COST RECOVERY IMPLEMENTATION STATEMENT

Prudential regulation of financial institutions

9 July 2020

Contents

1. Overview

1.1 Purpose

This Cost Recovery Implementation Statement (CRIS) covers the cost recovery model of the Australian Prudential Regulation Authority (APRA) for the supervision of financial institutions[1]. This CRIS demonstrates consistency, transparency and accountability of such cost recovered activities and promotes the efficient allocation of resources and compliance with the Australian Government Cost Recovery Guidelines (CRGs) (Resource Management Guide No. 304) July 2014 under the Australian Government Charging Framework.

This CRIS also covers APRA's current licensing and authorisation charging activities. These charging activities were reviewed as part of a Treasury portfolio charging review in 2016-17[2] . No changes to the current levy methodology were made following that review.

1.2 Background

APRA is the prudential regulator of the Australian financial services industry. It oversees Australia's banks, credit unions, building societies, general, life, private health insurers, reinsurers, friendly societies and most of the superannuation industry. APRA is funded largely by the industries that it supervises. APRA supervises institutions holding approximately $7.8 trillion in assets for Australian depositors, policyholders and superannuation fund members.

1.2.1 Government policy objectives and outcomes for APRA

APRA's policy objectives are set out in its enabling legislation and in various industry Acts. Broadly speaking, APRA's objectives are to:

- establish and enforce prudential standards and practices;
- promote safety and soundness in the governance, behaviour and risk management of the institutions it supervises; and
- promote financial stability by, amongst other things, requiring institutions it supervises to manage risk prudently.

[1] The recovery of costs for the Australian Securities and Investments Commission (ASIC), the Australian Taxation Office (ATO), the Australian Competition and Consumer Commission (ACCC), and the governing of the Gateway Network Governance Body Ltd (GNGB) are generally not considered in this document.

[2] The CRGs indicate that "Departments of State must conduct periodic reviews of all existing and potential charging activities within their portfolios at least every five years….".

APRA's outcome statement outlines the intended results, impacts or consequences of actions for the Australian community as:

> *enhanced public confidence in Australia's financial institutions through a framework of prudential regulation which balances financial safety and efficiency, competition, contestability and competitive neutrality and, in balancing these objectives, promotes financial system stability in Australia.*

1.2.2 Description of APRA's cost base

APRA's cost base comprises the following:

Table 1: APRA's cost base - $ millions

	Actual	Actual	Actual	Actual	Forecast	Budget
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Employee benefits	98.2	99.1	100.9	112.1	131.7	135.1
Supplier expenses	29.9	22.3	34.4	37.5	39.9	30.4
Depreciation and amortisation	6.8	8.3	8.7	8.5	19.1	25.0
Other costs	0.4	(0.1)	0.0	0.3	0.0	0.0
Total expenses	135.4	129.6	144.0	158.4	190.7	190.5

The increase in APRA's cost based from 2017-18 onward reflect New Policy Proposals (NPPs) approved since the 2017 federal budget.

During 2018-19 APRA funding was increased significantly (impacting 2018-19 and future financial years) through two measures approved in the Mid-Year Economic and Fiscal Outlook and Federal Budget processes. These measures increased APRA's funding over the forward estimates by approximately $210 million, with corresponding increases in APRA's cost base commencing in 2019-20. The approved measures were:

- Government Response to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry; and
- Australian Prudential Regulation Authority – New and expanded functions.

These measures increased APRA's available resources significantly, including APRA's overall staffing level[3], and other costs.

Employee benefits are the largest proportion of APRA's cost base, ranging between 70 per cent and 76 per cent of the total cost base from 2015-16 to 2020-21. These costs comprise: staff salaries, superannuation, annual performance bonuses, leave provisions and other employee-related costs.

Supplier expenses are the second-largest area of APRA's cost base, ranging between 16 per cent and 24 per cent of the total cost base from 2015-16 to 2020-21. These costs comprise: property and office expenses, IT costs, training and conference expenditure, travel, contractor and professional services costs.

Depreciation and amortisation costs ranged between 5 per cent and 6 per cent of the total cost base from 2015-16 to 2019-20, and have increased to 13 per cent in 2020-21, primarily driven by the introduction of a new Accounting Standard[4] and reflecting an increase in APRA's fixed and intangible assets which include: property fit-outs and IT system development expenditure.

1.2.3 Description of activities that are recovered by levies or charges

APRA's activities fall into four main categories:

- establishing prudential standards to be observed by supervised institutions *(levy recovery)*;
- assessing new licence applications *(licencing charge recovery)*;
- assessing the safety and soundness of supervised institutions *(levy recovery)*; and
- where necessary, carrying out APRA's resolution authority responsibilities or other remediation, crisis response and enforcement activities *(levy recovery)*.

In addition, APRA:

- provides statistical information to the Reserve Bank of Australia (RBA) and Australian Bureau of Statistics (ABS) *(fee-for-service charge recovery)*;
- provides international assistance to the Department of Foreign Affairs and Trade (DFAT) *(cost recovery)*;
- accredits banks to use internal models to meet capital adequacy requirements under the Basel II framework *(fee-for-service charge recovery)*;
- accredits general insurers (GI) to use internal models to meet capital adequacy requirements *(fee-for-service charge recovery)*;
- assesses the need and size of applications to the Reserve Bank of Australia's Committed Liquidity Facility (CLF) that may be recognised for Liquidity Coverage Ratio (LCR) purposes under the Basel III framework *(fee-for-service charge recovery)*; and
- administers the National Claims and Policies Database (NCPD) for general insurers *(levy recovery)*.

[3] APRA's budgeted average full-time equivalent staffing level increased from 642 in 2018-19 to 734 in 2020-21.

[4] The new Accounting Standard AASB16 – Leases was adopted in 2019-20 changing the treatment of APRA's property leases, increasing the related depreciation and amortisation expenses.

For revenue collected on behalf of other Commonwealth entities, refer to section 1.2.6.

1.2.4 Institutions liable to pay levies or charges

The relevant institutions are:

- Authorised deposit-taking institutions (ADIs) comprising banks, building societies and credit unions;
- Life insurance companies (LIs), comprising life insurance companies and friendly societies;
- General insurance & reinsurance companies (GIs);
- Private health insurers (PHIs); and
- Superannuation entities, excluding self-managed superannuation funds (Super).

1.2.5 Private health insurance regulation by APRA

APRA assumed responsibility for the prudential supervision of private health insurers from 1 July 2015. There are currently 37 registered PHIs. In addition to supervisory responsibility for these insurers, APRA administers the following three PHI charges:

- Supervisory Levy – to fund APRA's day-to-day regulatory activities;
- Risk Equalisation Levy (REL) – to ensure that no PHI is unduly impacted by costly claims because of the profile of their policyholders, the *Private Health Insurance (Risk Equalisation Levy) Act 2003* provides that the cost of certain types of expensive claims should be pooled and shared amongst all health benefits funds; and
- Collapsed Insurer Levy (CIL) – following approval by the Minister for Health, a levy may be raised against PHIs to help meet a collapsed private health insurer's liabilities to those insured under its policies which the insurer is unable to meet.

This CRIS only relates to the imposition of the supervisory levy for private health insurers as the REL and CIL are not subject to the CRGs[5]. The supervisory levy formula for 2020-21 is set by the *Australian Prudential Regulation Authority Supervisory Levies Determination 2020*. The PHI aggregate number of single and non-single (i.e. joint) coverage policies issued by all private health insurers on the annual census day[6] are used as the formula base.

1.2.6 Revenue collection on behalf of other government agencies

Under s50(1) of the *Australian Prudential Regulation Authority Act 1998* (APRA Act), APRA is authorised to collect revenue to offset expenses incurred by certain other Commonwealth entities, including the Australian Securities and Investments Commission (ASIC), the Australian Taxation Office (ATO), the Australian Competition and Consumer Commission (ACCC), and the Gateway Network Governance Body Ltd (GNGB). These expenses relate to:

[5] Payments where there is no relationship between the payer of the charge and recipient of the activity are not subject to CRGs, paragraph 6.

[6] As described in the *Australian Prudential Regulation Authority Supervisory Levies Determination 2020*.

- claims for the early release of superannuation benefits on compassionate grounds undertaken by the ATO;
- funding for the Superannuation Complaints Tribunal (ASIC)[7];
- establishment of a dedicated analysis and advisory function – the Financial Services Competition Branch (FSCB) – to investigate foreign exchange and specific competition issues in Australia's financial system (ACCC); and
- governing and maintaining the superannuation transactions network (GNGB).

1.3 Charging activities not subject to the Cost Recovery Guidelines

1.3.1 Financial Claims Scheme levies

APRA has responsibility for administering the Financial Claims Scheme (FCS). The FCS is an Australian Government scheme that provides protection (subject to a limit) to deposits in banks, building societies and credit unions, and to policies with general insurers in the unlikely event that one of these financial institutions fails.[8]

Under the *Financial System Legislation Amendment (Financial Claims Scheme and other measures) Act 2008* the relevant Minister on activation of an FCS event makes a declaration under either the *Banking Act 1959* (Banking Act) or *Insurance Act 1973* (Insurance Act). In the event that funds recouped following the liquidation process are not sufficient to cover the depositor/policyholder claims outstanding of a failed entity, each entity within the relevant industry may be charged an FCS levy to recoup the shortfall.

An FCS levy is not subject to the CRGs. The only time the FCS has been activated to date has been for the recovery of funds relating to the failed general insurer Australian Family Assurance Limited in 2010.

[7] The SCT will be wound down and is expected to be no longer operating from 1 July 2023.

[8] The FCS does not apply to life insurance companies or to private health insurers.

2. Policy and statutory authority to cost recover

2.1 Policy authority for cost recovery

APRA commenced operations on 1 July 1998. In establishing APRA, the Government determined that APRA's operations would be fully cost recovered through levies on the institutions that it prudentially regulates. Today, this occurs under the Australian Government Charging Framework (incorporating the CRGs), which broadly states that the cost of regulation should be met by those institutions that create the need for it. While the Government also provided authority for APRA to charge for direct services (such as licences), the majority of APRA's supervision costs were to be met through annual financial institutions supervisory levies.

APRA's activities are considered appropriate for cost recovery as they meet the following criteria:

- they are of a regulatory nature;
- there is an identifiable group of institutions, which are not part of the Government sector, that directly use or are the subject of the activities;
- it is practical and efficient to undertake the activities on a cost recovery basis; and
- cost recovery is not inconsistent with the Government's policy objectives outlined above.

Annually APRA's Portfolio Budget Statement (PBS), containing details of the year's planned charges, is tabled for approval in Parliament on budget night.

2.2 Statutory authority to impose cost recovery charges

The legislative framework for levies is established by the *Financial Institutions Supervisory Levies Collection Act 1998*, which prescribes the timing of payment and the collection of levies. A suite of imposition Acts impose levies on regulated institutions. These are the:

- *Authorised Deposit-taking Institutions Supervisory Levy Imposition Act 1998*;
- *Authorised Non-operating Holding Companies Supervisory Levy Imposition Act 1998*;
- *Life Insurance Supervisory Levy Imposition Act 1998*;
- *General Insurance Supervisory Levy Imposition Act 1998*;
- *Retirement Savings Account Providers Supervisory Levy Imposition Act 1998*;
- *Superannuation Supervisory Levy Imposition Act 1998*; and
- *Private Health Insurance Supervisory Levy Imposition Act 2015*.

These Acts impose levies on regulated institutions. In some instances, they set a statutory upper limit and provide for the Minister to make a determination as to certain matters, such as levy percentages for the restricted and unrestricted levy components, maximum and minimum levy amounts applicable to the restricted levy component, and the date at which an entity's levy base is to be calculated[9].

Links to the current Determination[10]:

- Authorised Deposit-taking Institutions and Authorised Non-Operating Holding Companies: https://www.apra.gov.au/adis-fees-and-levies
- General Insurers and Authorised Non-Operating Holding Companies: https://www.apra.gov.au/gi-fees-and-levies
- Life Insurers and Authorised Non-Operating Holding Companies: https://www.apra.gov.au/lifs-fees-and-levies
- Superannuation: https://www.apra.gov.au/super-fees-and-levies
- Private Health Insurance: https://www.apra.gov.au/phi-fees-and-levies
- Retirements Savings Account Providers: http://www.apra.gov.au/super-fees-and-levies

In respect of applications or requests made to APRA, paragraph 51(1)(b) of the APRA Act permits APRA, by legislative instrument, to fix such charges. Subsection 51(2) of the APRA Act provides that a charge fixed under subsection 51(1) must be reasonably related to the costs and expenses incurred or to be incurred in relation to the matters to which the charge relates, and must not be such as to amount to taxation. The Government has also provided authority to APRA to recover other specific costs incurred by certain Commonwealth agencies and departments. The Minister's determination in this regard, under the APRA Act, is to recover the costs on behalf of other government agencies as indicated in 1.2.6.

[9] Described as the census date for the private health insurance industry.

[10] For 2020-21, the Determination prepared contains all industries. In prior years one Determination was prepared for each industry, including one for the Commonwealth Costs relating to other government agencies, totalling seven (7) Determinations.

3. Cost recovery model

3.1 Key activity components

The budgeted cost base for APRA is refined over the forward estimates to reflect relevant Government funding decisions. The forward estimates, and in particular the budget for the upcoming year, are usually finalised in May each year and presented in the annual PBS. For 2020-21, APRA's budget funding has been based on the 2020-21 position approved in the 2019-20 PBS subsequently updated with minor parameter changes[11]. This change is due to the deferral of the Government's annual budgeting cycle to October 2020, because of the COVID-19 pandemic.

The cost-base is supported by associated income streams, the largest element being appropriation revenue. The largest component of the appropriation revenue is the amount to be collected from the financial industry by annual levies, with other components being the separately collected NCPD levy and other smaller government appropriations.

Once the cost base is finalised, and the corresponding sources of funds identified, a forecast of any levy income over and/or under-collected in the 2019-20 year is made. Any over-collection in a year is returned to industry in the following year, and vice-versa for under-collections.

Upon identification of the total amount to be recovered each year by industry levies, the amount is allocated to the five regulated industries for collection.

A key input in APRA's cost recovery methodology is the estimated time spent on supervising each industry. APRA's internal time management system is used as the basis for estimating this time.

The budgeted funding level included within the PBS defines the amount of financial resources that APRA has available to fund its on-going operations each year. Although under/over-collections of levies are recouped from/returned to industry each year as described above, expense underspends/overspends impact APRA's financial reserves. APRA monitors the reserve levels to ensure they remain within appropriate tolerances and undesired build-ups/reductions are avoided.

3.2 APRA's activities

APRA's prudential standards, which are legally binding, set out minimum financial, governance and risk management requirements. Prudential Practice Guides provide guidance on APRA's views on sound practice in particular areas and how supervised institutions might best meet the prudential standards.

[11] Parameter changes are minor changes to overall funding levels arising from updated expectations for inflation.

The framework of prudential standards and prudential practice guides, address the inherent risks faced by institutions, the controls adopted to manage and mitigate those risks and, where relevant, the level of capital needed by each institution to withstand unexpected losses.

3.2.1 Financial soundness of supervised institutions

Once licenced, an institution is subject to ongoing supervision to ensure that it is managing its risks prudently and meeting its prudential requirements. APRA follows a risk-based approach under which institutions facing greater risks receive closer supervision. This enables APRA to deploy its resources in a targeted and cost-effective manner.

APRA supervisors perform a range of supervisory activities to identify and respond to risks. Such activities are undertaken by supervisors with in-depth knowledge of institutions in a particular sector, and supported by risk/data analysis specialists.

Prudential engagements

Supervisors engage regularly with institutions to discuss and resolve issues of concern. A common activity is the 'prudential review' – where APRA supervisors visit the premises of an institution, targeting one or more risk areas to assess the effectiveness of an institution's risk management framework, including its internal governance processes at a more in-depth level. Supervisors also meet regularly with boards, senior management, risk and operational staff on specific matters and engage where necessary with key advisers, including auditors and actuaries.

Financial analysis

Financial analysis is also an important supervisory tool to assess the financial strength of an institution at an industry, peer and entity level. Such analytics are based on data and information submitted by the institutions and include stress testing, capital and scenario analysis.

Peer regulators

APRA is part of a domestic and global regulatory community and collaborates with peer regulators to share information and insights across a range of topics. APRA contributes and participates in a variety of global standard setting regulatory bodies in relation to policy and supervision.

Risk assessment and supervisory outcomes

The cornerstone of APRA's risk assessment is its Probability and Impact Rating System (PAIRS). PAIRS provides a structured framework to assist supervisors make judgments about an institution's risk profile. The main objectives of PAIRS assessments are to determine the:

- probability that an institution may not meet its financial promises; and
- potential consequences of not meeting those promises on beneficiaries, the industry and financial system more broadly.

The PAIRS assessment determines the level of supervisory attention to be applied to the institution. These supervisory responses are informed by APRA's Supervisory Oversight and

Response System (SOARS). Supervisory responses can range from a normal cycle of review to a heightened supervisory stance that requires extra supervisory oversight, to mandating improvements or to restructuring a supervised institution.

APRA's PAIRS and SOARS models have recently been enhanced to cater for changes in the external environment and will soon be replaced by the renamed Supervision Risk and Intensity (SRI) model. The SRI model will improve the risk rating sensitivity and sharpen the corresponding supervisory intensity levels across APRA-regulated institutions and is due for implementation in late 2020.

3.2.2 Remediation, crisis response and enforcement

APRA has substantial legal powers that enable it to intervene where there is a threat that an institution may not be able to meet its obligations to its depositors, insurance policyholders or superannuation fund members. APRA will also intervene where there is a threat to the stability of the financial system. In these contexts, APRA has the power to conduct investigations of supervised institutions and, in some cases, to give them directions of a wide-ranging nature in addition to other powers in its role as a resolution authority.

3.3 Supervisory levy and direct user charge methodology

3.3.1 Supervisory levy

Two methodologies are adopted by APRA to calculate supervisory levies. The first levy methodology is applied to the ADI, Super, GI and LI industries. It has two components:

- the restricted levy component, which has a cost-of-supervision based rationale, is structured as a percentage rate on assets subject to minimum and maximum amounts; and
- the unrestricted levy component, which has a systemic impact and vertical equity rationale, is structured as a percentage rate on assets, without a minimum or maximum amount for individual regulated institutions.

The levy allocation methodology is designed to fully recover the costs from each industry and minimise cross-subsidies across industries.

To reduce the volatility in levies charged to industry, APRA smooths the allocation of costs, through the use of a moving four-year average, when calculating the percentage of time spent split between the restricted and unrestricted levy components, before subsequent allocation to the four industries.

Once the amount to be recovered from the four industries in both the restricted and un-restricted components is known, and the population estimated, the required levy rates to recover these amounts are then calculated.

The second levy methodology used is applied to the PHI industry and is a fixed price levy. This levy adopts a cost-of-supervision based rationale and is structured as a fee per policyholder. There are no minimum or maximum amounts.

As part of the transition of the PHIs to APRA on 1 July 2015, a four-year costing was agreed with the Department of Finance. For 2019-20 APRA transitioned to a method of industry allocation consistent with the other four industries, using historical time-recording data from its staff time-capture system to identify the PHI levy total. As this mechanism indicated an uplift was required in the overall PHI levy a two-year transition period had been adopted to soften the impact of this increase. For 2020-21 the final year of transition has completed. Going forward PHI costs to be levied will be derived in the same way as for the other industries.

Table 2: Private health insurance levy - $ millions[12]

	2016-17	2017-18	2018-19	2019-20	2020-21
Total levy recovered from PHIs	4.7	6.7	4.5	6.1	7.7

3.3.2 Supervisory costs (restricted and unrestricted)

The tables below indicate supervisory time incurred by APRA staff (actual and estimated) over a four-year period from 2017-18 to 2020-21 for the two elements of the non-PHI levy, being the supervisory (restricted) and systemic (unrestricted) elements of the levy. The time is reflected as percentages of the total time recorded.

Table 3: APRA's supervisory effort by levy component (%)

Levy component	2017-18	2018-19	2019-20	2020-21	
	Actual (%)	Actual (%)	Forecast (%)	Estimate (%)	4-yr average (%)
Supervisory (restricted)	60	62	65	65	63
Systemic (unrestricted)	40	38	35	35	37
Total	100	100	100	100	100

The two components are then split, using the time-recording data, into the different industries.

[12] These costs are the amounts to be collected from the PHI industry.

Table 4: APRA's supervisory effort by industry (%)

Restricted component - % of time

Industry sector	2017-18	2018-19	2019-20	2020-21	
	Actual (%)	Actual (%)	Forecast (%)	Estimate (%)	4-yr average (%)
Restricted component - % of time					
ADIs	43	42	44	44	44
Life insurance/Friendly societies	11	13	13	13	12
General insurance	20	19	17	17	18
Superannuation	26	26	26	26	26
Total	100	100	100	100	100
Unrestricted component – % of time					
ADIs	58	47	50	50	51
Life insurance/Friendly societies	10	16	14	14	13
General insurance	13	9	8	9	10
Superannuation	19	28	28	27	26
Total	100	100	100	100	100

3.3.3 Direct costs

APRA's costs can be split between supervision-related or 'front office' costs (frontline supervisors and specialist risk teams), systemic (policy setting and other industry-wide costs such as enforcement and data analytics, also known as 'middle office' costs) and support functions (People & Culture, Information Technology, Finance, Property, etc. referred to as 'back office' costs).

APRA's time recording system captures time spent on each institution (and therefore industry) for front office costs. The middle office time spent on each industry is also recorded. The back office functions spend time on support and project-related activities.

The front office costs primarily relate to supervision, and therefore the amount of APRA's overall recorded time spent supervising entities is known. For the purposes of the 2020-21 levies consultation paper (and as noted in table 3) 63 per cent of all recorded time is anticipated to be spent on supervision activities. This comprises the restricted element of the levy.

The remaining 37 per cent of recorded time is anticipated to be spent on systemic and industry-wide activities. This comprises the unrestricted element of the levy. Included in this component of the levy are the non-APRA elements (Treasury, ASIC, ATO, ACCC and GNGB). Table 5 below is taken from the annual levies consultation paper[13], it shows a reduction in the amount collected from the non-APRA elements of the levy (total falling from $49.9 million in total in 2019-20 to $40.9 million in 2020-21, a fall of $9 million).

Table 5: Total levies funding required ($m)

	2019-20	2020-21		
	Budget ($m)	Budget ($m)	Change ($m)	Change (%)
APRA	186.1	181.6	(4.5)	(2.4)
ASIC	8.4	2.1	(6.3)	(75)
ATO	36.3	34.6	(1.7)	(4.8)
ACCC	3.5	3.5	-	-
Gateway Network Governance Body	0.7	0.7	-	-
Treasury	1.0	-	(1.0)	(100.0)
Total	236.0	222.5	(13.5)	(5.7)

The key change is the completion of the ASIC collection through the levies as they move to a user-pays funding model. The remaining ASIC element relates to the last few years for the Superannuation Complaints Tribunal.

Taking into account the non-APRA levy element changes above and applying the time-driven percentage splits to the element of the APRA cost base to be recovered by industry levies, the amount to be collected from each industry in the restricted and unrestricted categories can be determined.

[13] Table 1 in the levies consultation paper.

3.3.4 Matching costs to income at an entity level (restricted component only)

One of the challenges of adopting a cost-recovery methodology is the avoidance of cross-subsidisation within each industry. This occurs where a disproportionately large or small levy is charged to a section of the industry, when compared to the actual cost of APRA supervision. Periodically APRA analyses detailed time-recording data on the actual cost of supervision available through its internal time recording system(s). This analysis has showed broadly consistent results each year, and as a result a number of modifications to the restricted levy component were made to the Financial Institutions Supervisory Levies for 2015-16 onwards.

Restricted levy minimums

One of the modifications noted above was a steady increase in the levy minimums for each industry from an historic relatively small amount[14]. For 2020-21 the pause in the increase to the levy minimums continues, allowing the impact of these recent increases to embed themselves more within each industry. APRA has deferred a further analysis of time recording data planned for 2019-20 to 2020-21, reflecting current circumstances, and the results of that analysis will be an input to the levy-setting process for the 2021-22 financial year.

Restricted levy maximums

Consistent with the levy minimums review process the levy maximums have been considered and modified each year, reflecting the observed cost of supervision. During 2018-19 various reviews impacted APRA-regulated industries[15], as a result APRA received a significant increase to its funding from two different measures:

- Government Response to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry; and
- Australian Prudential Regulation Authority – New and expanded functions.

These measures increased 2019-20 and forward years funding to APRA, and correspondingly levies upon the industries increased. In June 2020 changes to the industry levy acts were approved by Parliament and statutory caps to the maximums were raised. This removed a restriction on the ADI levies in 2019-20 and now enables the largest institutions to bear an appropriate share of the restricted levy burden.

To maintain equity across the industries for the restricted levy components, the levy maximum for ADIs have increased substantially by 61 per cent, and a modest decrease to the levy maximum for LIs[16] has been made.

[14] In 2014-15 the levy minimums were; ADIs: $490, LIs: $490, GIs; $4,900, Super: $590.

[15] Notably the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry; the International Monetary Fund Financial Sector Assessment Program; and The Productivity Commission Inquiries into: 'Superannuation: Assessing Efficiency and Competitiveness' and 'Competition in the Australian Financial System'.

[16] For 2019-20 the levy maximums for Super, LIs and GIs were increased significantly by around 85, 48 and 44 per cent respectively.

For 2020-21 the levy parameters are:

- the restricted levy minimum for the ADI industry is maintained at $15,000, with the levy maximum increased from $3,125,00 to $5,025,000;
- the restricted levy minimum for the GI industry is maintained at $15,000, with the levy maximum maintained at $1,300,000;
- the restricted levy minimum for the LI industry is maintained at $15,000, with the levy maximum reduced from $1,100,000 to $900,000; and
- the restricted levy minimum for the superannuation industry is maintained at $5,000[17], with the levy maximum maintained at $600,000.

Other levy parameters are:

- consistent with the pause in the increase to the levy minimums, the flat levy rate for Non-Operating Holding Companies (NOHC's) is also unchanged at $45,000 per institution in 2020-21;
- the levy minimum for providers of Purchased Payment Facilities (PPFs) is maintained at $15,000 in line with other ADIs, in addition the levy maximum increased to $1,005,000 and the restricted levy rate is set to be equal to other ADIs; and
- the maximum and restricted levy rate applied to foreign branch ADIs are unchanged at one fifth of that for a domestic ADI in 2020-21.

Life insurance

The year on year impact of the changes noted above are reflected in Table 6 below:

Table 6: Amounts levied on Life Insurers/Friendly societies ($000s)

Asset base	$50m ($'000)	$500m ($'000)	$5b ($'000)	$10b ($'000)	$50b ($'000)	$100b ($'000)
2019-20	16.6	83.1	831.5	1,424.8	2,683.8	4,257.7
2020-21	17.3	105.2	1,052.3	1,363.9	3,219.4	5,538.8
Change (%) 2020-21 v 2019-20	4.5	26.6	26.6	(4.3)	20.0	30.1

The changes across the asset sizes can be demonstrated by a further breakdown into the levy components in table 7 below:

[17] Small APRA Funds (SAFs) and Single Member Approved Deposit Funds (SMADFs) flat rate of $590 was left unchanged.

Table 7: Amounts levied on Life Insurers/Friendly societies – breakdown ($000s)

Asset base	$50m ($'000)	$500m ($'000)	$5b ($'000)	$10b ($'000)	$50b ($'000)	$100b ($'000)
2019/20						
Restricted	15.0	67.4	674.1	1,110.0	1,110.0	1,110.0
Unrestricted	1.6	15.7	157.4	314.8	1,573.8	3,147.7
TOTAL	16.6	83.1	831.5	1,424.8	2,683.8	4,257.7
2020/21						
Restricted	15.0	82.0	820.4	900.0	900.0	900.0
Unrestricted	2.3	23.2	231.9	463.9	2,319.4	4,638.8
TOTAL	17.3	105.2	1,052.3	1,363.9	3,219.4	5,538.8

Table 7 shows an overall increase in the unrestricted levy component across different sized entities. In addition, the impact of the decrease in the levy maximum from $1.1 million to $0.9 million has reduced the restricted levy component for entities greater than $10bn. Entities with greater than $10bn assets contribute over 37 per cent of the industry levy of LIs.

General Insurance

Table 8: Amounts levied on General Insurers

Asset base	$15m ($'000)	$50m ($'000)	$250m ($'000)	$1b ($'000)	$5b ($'000)	$15b ($'000)
2019-20	16.1	18.7	75.3	301.0	1,505.1	2,414.0
2020-21	15.7	17.4	60.4	241.6	1,208.1	2,009.0
Change (%) 2020-21 v 2019-20	(2.5)	(7.2)	(19.7)	(19.7)	(19.7)	(16.8)

Table 9: Amounts levied on General Insurers – breakdown ($000s)

Asset base	$15m ($'000)	$50m ($'000)	$250m ($'000)	$1b ($'000)	$5b ($'000)	$15b ($'000)
2019/20						
Restricted	15.0	15.0	56.7	226.7	1,133.7	1,300.0
Unrestricted	1.1	3.7	18.6	74.3	371.3	1,114.0
TOTAL	16.1	18.7	75.3	301.0	1,505.1	2,414.0
2020/21						
Restricted	15.0	15.0	48.6	194.3	971.7	1,300.0
Unrestricted	0.7	2.4	11.8	47.3	236.3	709.0
TOTAL	15.7	17.4	60.4	241.6	1,208.1	2,009.0

The levy maximum has been maintained for GIs. However with a slightly lower GI industry levy base, there is an overall drop in the restricted and unrestricted levy components across all entity sizes. Entities with greater than $5bn assets contribute over 35 per cent of the industry levy of GIs.

Superannuation

Table 10: Amounts levied on Superannuation funds

Asset base	$5m ($'000)	$50m ($'000)	$250m ($'000)	$1b ($'000)	$20b ($'000)	$50b ($'000)	$100b ($'000)
2019-20	5.2	6.8	17.0	68.0	1,311.4	2,378.5	4,157.0
2020-21	5.2	6.6	15.4	61.6	1,230.9	2,177.2	3,754.4
Change (%) 2020-21 v 2019-20	(0.4)	(3.0)	(9.4)	(9.4)	(6.1)	(8.5)	(9.7)

Table 11: Amounts levied on Superannuation funds – breakdown ($000s)

Asset base	$5m ($'000)	$50m ($'000)	$250m ($'000)	$1b ($'000)	$20b ($'000)	$50b ($'000)	$100b ($'000)
2019/20							
Restricted	5.0	5.0	8.1	32.4	600.0	600.0	600.0
Unrestricted	0.2	1.8	8.9	35.6	711.4	1,778.5	3,557.0
TOTAL	5.2	6.8	17.0	68.0	1,311.4	2,378.5	4,157.0
2020/21							
Restricted	5.0	5.0	7.5	30.0	600.0	600.0	600.0
Unrestricted	0.2	1.6	7.9	31.5	630.9	1,577.2	3,154.4
TOTAL	5.2	6.6	15.4	61.6	1,230.9	2,177.2	3,754.4

The restricted levy maximum has been maintained to ensure that the largest Super funds (asset base >$50b) contribute about 40 per cent of the total levy burden in 2020-21, maintaining the cross-industry allocation. The reduction in the unrestricted levy is proportionate across the industry.

Authorised Deposit-taking Institutions

Table 12: Amounts levied on Authorised Deposit-taking Institutions

Asset base	$50m ($'000)	$500m ($'000)	$5b ($'000)	$25b ($'000)	$100b ($'000)	$800b ($'000)
2019-20	15.5	29.8	298.2	1,490.9	4,080.3	10,767.7
2020-21	15.3	18.2	176.3	881.4	3,525.5	10,075.4
Change (%) 2020-21 v 2019-20	(1.0)	(39.1)	(40.9)	(40.9)	(13.6)	(6.4)

Table 13: Amounts levied on Authorised Deposit-taking Institutions – breakdown ($000s)

Asset base	$50m ($'000)	$500m ($'000)	$5b ($'000)	$25b ($'000)	$100b ($'000)	$800b ($'000)
2019/20						
Restricted	15.0	25.0	250.4	1,252.1	3,125.0	3,125.0
Unrestricted	0.5	4.8	47.8	238.8	955.3	7,642.7
TOTAL	15.5	29.8	298.2	1,490.9	4,080.3	10,767.7
2020/21						
Restricted	15.0	15.0	144.7	723.6	2,894.2	5,025.0
Unrestricted	0.3	3.2	31.6	157.8	631.3	5,050.4
TOTAL	15.3	18.2	176.3	881.4	3,525.5	10,075.4

The ADI industry has had a substantial increase in its levy maximum, of 60.8 per cent. This increase was deferred from 2019-20 to 2020-21 and relates largely to additional funding approved for APRA from the 'Australian Prudential Regulation Authority – New and expanded functions' measure for supervision of the largest and most complex institutions[18]. The institutions paying the maximum bear over 60 per cent of the ADI industry levy burden.

The levy maximums are constrained by caps that are contained in the individual industry levy acts. These caps constrained the levies in 2019-20 for the largest ADIs and so in June 2020 Parliament approved a raising of these caps to $10 million. Therefore the 2020-21 ADI levy maximum is significantly increased, however is only slightly over 50 per cent of the new statutory maximum.

Private health insurance supervisory levy

The PHI supervisory levy is a fixed price levy and is imposed directly upon insurers annually. It is calculated for each insurer, according to the number of single and other (e.g. joint) policyholders each insurer holds on the latest census date. The basis of the calculation is the number of single policies plus twice the number of other polices each insurer has, multiplied by the year's rate per policy for the industry. The year's rate per policy is calculated as the annual levy in cents divided by the total number of single policies plus twice the number of other policies for the industry.

$$Yearly\ rate = \frac{Annual\ levy\ total\ in\ cents}{aggregate\ single\ policies + (2 \times aggregate\ other\ policies)}$$

[18] Noted in the 2019-20 CRIS.

Every PHI entity is required to provide APRA with the number of single and other policyholders it has on the census day. The reported data is audited annually.

No particular group or type of insurer draws regulatory focus disproportionately. All insurers are subject to the same regulatory framework. However, larger insurers tend to draw more of APRA's analytical resources due to their complexity and importance to the private health insurance industry as a whole. Accordingly, a levy based on the number of policies held (a proxy for market share and consequently risk exposure to the industry) is appropriate as there is a direct correlation between the underlying cost drivers and market share.

The *Private Health Insurance Supervisory Levy Imposition Act 2015* places an upper limit on annual levy rates of $2 per year for single person polices and $4 per year otherwise.

As noted in section 3.3.1 above the calculation of the total to be collected from the PHI industry was in transition in 2019-20 from the Machinery of Government (MoU) costing to the APRA time-recording based allocation, which is now completed in 2020-21. The PHI industry's levy going forwards will be derived in the same manner as the other industries.

Matching costs to income at an entity level (unrestricted component)

For the unrestricted levy component, matching time recording data to an institution is not possible due to the nature of the work (e.g. industry-wide prudential standard / policy setting) as this applies to all institutions that operate within the industry concerned. Therefore, once the costs associated with any specific industry are allocated, the allocation to an institution is then based on the methodology of allocation at that point in time. Currently, unrestricted levy costs are allocated to the ADI, Super, GI and LI industries on an assets basis.

The tables below demonstrate the costs recovered by the different levy components (restricted, unrestricted and PHI) and relate them back to the total APRA approved budget for 2020-21.

Table 14: Cost and revenue estimates for 2020-21[19] - $ millions

	2019-20	2020-21		
	Budget ($m)	Budget ($m)	Change ($m)	Change (%)
APRA – operating expenses	184.2	190.5	6.3	3.4
APRA – additional enforcement resourcing	4.0	3.0	(1.0)	(25.0)
Non-Levy income	(6.4)	(10.1)	(3.6)	56.9
Prior year under / (over) collected revenue (recouped) / returned	(0.8)	(1.1)	(0.2)	29.2
Unspent 2016-17 expenses deferred into 2019-20	(2.5)	-	2.5	-
2018-19 additional funding to be collected in 2019-20	10.7	-	(10.7)	(100.0)
Removal of impact of AASB16 – Leases	-	(3.8)	(3.8)	-
Deferred funding for supervision of largest & most complex institutions	(3.1)	3.1	6.1	(200.0)
Net funding met through industry levies	186.1	181.6	(4.5)	(2.4)

[19] As per the annual Proposed Financial Institutions Supervisory Levies for 2020-21 consultation paper.

Table 15: Breakdown of 'Net funding met through industry levies' - $ millions

Activity component	Direct costs	Indirect costs	Depreciation / amortisation	Sub-total costs recovered	Additional enforcement resourcing, and prior year over-collection	Net funding met through industry levies
Restricted levy	77.7	17.5	14.4	109.7	1.1	110.8
Unrestricted levy	44.3	10.0	8.2	62.4	0.7	63.2
PHI levies	5.4	1.2	1.0	7.6	0.1	7.7
TOTAL	127.4	28.7	23.6	179.7	1.9	181.6

The table below summarises APRA's income budget for 2020-21 inclusive of charges for service and other income, and again relates that back to the APRA budget for 2020-21.

Table 16: Cost and revenue estimates for budget year 2020-21 - $ millions

Cost recovery charge	Charge or levy	Activity component	2020-21 costs recovered	Recoup of 2019-20 over-recovery	Additional enforcement resourcing	APRA Revenue 2020/21
Non-PHI Industry levies	Levy	Restricted Levy	109.7	(0.7)	1.8	110.8
Non-PHI Industry levies	Levy	Unrestricted Levy	62.4	(0.4)	1.1	63.2
PHI Industry levies	Levy	n/a	7.6	-	0.1	7.7
Sub-Total - Levies			179.7	(1.1)	3.0	181.6
Other levies	Levy	n/a*	0.9	-	-	0.9
Other appropriations	Direct Appropriation	n/a**	3.6	-	-	3.6
Other charges	Charge	n/a***	5.5	-	-	5.5
Grand Total - Revenue			189.7	(1.1)	3.0	191.7

* Other levies are the general insurance special component, which enables APRA to recoup the cost of running the NCPD.

** Other appropriations currently contain minor appropriations including: annual appropriation for interest and wage and price movement adjustments.

*** Other charges relate to various other types of costs recovered, including: (i) ongoing costs recovered from institutions accredited to use internal models for capital adequacy purposes (BASEL II); (ii) costs recovered from the Department of Foreign Affairs and Trade (DFAT), Department of Agriculture, RBA, and ABS; (iii) costs recovered for assessment of applications to the RBA's Committed Liquidity Facility – CLF - (BASEL III) and (iv) licence fee charges.

3.4 Licensing/authorisation charges

Current application charges relating to licencing of ADIs, representative offices of foreign banks in Australia (FBROs), GIs, LIs, PHIs and NOHCs were reviewed during 2016-17 and the charges updated in 2017-18.

This review entailed examining all existing resourcing and task activities to ascertain if it was still relevant to charge and whether the methodology was consistent with the CRGs.

The charges will continue to be reviewed every five years as per the CRGs. The legislative instruments, explanatory statements and CRISs can be found at:

- https://www.legislation.gov.au/Details/F2018L00770 - NOHC application fees
- https://www.legislation.gov.au/Details/F2018L00755 - ADI, GI and LI application fees
- https://www.legislation.gov.au/Details/F2018L00753 - FBRO application fees
- https://www.legislation.gov.au/Details/F2018L00769 - PHIs and restricted ADI application fees

The CRISs can also be located on the APRA website – see section 2.2 (via the links to the levy determinations).

The charges are provided in the schedule of charges below:

Table 17: Schedule of charges

Entity type	Type of charge	Charge
Bank	Authorisation charge	$110,000
Building society or credit union	Authorisation charge	$110,000
Providers of Purchase Payment Facility	Authorisation charge	$55,000
Other ADI under Section 9 of the Banking Act not yet covered	Authorisation charge	$110,000
General Insurer	Authorisation charge	$110,000
Life Insurer including Friendly Societies	Registration charge	$110,000

Entity type	Type of charge	Charge
Non-Operating Holding companies – ADI (inc. Building society and Credit unions), GI, LI (inc. Friendly Societies)	Authorisation charge	$110,000
FBRO consent application charge	Application charge	$10,000
Annual monitoring of FBRO	Monitoring charge	$3,000
Application for authorisation as a private health insurer	Application Charge	$110,000
Application for authorisation as a Restricted ADI	Application Charge	$80,000
Application for authorisation to progress from a Restricted ADI to an ADI	Application Charge	$30,000
Application for Friendly Society rules and rule amendment	Application Charge	$3,000
Application for transfer of business - GI, LI (including Friendly Societies), ADI and PHI	Application Charge	$11,000

3.4.1 Registrable Superannuation Entity (RSE) charges

RSE charges are stipulated under Reg. 3A.06 of the *Superannuation Industry (Supervision) Regulations 1994*. Any amendment to RSE charges have to be progressed by Regulations as per the *Superannuation Industry (Supervision) Act 1993* through a machinery of government instead of by legislative instrument, which is the mechanism for amending other industry charges set out in this CRIS.

3.5 Annual fee-for-service charge activities: covering 2019-20

Some functions undertaken by APRA (as indicated in section 1.2) are not recovered through a levy but instead through direct user charges for service arrangements. Actual costed time and overheads expended on these tasks is used as the basis for the charges.

The charges are derived from the costs incurred by APRA in providing the services concerned and as such do not constitute a tax. Subsection 51(1) of the APRA Act provides that APRA may, by legislative instrument, fix charges to be paid to it by persons in respect of:

- services and facilities which APRA provides to such persons; and
- applications or requests made to APRA under any law of the Commonwealth.

Subsection 51(2) of the APRA Act provides that a charge fixed under subsection 51(1) must be reasonably related to the costs and expenses incurred or to be incurred in relation to the matters to which the charge relates and must not be such as to amount to taxation.

Fee-for-service charge activities undertaken in 2019-20 by APRA were:

- accreditation and ongoing review of internal models (Basel II compliance);
- provision of statistical information; and
- assessment of CLF applications and assessment of the size of the CLF that may recognised for LCR purposes (Basel III).

3.5.1 Accreditation and ongoing review of internal models

Accreditation and ongoing review of internal models for ADIs and GIs with sophisticated risk management systems to adopt the 'advanced' approaches for determining capital adequacy. The charge is based on the need to recover APRA's costs of assessing applications for model approval and on-going monitoring of capital adequacy using the models-based approach. Those costs are based on the estimated APRA staff time involved. In addition, direct overhead costs are added to the salary costs as well as an element of indirect overhead.

Background to the 2019-20 fee-for-service annual charge

In June 2004, the Basel Committee on Banking Supervision (the Committee) released Basel II, reforming the 1988 Basel Capital Accord (the 1988 Accord). APRA implemented Basel II in Australia for all ADIs on 1 January 2008, through new prudential standards under section 11AF of the Banking Act. Under these standards ADIs are able to determine their capital adequacy requirements using one of two methods: a standardised (default) method or a models based approach that more closely aligns with an ADI's individual risk profile. ADIs and GIs seeking to use the models-based approach must have APRA's approval to do so. LIs are also provided with alternative methods to determine their capital adequacy requirements. A separate CRIS covers work performed accrediting Internal Models used by GIs to determine Minimum Capital Requirements.[20]

How the charges are calculated

The ADI charge is based on the need to recover APRA's costs of carrying out the on-going monitoring of the capital adequacy of ADIs using the models-based approach and assessing applications for approval. Those costs are based on an estimation of APRA staff time involved with an addition of direct overhead costs. On this basis, APRA's total cost recovery in respect of the models-based approach for 2019-20 is $1.31 million (2018-19: $1.42 million).

The costs incurred in monitoring the capital adequacy of ADIs using the standardised method are recovered through general financial sector levies.

In 2019-20, the focus was on the on-going supervision of the capital adequacy of ADIs approved to use the models-based approach namely, Australia and New Zealand Banking

[20] The CRIS for GI's can be located at: https://www.legislation.gov.au/Details/F2009L02488/Supporting%20Material/Text

Group ANZ), Commonwealth Bank of Australia (CBA), National Australia Bank (NAB), Westpac Banking Corporation (WBC), Macquarie Bank (MBL) and ING Bank (Australia) (ING). Bendigo and Adelaide Bank (BEN) continued an application for accreditation.

As there is no material difference in APRA's approach to the monitoring of the models-based approach between ADIs who have received approval, each entity is charged an equal amount of the relevant costs. For Bendigo and Adelaide Bank a lower charge was determined for these institutions reflecting the cost recovery of APRA's associated effort.

Description of the charges

The charge imposed by the instrument is based on a two-tiered structure:

- $212,000 plus GST (totalling $233,200) for ANZ, CBA, MBL, NAB, WBC and ING; and
- $39,000 plus GST (totalling $42,900) for BEN.

The charges are set by the Instrument dated 5 June 2020[21]. APRA informed the affected ADIs of the proposed charges.

Table 18: Basel II related charges: For the period 2016-17 to 2020-21 - $ millions

	2016-17	2017-18	2018-19	2019-20	2020-21 (Forecast)
Employee Expenses	1.5	1.4	1.1	1.1	1.1
Allocated Overheads	0.3	0.3	0.3	0.2	0.2
Net Cost	1.8	1.7	1.4	1.3	1.3

3.5.2 Provision of statistical information

The provision of statistical information concerning financial sector entities to the RBA and the ABS is recovered through a charge for service arrangement.

Background for the 2019-20 annual charge

Under the *Financial Sector (Collection of Data) Act 2001* (the FSCODA), APRA collects financial and other statistical information from ADIs, GIs, LIs, PHIs and Superannuation entities.

The statistical information that financial sector entities are required to lodge with APRA is prescribed by reporting standards that are made by APRA pursuant to the FSCODA. The reporting standards detail the information required and are accompanied by forms into which the information has to be inserted.

[21] The Instrument can be located at: https://www.legislation.gov.au/Details/F2020L00679

In 2000 and 2001, APRA implemented a computer system (Direct to APRA (D2A)[22]) designed and constructed to collect, store, and report on the statistical information from financial sector entities. The D2A system enables financial sector entities to lodge statistical information with APRA electronically, and it includes software which can be used to analyse and compile reports from the statistical information collected.

Subsection 3(1) of the FSCODA provides that the purpose for which statistical information is collected under that Act is to assist APRA in the prudential regulation of financial sector entities and to assist the RBA in the formulation of monetary policy. Also, as is acknowledged by subsection 56(5A) of the APRA Act, some of the statistical information will be relevant to the ABS's function under the *Census and Statistics Act 1905* in maintaining and disseminating statistics relating to the financial industry and the wider economy.

Thus, as envisaged by the legislation, APRA shares the statistical information it collects with both the RBA and the ABS.

The statistical information that APRA provided to the RBA and the ABS during the 2019-20 financial year is described in the schedules attached to the legislative instrument dated 29 May 2020 setting the annual charge[23].

The statistical information is provided to the two agencies at their request, and they have agreed to pay the charges for it that are fixed by the instrument.

How the charges are calculated

The costs of maintenance and operation of the D2A system during 2019-20 is based on the forecast costs for the year. These costs represent the costs of staff time expended in performing ongoing maintenance (including enhancement) of the system and in operating the system (which includes collecting, managing, analysing and distributing the statistical information). During the 2019-20 financial year, the D2A system provided three agencies with statistical information: APRA, the RBA and the ABS. The proportion of the above-mentioned costs have been allocated to the RBA and the ABS, based on their usage of the D2A system during 2019-20. Such allocations are made based on full cost recovery:

- The charges relating to the RBA and ABS specific requests were estimated based on the quantum of staffing resources consumed, informed by APRA's time management system. Such resources are costed based on the average yearly staffing costs, including an appropriate management allocation.
- The cost of shared services was then determined based on the number of forms processed for each of the organisations, as a proportion of the total number of forms processed. As expected, these costs are predominantly borne by APRA due to the fact that most of the usage is dictated by APRA requirements. For 2019-20, the cost of shared services was shared by the three agencies (RBA/ABS/APRA) in the following respective proportions: 15:10:75.

[22] The D2A system is scheduled to commence being replaced in 2020-21 with a modernised statistical data collection platform called 'APRA Connect'.

[23] The Instrument can be located at: https://www.legislation.gov.au/Details/F2020L00665

- The development costs of the D2A system for 2019-20 is based on the quantum of staffing resources consumed in delivering the Economic and Financial Statistics (EFS) collection, informed by APRA's time management system. This cost is amortised over a 5-year period based on an agreed proportion of 56 per cent and 44 per cent for the RBA and the ABS respectively. Prior to the development of the system, it was agreed that these costs would be recovered from the agencies over a 5-year period.

On the above basis, it is determined that the total cost of the services provided to the RBA amounts to $340,028. This amount consists of $305,548 operating costs and $34,480 development costs. It has been agreed between APRA and the RBA that the amount to be charged to the RBA in respect of the 2019-20 financial year is $340,028 (plus GST).

The total costs of services to the ABS have been determined to be $219,749. This amount consists of $192,658 operating costs and $27,091 development costs. It has been agreed between APRA and the ABS that the amount to be charged to the ABS in respect of the 2019-20 financial year is $219,749 (plus GST).

3.5.3 Committed liquidity facility approval by APRA

Since 1 January 2015, the RBA provides a CLF as part of Australia's implementation of the Basel III liquidity standards. Consistent with the liquidity standards, certain ADIs are required by APRA to maintain a Liquidity Coverage Ratio (LCR) of at least 100 per cent. These ADIs may seek annual approval from APRA to meet part of their Australian dollar LCR requirement through the RBA's CLF.

Background to the 2019 fee-for-service annual charge

APRA has limited resources to apply to elective services. Based on previous calculations, the administration costs for the CLF are non-linear, but increasing with CLF application size. Consequently, to reflect the cost recovery of APRA's associated effort, the charge ranges from $10,000 (plus GST), to $80,000 (plus GST) per applicant, which are minor in the context of an aggregate size of the CLF (circa $250 billion).

How the charges are calculated

The total recoverable costs for undertaking the CLF approval activities and the annual assessment of the size of the CLF that may be recognised for LCR purposes are estimated to be $605,000 for the calendar year 2019. The corresponding amount recovered from each ADI in 2019-20 is from one of four tiers: $10,000, $15,000, $30,000 and $80,000 (all amounts are exclusive of GST).

The charge is based on the need to recover APRA's costs of carrying out new or annual CLF approval activities. These costs are calculated based on an estimation of the APRA staff time required to complete the CLF approval activities. The charge fixed for each ADI relates to the costs expected to be incurred by APRA in relation to CLF approval activities, which in turn are driven by the size, business mix and complexity of each case.

Description of the charges

The recipients of this charge are the ADIs which have sought to access a CLF as part of their LCR in 2019. The charge imposed by the instrument is based on APRA time to make the assessments and have formed a four-tiered structure:

- $10,000 plus GST (totalling $11,000) for tier one institutions;
- $15,000 plus GST (totalling $16,500) for tier two institutions;
- $30,000 plus GST (totalling $33,000) for tier three institutions; and
- $80,000 plus GST (totalling $88,000) for tier four institutions.

The charges are set by the Instrument dated 5 June 2020[24]. APRA informed the affected ADIs of the charges prior to charging.

Table 19: Basel III related charges: For the calendar years 2017 to 2021; $ millions

	2017	2018	2019	2020 (Forecast)	2021 (Forecast)
Revenue	0.6	0.6	0.6	0.6	0.6
Expenses	0.6	0.6	0.6	0.6	0.6
Net operating result	-	-	-	-	-

[24] The Instrument can be located at: https://www.legislation.gov.au/Details/F2019L00831

4. Risk Assessment

Annually APRA sets its non-PHI supervisory levy rates based on estimates of relevant assets of entities that constitute the industries, at the key levy dates. An estimate is also made of the entities that will be APRA-regulated at the levy date (30 June). From these estimates, the restricted and unrestricted levy rates are calculated (refer section 3 for more details).

Overall the setting of the annual levy rates and the subsequent cash collection is moderately complex, however the processes are not considered overly onerous by APRA. Risks arising from the rate-setting and collection processes include:

- a potential cash-flow risk if an under-collection of levies arises, to the extent that APRA does not collect sufficient levies to fund its operations. This risk is mitigated as APRA holds adequate cash reserves for its operations; and
- a reputation risk for APRA if the incorrect levy rates are set, as this will lead to over- and/or under-recoveries for individual regulated industries, and for industry sectors. Over- and under-recoveries can never be completely eliminated due to the need for estimates to be used in the levy setting process, however large variances are to be avoided to avoid undue volatility in levies collected.

5. Stakeholder Engagement

An annual industry levies consultation process is undertaken by Treasury with input from APRA. This involves the provision of a paper, prepared by Treasury in conjunction with APRA, titled '*Proposed Financial Institutions Supervisory Levies for 2020-21*', to enable industry to provide views on the proposed levies for the upcoming financial year.

Due to the COVID-19 pandemic a reduced industry consultation was performed by Treasury this year, with the consultation paper provided to key industry bodies only, as opposed to a full consultation. It is expected that a return to the full consultation process will occur for 2021-22.

The annual consultation paper includes details relating to:

- APRA's activities;
- a summary of APRA's supervisory levy requirements;
- a summary of total financial institutions levy funding requirements;
- a summary of sectoral levy arrangements;
- a summary of the impact on individual industries; and
- supervisory levy comparisons between the current and upcoming levy year.

Industry feedback from this year's consultation paper included:

- further increase in transparency;
- support the increase in levy maximum for the ADI industry;
- support a broader levy reform, moving towards an uncapped model; and
- requests to release the CRIS in conjunction with the consultation paper.

Consideration of the feedback has been taken in setting the final levy rates. Treasury and APRA will consider this feedback further during 2020-21 and continue to refine the consultation paper and CRIS as required to further increase transparency and improve the timing of the CRIS release.

6. Financial Estimates

The budget for APRA, and the corresponding forward estimates are provided in the table below.

Table 20: Future financial estimates - $millions[25]

	Forecast 2019-20	Estimated Budget 2020-21	Forward Estimate 2021-22	Forward Estimate 2022-23	Forward Estimate 2023-24
Total expenses	190.7	190.5	200.9	205.2	206.1
Restricted levy	118.3	110.8	113.8	116.6	116.7
Unrestricted levy	63.7	63.2	66.8	68.5	68.6
PHI industry levy	6.1	7.7	7.7	7.7	7.7
Sub-total - levies	188.1	181.6	188.3	192.7	193.0
Other income	4.6	10.1	10.0	10.1	10.7
Total income	192.7	191.7	198.3	202.8	203.7
Surplus / (deficit)	2.0	1.2	(2.6)	(2.4)	(2.4)

[25] Indicative only as the Government has deferred the Budgeting process with to an expected release in October 2020.

7. APRA's Performance

7.1 Financial Performance

The following tables show APRA's financial performance from 2016-17 to 2018-19:

Table 21: Expenses performance against budget for APRA [26] - $ millions

Expenses $m	2016-17	2017-18	2018-19
Budget	131.3	141.6	145.6
Actual	129.7	144.0	158.4
Variance	1.6	(2.4)	(12.9)

APRA has overspent its budget for two of the last three financial years:

- in 2016-17, the underspend was due to non-people related expenditure categories as internal restructuring activities impacted training, travel and other discretionary activities;
- in 2017-18, the overspend was due to an unbudgeted Prudential Inquiry, which was fully cost recovered, partially offset by fewer staff and delays in acquiring new assets driving lower depreciation and amortisation expenses; and
- In 2018-19, the overspend was due to higher supplier costs for project expenditure and additional legal and enforcement expenditure as a result of additional expenditure approved during MYEFO for which the revenue was collected in 2019-20.

Table 22: Revenue performance against budget for APRA; $ millions

Revenue $m	2016-17	2017-18	2018-19
Budget	129.7	143.5	148.4
Actual	128.8	147.5	148.5
Variance	(1.2)	4.0	0.1

The 2016-17 slight under-collection was driven by a lower than assumed June 2016 quarter growth in the superannuation industry assets combined with less fees charged to the larger banks for accreditation of their Internal Capital Models. In 2017-18 revenue was higher due to

[26] Actual results as per APRA Financial Statements. Budget as per section 6.3/6.2 of the APRA financial statements.

an unbudgeted Prudential Inquiry offset by a small levies under-collection arising from industry consolidation and waiving of increased levies arising from the impact of a new accounting standard[27]. In 2018-19 a slight over-collection was driven by higher than expected June quarter assets growth in the superannuation industry.

7.2 Non-financial performance

Over the last few years there has been a broad desire to improve accountability across the whole of the Australian Government. Enhancements have focused on non-financial performance and have resulted in a number of changes to the accountability of Government agencies in general and regulators in particular.

The key changes are:

- the enhanced Commonwealth Performance Framework – enhancements made within the *Public Governance, Accountability and Performance Act 2013* (PGPA Act);
- the development of a Regulator Performance Framework; and
- proposed new oversight authority for APRA and the Australian Securities and Investments Commission (ASIC).

7.2.1 The PGPA Act – non-financial performance related requirements

The PGPA Act non-financial performance related requirements are intended to provide meaningful information to the Parliament and the public by seeking to have 'line of sight' from the stated objectives and key performance information provided in the PBS and Corporate Plan to the assessment of APRA's performance against these objectives and indicators in the Annual Performance Statement included in the Annual Report.

Corporate Plans

APRA's 2019-2023 Corporate Plan was published on APRA's website in August 2019[28]. An updated plan for 2020-2024 is expected to be published by August 2020. The plan outlines APRA's key priorities in pursuing its mission over the four years of the plan and includes key performance indicators that APRA will use to monitor and assess performance against the plan.

Annual Reports with Annual Performance Statements

APRA's 2018-19 Annual Report was published in September 2019[29].

The Annual Report provides an assessment at the end of the reporting period of the extent to which APRA has succeeded in achieving its purpose. The Annual Report contains an Annual

[27] AASB 1056: Superannuation Entities.

[28] The Corporate Plan can be located at: https://www.apra.gov.au/news-and-publications/apra-corporate-plan

[29] The Annual Report can be located at: https://www.apra.gov.au/sites/default/files/APRA%20Annual%20Report%202018_19.pdf

Performance Statement reporting against performance measures outlined in APRA's PBS and Corporate Plan.

7.2.2 Regulator Performance Framework

The Regulator Performance Framework (the Framework) was introduced by the Government as part of its commitment to reducing the cost of unnecessary or inefficient regulation imposed on business, the community and individuals.

The Framework came into effect on 1 July 2015. It focuses on the regulatory burden created in the way regulators administer regulation, rather than the process for, and outcomes of, regulatory policy making. Six Key Performance Indicators (KPIs) apply to all regulators:

1. Regulators do not unnecessarily impede the efficient operation of regulated entities;
2. Communication with regulated entities is clear, targeted and effective;
3. Actions undertaken by regulators are proportionate to the regulatory risk being managed;
4. Compliance and monitoring approaches are streamlined and coordinated;
5. Regulators are open and transparent in their dealings with regulated entities; and
6. Regulators actively contribute to the continuous improvement of regulatory frameworks.

Regulators are required to formulate their own performance metrics to support an assessment against these six KPIs. APRA's metrics, available on its website, were developed in consultation with APRA's key industry associations and approved by the Assistant Treasurer.

APRA is required to undertake a self-assessment against the six KPIs and have this externally validated by the industry associations. The external validation process provides an avenue for industry to provide feedback on whether APRA's self-assessment accords with their views of APRA's performance against the KPIs over the period. APRA must publish the externally validated self-assessment by the end of December each year.

APRA is also accountable for its activities and performance through a wide range of longstanding mechanisms, including the following:

- APRA's Annual Report is tabled in Parliament each year and includes the Annual Performance Statement;
- APRA makes regular appearances at Senate Estimates and the House of Representatives Standing Committee on Economics, as well as ad hoc appearances before other committees;
- APRA receives a Statement of Expectations from the Government which sets out the Government's policy priorities for the financial system and regulatory reform program and its expectations about the role of APRA, its relationship with regulated entities, industry stakeholders, Government, Treasury, responsible Ministers and other Government bodies and regulators and issues of transparency and accountability. APRA's Statement of Expectations was last reviewed and published (https://www.apra.gov.au/statement-expectations-2018) in September 2018;

- APRA issues a Statement of Intent in response to the Government's Statement of Expectations. APRA's Statement of Intent was last reviewed and published (https://www.apra.gov.au/statement-intent-september-2018) in September 2018;
- APRA is subject to annual financial audits by the Australian National Audit Office (ANAO), as well as occasional performance audits; and
- APRA complies with the Government's best practice regulation process administered by the Office of Best Practice Regulation, which includes cost-benefit assessments of regulatory changes and Regulation Impact Statements.

Other accountability and oversight mechanisms are outlined on APRA's website here: https://www.apra.gov.au/accountability-and-reporting

7.2.3 Capability Review

In early 2019, the Government announced an independent panel comprising Mr Graeme Samuel AC, Ms Diane Smith-Gander AO and Mr Grant Spencer would undertake a capability review of APRA. The objectives of the review were to:

- assess APRA's ability to deliver upon its statutory mandate;
- assess APRA's capability to respond to future challenges; and
- identify recommendations to enhance APRA's future capabilities.

The review concluded on 30 June 2019 and the Government published its response on 17 July 2019[30]. An extract of that response is provided below:

"The Panel made 24 recommendations, with 19 directed to APRA and the remaining five directed to the Government. The Review found that APRA is an 'impressive and forceful' regulator in matters of traditional financial risk. However, the Review has also identified important changes to ensure that APRA is well positioned to respond to an environment of growing complexity and emerging risks for APRA's regulated sectors.

APRA has indicated to Government that it supports all 19 recommendations directed to it. The Government notes that APRA is already implementing a number of the recommendations, and will promptly begin initiatives to implement the remainder."

7.2.4 New Oversight Body

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry established in 2017, with the final report tabled in 2019 recommended (Recommendation 6.14[31]) the establishment of a new oversight authority for APRA and ASIC, independent of Government, be established by legislation to assess the effectiveness of each

[30] The Government's response to the APRA Capability review can be located here: https://joshfrydenberg.com.au/wp-content/uploads/2019/07/Treasurer-Media-Release-APRA-Review.pdf

[31] https://financialservices.royalcommission.gov.au/Pages/reports.aspx

regulator in discharging its functions and meeting its statutory objects. It was proposed that the oversight body will be required to report to the Minister in respect of each regulator at least biennially. The Government accepted this recommendation in its response to the Royal Commission report released in February 2019.

An exposure draft for the proposal of the Financial Regulator Assessment Authority was released for consultation in February 2020[32]. As at the time of writing, legislation to enact the new oversight body has yet to be formally enacted.

[32] Link to Treasury Consultation paper: https://treasury.gov.au/consultation/c2020-48919a

8. Key forward dates and events

Table 23: List of key dates and events for 2020-21:

Event	Date
Treasury Portfolio Budget Statement for 2020-21	Spring 2020
Budget and Fiscal Outlook (MYEFO) for 2020-21	Summer 2020-21
Pre-budget submissions for 2021-22	Summer 2021
Treasury Portfolio Budget Statement for 2021-22	Autumn 2021
Proposed Financial Institutions Supervisory levies for 2021-22 consultation	Autumn 2021
Release of APRA's 2021-22 CRIS	Autumn/Winter 2021

9. CRIS Approval

I certify that this CRIS complies with the Cost Recovery Guidelines.

Wayne Byres
Chairman
Australian Prudential Regulation Authority
Date: 9 July 2020

APRA