives.

As stated on page 1 of the Discussion Paper,

> '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.'[1]

ASFA submits that the beneficiaries of the SuperStream initiatives are not a narrow and not necessarily an identifiable group. In the future, reforms that are transactional in nature and that benefit a broad group should be funded by consolidated revenue. One group that is identifiable and will be a beneficiary of the SuperStream reforms is the Self Managed Super Fund sector. ASFA strongly believes that the SMSF sector should also be subject to the SuperStream levy. We do note that SMSF's levy will increase as part of their supervisory levy however, ASFA believes that this is not adequate and does not create a level playing field.

Whilst we note that further details were published about the allocation of the SuperStream initiative within the Consultation Paper at page 17, ASFA urges that further detail as to the calculation of the amount to be paid and its allocation must be provided to the super funds paying the levy.

If super funds are paying the levy then the industry must have control over the incurrence of expenditure.

We also consider that the recovery of SuperStream costs should be spread over a longer period than 7 years. The SuperStream measure commence in 2013/2014 possibly the levy should be spread over a period of 9 years.

ASFA's members have provided analysis that the cost per member is far greater than $4 referred to on page 6 of the Discussion Paper. One member quotes a figure of $33 for scenario 2 and $12 for scenario 3. Another member quotes a per member cost of $30 for Scenario 2.

[1] The Treasury, Australian Prudential Regulation Authority, Proposed Financial Industry Levies for 2012- 13, Page 1

Further, ASFA recommends that the levy should not be determined by the current supervisory levy calculation. The SuperStream levy should be calculated on a per member basis. This is then more in line with statement on page 6 of the Consultation Paper that the SuperStream levy will cost members $4. Legislative amendments should urgently be made to allow this to occur. ASFA is currently working on these draft amendments and will forward them once complete.

ASFA would also like to take this opportunity to restate its position that:

1. The ATO as the principle expender of monies is required to table a detailed costs breakdown of the two major policy objectives (namely consolidation and standardisation;
2. Regular transparent reporting to a Governance body with delegated regulation making powers;
3. The ATO and superannuation industry look for areas where the expenditure and development already planned or in place by the industry reduces or negates the need for ATO expenditure; and
4. The levy is paid in annual instalments by superannuation funds in line with the ATO's requirements.

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If you have any queries or comments regarding the contents of our submission, please contact me on 02 8079 0858 or via email on mstewart@superannuation.asn.au.

Yours sincerely

Margaret Stewart

General Manager, Policy and Industry Practice