

CORPORATE SUPER ASSOCIATION

SUBMISSION TO

Department of Treasury

ON

Financial Sector Levy

04 June 2004

Contact: Nicholas D J Brookes, Chief Executive Officer

**CORPORATE SUPERANNUATION ASSOCIATION Inc. ABN 467 615 800 25
Level 10, 101 Collins Street, Melbourne, Victoria 3000, Australia
GPO Box 1999S Melbourne, Victoria 3001, Australia
Telephone: 03 9270 8260 Fax: 03 9250 3833 Email: corsuper@netspace.net.au**

CORPORATE SUPER ASSOCIATION

Mr Rob Woolston
Financial System Division
The Treasury
Langton Crescent
CANBERRA ACT 2600

By e-mail to superannuation@treasury.gov.au

6 June 2004

Dear Mr Woolston

FINANCIAL SECTOR LEVIES

We refer to the request for comment on the Treasury paper on the above subject, canvassing options for the recovery of regulatory costs for the year 2004-2005.

We understand that the rationale behind the various proposals for funding the regulatory bodies' budgetary requirements. We acknowledge that there is a need to balance the relative impact of the required increases on small funds and large funds, and would support the adoption of Scenario 3 outlined in the paper.

We wish, however, to register our concern about two major issues:

- The major increases in regulatory costs associated with superannuation, which we have consistently signalled as being an inevitable outcome of the increased regulatory focus; and
- our concern that some of the increase arises from the involvement of three separate agencies in the regulation of the superannuation industry.

We are conscious that the issue of regulatory levies has been the subject of recent review and that the review will affect the policy for raising levies from 2005-06 onwards. However, there are some immediate concerns expressed by our membership which do not relate so much to the mechanism and distribution of the levy but to the cost of the regulatory system.

Issues raised by our membership

Our members have raised the following specific issues.

Overall, the fee increases are very significant and difficult to justify and will put even more pressure on the remaining corporate funds.

The paper details an increase in the amount to be raised by levies on superannuation funds from \$35.7 million to \$41.6 million - an increase of 16.5%. This increase is significantly in excess of

CORPORATE SUPER ASSOCIATION

current inflation levels. Looking at the breakdown and explanation given for the increase, it is difficult to see how such an increase could be justified:

- APRA's funding for superannuation increases from \$25.2 million to \$28.5 million. The increase is stated as providing additional resources for more intensive supervision. With a reduction in the number of funds of 18.7%, there should be scope to improve the level of supervision by reallocating resources. There could be some justification for the higher levies above if the impact of licensing were actually included, but we understand that this project will actually be funded directly from licensing fees.

- ASIC's funding for superannuation increases from \$8.1 million to \$8.9 million. We understand that this increase relates to new premises for the SCT to cater (amongst other issues) for increased staff levels to handle a steady increase in cases. We are concerned that the premise that complaint levels will consistently increase over time is flawed - complaint levels have been falling, not rising, recently.

- ATO's funding for superannuation "products" increases from \$2.4 million to \$4.2 million. This increase arises from changing the method of valuing the ATO's role in supporting the Lost Member's Register and Unclaimed Superannuation Monies. It is difficult to see how the previous costing could have differed so greatly.

The involvement of the three separate agencies also gives rise to further concern that there are inevitable inefficiencies arising from collection of information and administration under three separate areas, with an inevitable increase in costs.

A degree of realism is required in relation to levy increases. If the regulators persist with significant increases in levies, the number of funds will continue to reduce so the burden of supervisory costs will be spread over a smaller base of funds. Eventually the point will be reached, and arguably has already been reached, when the regulators can no longer justify their level of resources given the number of funds remaining.

We understand that the recent review of levies has recommended that the underlying risk associated with a regulated entity should have a direct effect on the amount of levies raised. Although the review is expressed as affecting the 2005-06 year onwards, we would like serious consideration given at a very early juncture to whether levy rates should be different for public offer funds versus non-profit corporate funds.

We believe that experience indicates that the risk associated with an entity increases with the involvement of a "for profit" motive in offering the superannuation interests.