23 April 2025

Ms Lynn Kelly
First Assistant Secretary
Financial System Division
Treasury

Via email: SupervisoryLevies@treasury.gov.au

Dear Ms Kelly

Proposed Financial Institutions Supervisory Levies for 2025-26

The Customer Owned Banking Association (COBA) welcomes the opportunity to comment on the Proposed Financial Institutions Supervisory Levies (FISL) for 2025-26 ("Discussion Paper").

COBA is the industry association for Australia's customer owned banks (mutual banks, credit unions and building societies). Collectively, our sector has over $185 billion in assets and is the fifth largest holder of household deposits. Customer-owned banks (i.e. mutual banks) account for around two thirds of the total number of domestic Authorised Deposit-taking Institutions (ADIs) and deliver competition and market leading levels of customer satisfaction in the retail banking market.

Key points

COBA welcomes the Government's proposal for more equitable levy distribution in 2025-26 which focuses the levy increases on the largest banks.

Although this proposal sees COBA member levies fall relative to the previous financial year, we remain concerned over the contentious nature of the FISL model, where unpredictable distributive outcomes can occur when APRA's funding requirements change significantly.

The Government should consider the balance between restricted and unrestricted levies, and the setting of the maximum restricted levy, in future levy setting to ensure equitable outcomes for smaller ADIs.

Impact on COBA members

COBA supports well-resourced and efficient regulators. When regulators are industry-funded, the cost burden must be equitable across industry. Although we welcome the lower rates and increased maximum restricted cap for 2025-26, we remain concerned about the opaque levy setting process and the balance between restricted and unrestricted levies. We are also seeking a more formal mechanism for increases in the maximum restricted levy rather than leaving it at the discretion of Government each year.

Where APRA's costs increase, the Government should ensure that any subsequent industry levy increases are transparent, proportionate and gradual.

Timeliness of Cost Recovery Impact Statement

APRA is required to produce a Cost Recovery Implementation Statement (CRIS) which sets out the costs of APRA's activities and the corresponding impact on the levies. This is a useful document as it outlines in greater detail the impact of levies and reasoning behind decisions undertaken. We note that this statement does not have to be published until 30 June 2025, however public access to this document prior to the close of consultation on each year's FISL would provide valuable insights into the model and any proposed changes, therefore increasing transparency in decision making.

This in turn would be very useful for stakeholders in producing useful, reasoned and relevant submissions to the Discussion Paper. COBA continues to call for the timing of the APRA CRIS publication to coincide with the FISL consultation, and if this is not possible, then the publication of a draft CRIS ahead of the final version.

Timeliness of Discussion Paper

COBA appreciates the timelier release of the Discussion Paper this year. Providing sufficient notice of the Government's expected levies to the industry, particularly where increases are proposed, is important as these levies impact COBA member annual budgeting processes. These processes are generally well advanced towards the end of the financial year. We call on the Government to release the Discussion Paper as soon as is practicable after the Federal Budget process to provide adequate notice to regulated entities of proposed changes.

Thank you for the opportunity to provide a submission. If you wish to discuss any aspect of this submission, please contact Alexander Woloszyn, Policy Manager (awoloszyn@coba.asn.au).

COBA provides further information on our ongoing levy model concerns in **Appendix A.**

Yours sincerely

MICHAEL LAWRENCE
Chief Executive Officer

Appendix A: APRA levy concerns

Addressing the risk of inequitable outcomes

The FISL consists of both the restricted and unrestricted levy component, which Treasury notes is in place to split the cost-of-supervision and systemic impact supervision costs to industry. Although we recognise the rationale behind imposing a restricted and unrestricted levy, this structure increases the risk of a disproportionate impact on smaller ADIs in the event of a significant and sudden increase to APRA's funding requirements or a change in the structure of the banking sector.

Changes to APRA's funding requirements

COBA welcomes the Government's proposal for more equitable levy distribution in 2025-26. COBA member levies are expected to decrease modestly under the proposal, while the banks subject to the maximum restricted levy see their total levies paid increase due to the higher maximum restricted levy for 2025-26.

Although the 2025-26 proposal sees COBA member levies fall relative to the previous financial year and levies are shared more equitably across the regulated ADI population, we remain concerned over the contentious nature of the FISL model, where unpredictable distributive outcomes can occur when APRA's funding requirements change significantly.

Maximum restricted levy component

We welcome the proposed increase in the maximum restricted levy, which results in the largest ADIs paying a fairer share of APRA's funding requirements. However, we remain concerned over the arbitrary nature of the maximum restricted levy setting process, which previously led to FISL proposals which saw small and medium ADIs bearing a disproportionately higher burden of cost increases relative to the larger banks.

COBA provides two examples in Table 1 and Table 2 where the 'upswing' in APRA funding has been inequitably shared.

Table 1: Estimated Proposed ADI levies for 2024-25[1]

Asset base	$50m ($'000)	$500m ($'000)	$5b ($'000)	$25b ($'000)	$100b ($'000)	$1,000b ($'000)
2023-24	22.8	25.6	138.0	690.3	2,761.0	12,710
2024-25 (proposed)	22.9	26.3	179.1	895.8	3,583.0	14,030
Change	0.3%	3%	30%	30%	30%	10%

[1] See Treasury Discussion Paper Proposed Financial Institutions Supervisory Levies for 2024-25

Table 2: Estimated Proposed ADI levies for 2021-22[2]

Asset base	$50m ($'000)	$500m ($'000)	$5b ($'000)	$25b ($'000)	$100b ($'000)	$800b ($'000)
2020-21	15.3	18.2	176.3	881.4	3,525.5	10,075
2021-22 (proposed)	17.9	26.5	265.0	1,324.8	5,299.3	11,314
Change	17%	46%	50%	50%	50%	12%

The 2024-25 and 2021-22 proposals saw the increase to the restricted levy exceed that of the unrestricted levy, with no increase to the maximum restricted levy. This saw small and medium ADIs shouldering a significantly higher percentage increase to levies paid than the major banks. COBA recognises the Government made changes to the levy parameters in response to consultation feedback, however the lack of a clear and consistent mechanism for increasing the maximum restricted levy results in unpredictable outcomes for our sector.

This unpredictability further impacts COBA members in their annual budgeting processes, as APRA levies can form a significant budgetary expense which must be appropriately budgeted for well in advance of the final levy determination being published by Government.

Alternative solutions which result in more equitable and predictable outcomes include the removal of the maximum restricted levy, a movement to an unrestricted only levy (further discussion below) or an ongoing, predictable adjustment of the maximum restricted levy, for example in line with increased funding requirements or indexation to CPI or another relevant measure.

<u>Structural shifts in the banking sector</u>

As noted above, the current model's design is highly inflexible in responding to significant or unexpected changes in the banking industry. A further example of this is seen in the model's response to a merger or acquisition by a large ADI. If an entity which is already paying the maximum restricted levy merges with or acquires a smaller entity, or two medium sized entities merge and have a resulting combined asset base which results in the maximum levy payable for the new entity, the current model is unable to readily re-allocate levy obligations in an equitable manner. Under the current model, either scenario would see an overall reduction in the restricted levy paid by the newly merged entity (as it reaches the maximum threshold) therefore increasing the levy payable by all other ADIs (except those subject to the minimum), all else being equal.

Without an increase in the maximum restricted levy (or offsetting decrease in APRA funding), the shortfall would need to be made up increasing the restricted levy rate on entities subject to the variable restricted levy. This unfairly shifts the levy burden from larger ADIs to smaller ADIs.

We continue to call on the Government to consider the impacts of these kinds of mergers or acquisitions when making a determination for future year levies, and to change the model to account for these impacts by ensuring that existing ADIs do not end up paying an increased levy due to events outside of their control. An effective way of ensuring this occurs is to move to an unrestricted levy only model which would see entities treated more equitably based on size, compared to existing practice.

[2] See Treasury Discussion Paper Proposed Financial Institutions Supervisory Levies for 2021-22

The case for removing the restricted levy

Further to the point above, in 2021-22, APRA changed its supervision model by introducing the new Supervision Risk and Intensity (SRI) model. The SRI introduces the concept of tiering which influences risk assessment and the expected level of supervisory intensity. APRA's SRI Model guide states: "An entity's tiering will determine the depth of risk assessment undertaken. It also helps drive an expected level of supervisory intensity, to allow APRA to apply a sufficient level of attention to all entities in line with APRA's risk appetite."[3] In addition, in the Government's Statement of Expectations for APRA, the Government expects APRA to take a risk-based approach and to consider proportionality in regulation setting.[4] This should see smaller institutions regulated in an appropriate and proportionate way relative to their size and corresponding risk.

Given these factors, it is appropriate to examine whether the rationale for the capped linear supervisory cost levy (i.e. the restricted levy) remains.

Minimum restricted levy component

COBA acknowledges that the Government has not made changes to the minimum restricted levy in the Discussion Paper, after significant increases in previous years. Since 2014-15, the minimum restricted levy has increased from $490 to the current $22,500, an almost 4,500% increase.

Given the significant additional burden that any future minimum levy increases impose on the smallest ADIs, COBA calls on the Government to clarify and justify any expected future path of minimum levy increases.

Conclusion

COBA notes that the current model is quite complex and struggles to consider significant shifts in the operating environment. If supervisory costs are predictable, the model is relatively straightforward. However, as soon as there is any significant variation that is not reflected in the maximum restricted levy, there can be perverse outcomes.

We believe there could be several ways to address these deficiencies. This includes a combination of:

- revamping the levies model to a more 'progressive' system with an increasing levy rate for larger institutions,
- scrapping the restricted levy component for an uncapped levy model,
- removing the legislated statutory upper limit on the maximum restricted levy to provide further flexibility to increase the costs on the largest institutions,
- increasing the maximum restricted levy on systemically important banks in line with funding increases or another measure such as CPI to ensure that they pay a fair share of these additional costs, and/or
- reviewing costs assigned to the 'restricted' levy component, with a view to moving these into the 'unrestricted' component given that these unrestricted costs are distributed more equitably across the levy population. This flexibility could be used during periods of significant levy increases to smooth out costs.

[3] See APRA's SRI Model guide

[4] https://www.apra.gov.au/statement-of-expectations