FINANCIAL INSTITUTIONS SUPERVISORY LEVIES METHODOLOGY - DISCUSSION PAPER AUGUST 2019

SUBMISSION TO THE TREASURY

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Public

INTRODUCTION

1. ANZ thanks Treasury for the opportunity to respond to the Financial Institutions Supervisory Levies methodology Discussion Paper (**Discussion Paper**).

2. The Discussion Paper sets out important features of the current methodology:

   - Avoiding cross-subsidisation within each industry sector. This goal is supported by periodically comparing supervision costs, based on time records, to levies across sections of industry.

   - Fully recovering the costs from each industry sector and minimising cross-subsidies across sectors.

   - Using the asset value of each institution as a basis for allocating the quantum of the sectoral levy to each regulated institution.

   - Adjusting proposed levies for over and under collection of the levies in prior periods by sector.

3. As described in the Discussion Paper, the current methodology is based on the time APRA estimates that it spends on supervising each industry sector. The levy has two components:

   - "A restricted levy component, reflecting the cost of supervision for an industry. This is structured as a percentage rate on assets, subject to minimum and maximum amounts. Activities covered by this component include costs associated with APRA's onsite and offsite analysis, supervision and risk assessment of individual institutions and its legal and enforcement activities; and

   - An unrestricted levy component, which covers costs relating to 'systemic' regulation, rather than costs that can be allocated to an individual institution or industry. While this is also structured as a percentage rate on assets, the key difference is that there are no minimum or maximum amounts. This aims to ensure that the larger institutions pay more according to their size. Activities covered by this component include costs associated with the development of APRA's prudential framework for the industries it supervises, as well as its statistical data collection and publications."

COMMENTS

4. ANZ supports the goal of avoiding cross subsidies within each industry sector or across sector. In our view, a methodology based on time-based costing and relative asset base

achieves this end by ensuring that the levy on each firm in an industry sector or sub-sector reflects its relative size and supervisory effort.

5. We consider that the current asset based calculation methodology is simple, clear and reasonably easily understood. In ANZ's view, the current approach means that there is little complexity or cost associated with administering the levy. Importantly, it allows ANZ to forecast likely future costs with reasonable certainly.

6. ANZ recognises that the adjustment for prior over and under collection of levies is practical and in keeping with a simple and clear approach. It would be expected that the level of supervision for particular sectors or within particular sectors may change over time. A simple adjustment process is required to ensure that the contribution of each entity over time is broadly commensurate with supervisory costs.

7. For the reasons above, ANZ believes that an important goals for any reforms to the current methodology should be to:

   - retain a simple and readily understood approach, minimising administrative costs, and
   - continue to seek to minimise cross subsidies within industry sectors or subsectors, or across sectors.

Response to Question 1 - Is the current levy base appropriate for each industry sector?

8. ANZ supports a continuation of a methodology based on asset values. As noted above, we believe this is simple and results in low administration costs.

9. With the transition from APRA's domestic book statistical returns to the Economic and Financial Statistics (EFS) reporting returns, ANZ suggests that reference to the relevant asset measure and reporting line in the new EFS returns should also be updated, should the existing approach continue.[1]

[1] The existing ARF measure is the Domestic Book Assets in the ARF 320.0 ("12. Total resident and non-resident assets BSAO17707"). We suggest that this should be amended to be a reference to "Total Assets Including Intra-Group" (Item 13 in ARF 720.0) to be Item 13 less Derivative financial instruments (item 10.3 in ARF 720.0). An adjustment for derivatives is necessary, in our view, to recognise that under Australian accounting standards derivatives are generally reported on a gross basis.

Response to Question 2 – What is the appropriate level for the statutory cap for the restricted component of the levies on ADIs?

10. The discussion paper notes that the unrestricted levy component was introduced to support the goal that larger institutions were levied proportionately more. It states that for ADIs, the maximum for the restricted levy component is now set at the statutory cap. This has resulted in a deferral of $3.1m in supervisory levies. The discussion paper has raised the concern that further deferral may be required.

11. Consistent with the principle of avoiding cross subsidies within a sector or subsector, ANZ considers that it would be appropriate to raise the statutory cap to reflect the costs of supervising larger ADIs.

12. In our view, it is most important that if the statutory cap is raised, the allocation of the levy within the large ADI subsector to each firm should reflect the relative size of each individual firm in that subsector. This is to avoid cross-subsidies within the subsector. As noted above, we consider that an asset based allocation with respect to each individual firm achieves this goal.

Response to Question 3 – What changes would stakeholders find useful to the annual levies consultation process?

13. As noted earlier, ANZ considers that the current process is simple and minimises administrative costs. As a result, we are not seeking particular changes to the annual consultation process. Rather, we seek a continuation of the present low cost and simple approach.

ENDS