SUBMISSION

Submission to Treasury — Proposed Financial Institutions Supervisory Levies for 2025-26

2 May 2025

The Association of Superannuation Funds of Australia Limited
Level 11, 77 Castlereagh Street
Sydney NSW 2000

PO Box 1485
Sydney NSW 2001

T +61 2 9264 9300
1800 812 798 (outside Sydney)
F 1300 926 484
W www.superannuation.asn.au

ABN 29 002 786 290 CAN 002 786 290

File: 2025/17

A/g Director

Regulator Engagement and Powers Unit

The Treasury

Langton Crescent

PARKES ACT 2600

Via email: Supervisorylevies@treasury.gov.au

2 May 2025

Dear Sir/Madam

Proposed Financial Institutions Supervisory Levies for 2025-26

The Association of Superannuation Funds of Australia (ASFA) is pleased to provide this submission in response to Treasury's consultation on the Proposed Financial Institutions Supervisory Levies for 2025-26.

About ASFA

ASFA, the voice of super, has been operating since 1962 and is the peak policy, research and advocacy body for Australia's superannuation industry. ASFA represents the APRA regulated superannuation industry with over 100 organisations as members from corporate, industry, retail and public sector funds, and service providers. We develop policy positions through collaboration with our diverse membership base and use our deep technical expertise and research capabilities to assist in advancing outcomes for Australians.

We unite the superannuation community, supporting our members with research, advocacy, education and collaboration to help Australians enjoy a dignified retirement. We promote effective practice and advocate for efficiency, sustainability and trust in our world-class retirement income system.

*****

If you have any queries or comments in relation to the content of our submission, please contact Andrew Craston on 0401 016 587 or by email: acraston@superannuation.asn.au.

Yours sincerely

James Koval

Chief Policy and Advocacy Officer

General comments

ASFA supports the adequate and appropriate funding of APRA 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, this does not necessarily imply that it is equitable or appropriate for regulators to be funded only from industry levies.

A recent Productivity Commission paper[1] highlights the potentially distortive impact of industry levies (which have proliferated across a range of Australian industries over last three decades) on efficiency and productivity, and thus the need for the careful, considered design of regulator funding mechanisms.

The Commission finds that there is a role for industry levies to recover the cost of regulation where the benefits of that regulation involve limiting negative externalities (for example, financial sector instability), or addressing a specific market failure (for example, poor-performing providers remaining in a market).

On the other hand, the Commission also highlights the potential negative impacts of an over-reliance on levies (to recover the cost of regulation). In particular, where cost-recovery is not linked to regulation that relates to a specific externality or market failure, the cost (to industry) is more likely to outweigh any broader economic/social benefits. If sufficiently high, industry levies can act as a barrier to market entry – which may limit competitive dynamics and future productivity improvements.

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

The superannuation industry is facing increased scrutiny, including as a result of the *Your Future, Your Super* legislation. In particular, the performance benchmarking of products incorporates administration fees. FISLs, or other similar industry levies, ultimately will be borne by members – as higher fees (or indirect costs) than otherwise would be the case, where the burden typically will be greater for members of smaller funds than members of larger funds.

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

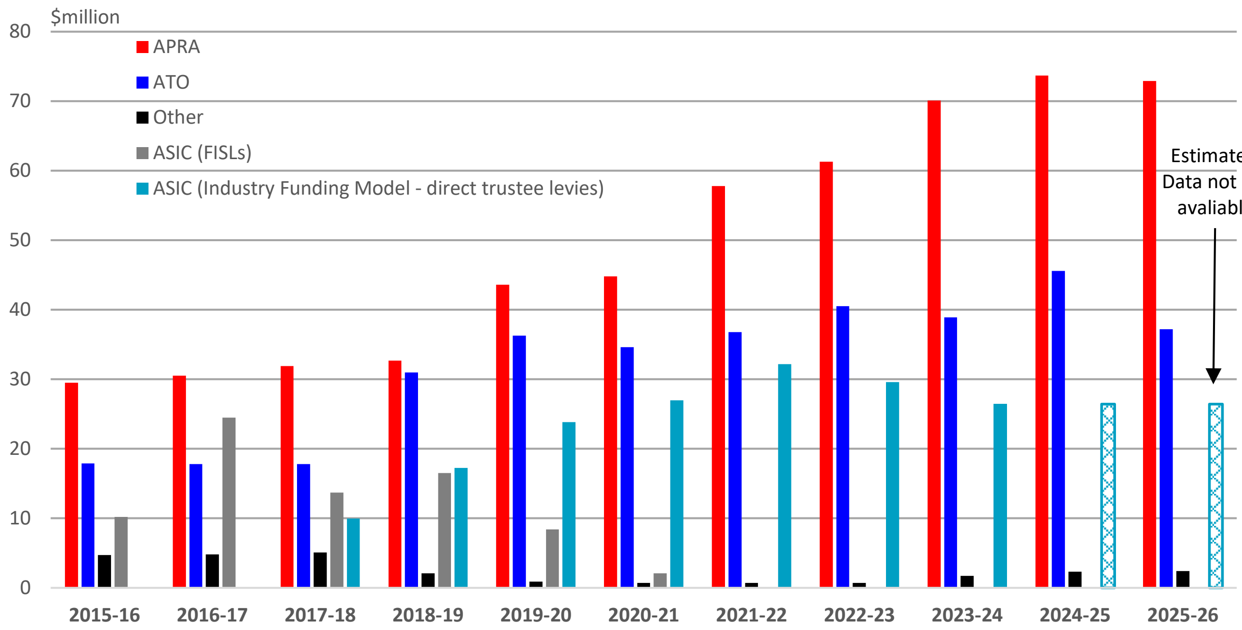
For the superannuation sector, total proposed FISLs for 2025-26 are $112.5 million, which is $9.1 million lower than for 2024-25 ($121.6 million).

As has been the case over recent years, the superannuation sector FISLs for 2025-26 largely relate to the estimated (recoverable) cost of regulatory activities of APRA and the ATO (Chart 1). Minor components of the FISLs relate to the Gateway Network Governance Body and Treasury (together these comprise the 'Other' component in Chart 1).

[1] Productivity Commission 2023, *Towards Leviathan? Industry levies in Australia*, Research paper.

With respect to ASIC, recovery of the costs of regulation of the superannuation sector has shifted gradually over time from FISLs to levies paid under the ASIC Industry Funding Model (ASIC IFM). From 2023-24 onwards, none of ASIC's costs have been recovered via the FISLs.

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



Source: APRA, Treasury and ASFA calculations.

Separately, ASIC has yet to publish its levy estimates (under the ASIC IFM) for 2024-25 or 2025-26. However provisional data suggest a figure in the order of $30 million for the superannuation sector for each year.

- For 2023-24, ASIC's IFM levies associated with the direct regulation of superannuation trustees totalled $26.4 million.
- Additional IFM levies on superannuation funds include those related to the provision of advice, and the provision of life insurance products. Overall, total IFM levies with respect to superannuation trustees for 2023-24 were in the order of $30 million.

Thus, for the superannuation sector, the combined FISLs and ASIC levies (under the IFM) are likely to be between $140 million and $145 million for 2025-26.

Impact on members

For superannuation funds, levies are ultimately 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 $4.2 billion for 2023-24, or around 0.2 per cent of total assets (as of June 2024).[2]

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 the number of member accounts, across superannuation fund members). Given that the 14.7 million MySuper accounts represent around two-thirds of all accounts, then

[2] As at end of June 2024, total assets of the APRA-regulated sector (excluding small funds) were $2.720 trillion.

the amount payable by each MySuper member with respect to the combined levies for 2025-26 would be around $6. For all MySuper products, the average administration fee is around $119 per annum.[3]

The estimated impact on members of superannuation funds varies significantly according to the size of their fund. If it is assumed that the average balances of fund members are similar regardless of the size of their fund, and equivalent to the system-wide average, then the levy amounts per member for 2025-26 are: around $4 for a large fund ($100 billion), around $8 for a medium fund ($20 billion), and around $11 for a small fund ($1 billion).

FISLs, or other similar industry levies, ultimately will 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.

FISLs: APRA component

For APRA, the FISLs Paper shows a slight decrease in the relevant levy component (in respect of the superannuation sector) from $73.7 million in 2024-25 to $72.9 million for 2025-26. The total levy amount for 2025-26 incorporates a $0.8 million refund of 'over-collected levies' from the previous financial year – the FISLs Paper implies that this does not reflect a lower-than-expected level of expenditure by APRA in 2024-25, but that collected levies were higher than expected.

Compared with a decade ago, the APRA component for the superannuation sector is $43.4 million higher (or 147 per cent higher).

While the FISLs Paper provides more information about APRA's high-level regulatory activities compared with previous years, it does not provide sufficient detail for industry to adequately understand how levies are determined. ASFA considers that future years' FISLs Papers should provide a more detailed disaggregation of APRA's regulatory activities in respect of the superannuation sector, and the corresponding levy amounts.

FISLs: ATO component

For the ATO, the FISLs Paper shows a decrease in the relevant levy component (in respect of the superannuation sector) from $45.6 million in 2024-25 to $37.2 million for 2025-26.

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.

For the LMR and USM frameworks, the cost component is $13.0 million for 2025-26, down from $15.3 million for the previous year. Recovered costs relate to 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, 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/unclaimed super, 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).

[3] Based on *APRA Annual MySuper Statistics,* June 2024.

With respect to the CRS programme, the cost component is $24.2 million for 2025-26, down from $30.3 million for the previous year.

The FISLs Paper does not provide any information on the drivers of the change in costs – which likely reflects an increase in the number of CRS applications (noting that the FISLs Paper for 2021-22 stated that the cost of administering the *COVID-19 Early Release of Super* measure was not included in levy amounts). That said, ASFA acknowledges that the ATO publishes detailed information on the CRS programme – including the number and aggregate value of applications and approvals – on the ATO website.

Transparency and impact of levy rates/thresholds

To account for the decrease in total proposed levies on the superannuation sector, the 2025-26 FISLs Paper proposes decreases to the levy rates on individual funds: a decrease of 7.1 per cent for the levy rate on the restricted component, and a decrease of 14.3 per cent for the levy rate on the unrestricted component.

Data provided in the FISLs Paper shows the impact of proposed changes by fund size, which can differ significantly. For example, for the two years from 2023-24 to 2025-26, for a fund with an asset base of $100 billion (large fund), levies would have decreased by 11 per cent. In contrast, for a fund with an asset base of $20 billion (medium fund), levies would have increased by 2 per cent. As noted above, on a per member basis the estimated impact on members of the proposed FISLs (for 2025-26), is greater for members of smaller funds than members of larger funds.

The Productivity Commission has highlighted potential negative impacts of industry cost-recovery levies.

With respect to the proposed changes to the levy rates (and beyond the impact of the proposed rise in levies in the aggregate), consideration should be given to the *relative* impact within the superannuation sector. This includes not only the *relative* cost burden of any changes on existing funds, but also the degree to which any changes may raise barriers to entry (which would limit competitive dynamics and future productivity improvements).

Treasury has previously acknowledged industry's concerns that the annual consultation papers provide little explanation for the setting of minimum and maximum amounts/rates, 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.