



# COST RECOVERY IMPLEMENTATION STATEMENT

Approval of ADIs' applications to the RBA's Committed  
Liquidity Facility

Calendar Year 2017

22 June 2018

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# 1. Overview

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## 1.1 Purpose

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This Cost Recovery Implementation Statement (CRIS) assesses the impact of imposing, by means of a disallowable instrument under paragraphs 51(1)(a) and (b) of the *Australian Prudential Regulation Act 1998* (the APRA Act), a limited fee for the recovery of specific Australian Prudential Regulatory Authority's (APRA's) costs. These costs are associated with its calendar year 2017 annual approval activities of Authorised Deposit-taking Institutions' (ADIs') applications to meet part of their Australian dollar Liquidity Coverage Ratio (LCR) requirements through the Reserve Bank of Australia's (RBA's) Committed Liquidity Facility (CLF) under the Basel III Liquidity Framework (*Basel III*) (the proposed fee). The proposed fee is part of a cost recovery arrangement which commenced in 2016. The purpose of the CRIS is to ensure transparency and consistency in the raising of such fees in line with the Government's cost recovery guidelines.

## 1.2 Background

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In December 2002, the Government adopted a formal cost recovery policy to improve the consistency, transparency and accountability of its cost recovery arrangements and promote the efficient allocation of resources. The underlying principle of the policy is that charges should be set to recover all the costs of products or services where it is efficient and effective to do so, where the beneficiaries are a narrow and identifiable group and where charging is consistent with Government policy objectives. Cost recovery policy is administered by the Department of Finance and outlined in the *Australian Government Cost Recovery Guidelines* (CRGs).

APRA is a statutory authority set up under the APRA Act and is subject to the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). The primary purpose of APRA is to regulate bodies in the financial sector (APRA Act, section 8). APRA is funded by an annual appropriation, which is based on industry levies after the deduction of the Treasurer's determination for monies collected for the Australian Securities and Investments Commission (ASIC), the Australian Taxation Office (ATO), the Department of Human Services (DHS), the Australian Competition and Consumer Commission (ACCC) and for implementing the *Stronger Super – SuperStream* initiative (APRA Act, section 50<sup>1</sup>). In addition, APRA can charge fees for services and recover costs under section 51 of the APRA Act.

Where an institution requires a specific elective service, APRA can charge a direct fee under section 51 of the APRA Act. For specific one-off services outside direct supervision of APRA-regulated institutions APRA seeks to recover the associated costs with specific fees. This reduces the levies that institutions pay and is seen by the APRA-regulated financial industry

<sup>1</sup> APRA Act was amended 1 April 2018 replacing: 'implementing the SuperStream measures until 30 June 2018' with 'governing and maintaining the superannuation transactions network.'

as desirable, as it reduces cross-subsidies for both special services and services unrelated to direct supervision.

APRA is required to undertake prudential supervision of ADIs according to its statutory authority laid out in the APRA Act and within the legal framework of the *Banking Act 1959* and the prudential standards made under that Act. Where practicable, APRA's prudential standards have been founded on relevant international standards, including Basel III. The Basel III framework permits ADIs, on annual application to APRA, to apply for a CLF offered by the RBA as part of their LCR. APRA reviews, assesses, determines the size of the facility and approves as appropriate (approval activities).

## 2. Policy review

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Recovery of the proposed fee is supported by the following policy-based analysis:

### 2.1 Alignment with objectives

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The primary objective of APRA is set out within its Outcome Statement, being: “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”.

A strengthened liquidity buffer enables ADIs to manage their liquidity risk more effectively and promotes a more resilient banking system. For larger ADIs, this is reinforced through the LCR, and the use of the CLF where required. A significant component of implementing the LCR requires APRA to carry out annual approval activities for those ADIs seeking to access, and benefit from, the RBA’s CLF.

Consequently, this specific work carried out by APRA could, and should, be cost recovered.

### 2.2 Description of activity

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The activities for which the proposed fees are made are APRA’s reviews, assessments, size determination and approvals (approval activities) of ADIs’ annual applications to access a CLF offered by the RBA.

### 2.3 Stakeholders

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Current stakeholders are the ADIs which have sought to access a CLF as part of their LCR.

## 2.4 Cost recovery alternatives

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Identifying the specific method of cost recovery is based on considering how APRA is most appropriately funded for the activity. APRA has a choice of recovering costs through levies applied across all APRA-regulated institutions, the ADI sector or a specific fee for services to the ADIs which seek to access a CLF as part of their LCR.

The CRGs advise that, where possible, a fee for service is preferred to a levy provided the fee is efficient, cost effective and consistent with policy objectives. The use of levies gives rise to potential cross-subsidies, which is not consistent with cost recovery policy.

There are three choices available to APRA in respect of the work required for the CLF approval activities: (i) decline to carry out work; (ii) use levies to fund the costs; or (iii) use a specific fee for service. The first option is not desirable. The resilience of ADIs requires a liquidity framework in Australia which is consistent with international standards and practice. The use of levies to recover the cost would require cross-subsidy by ADIs that will not benefit from accessing a CLF. All of the ADIs that are seeking to access a CLF already pay a levy under the restricted component of the financial sector levy. Recovering these further costs by means of the levy would spread the funding for the CLF approval activities onto all those ADIs that will not benefit from this work. The use of a specific fee to recover the costs of CLF approval activities from applicants seeking to access a CLF will target the main beneficiaries of the work.

## 2.5 The efficiency and effectiveness of the charge

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APRA is largely funded by the financial industry. There is an annual consultation process for levies which considers the costs of APRA and the sources of funding including fees, levies and the interest earned on cash holdings. This provides a stable, transparent and easily administered means of funding the operations of APRA. Generally, direct cost recovery, in which supervisory work performed is charged to an institution, is not efficient and levies provide a sounder basis. Direct fees for service often result in volatile charges that are unpredictable for both APRA and institutions. In addition, as a general rule, APRA would not be able to procure and fund in advance the specialist expertise needed to carry out supervision without the certainty of funding prior to carrying out the activity. Furthermore, when applied in inappropriate circumstances, direct charging may have negative spill-over effects, with institutions requiring advice being deterred from seeking it on the basis of the higher costs involved.

Nevertheless, direct charging is appropriate in certain circumstances. In particular, where elective services are provided by APRA (e.g., assessment and issuing of a licence to a particular institution), direct user fees are appropriate and avoid cross-subsidisation. The approval activities work for ADIs applying to access the RBA's CLF falls into this category because it is referable to specific ADIs and can be directly measured. The recipients of the charge have been advised and understand the basis of the costs that are incurred in carrying out this work.

## 2.6 Conclusion

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The work for ADIs applying to access the RBA's CLF is approval activities which are referable to specific ADIs and can be directly measured. A direct fee is therefore the most appropriate means of recovery of the costs involved.

## 3. Design and implementation

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### 3.1 Basis of charging

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All relevant ADIs have contributed to the Basel III work associated with the CLF approval activities by APRA since 2015.

The following table shows the detail of the fee income from the LCR-related charges:

<b>\$'000</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Revenue	-	590	590
Expense	-	590	590
Net operating result	-	-	-

### 3.2 Legal requirements for the imposition of charges

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APRA has power under section 51 of the APRA Act to impose fees for service. As the proposed fee is reasonably related to the cost of undertaking the work associated with the CLF approval activities, the fee does not amount to taxation.

### 3.3 Costs to be included in charges

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The total recoverable costs for undertaking the CLF approval activities work are estimated to be \$590,000 for 2017. The amount recovered from each ADI will be from one of four tiers: \$10,000, \$15,000, \$30,000 and \$80,000 (all amounts exclusive of GST). The derivation of the estimated costs of this service has been modelled by APRA's liquidity risk team and finance group. A table is included in the Appendix.

These costs do not include the costs of supervising ADIs which do not need access to a CLF, as these costs are recovered through financial sector levies.

APRA committed the equivalent of 3 staff to CLF approval activities-related work during 2017. It reflects a mix of skills applied to these activities undertaken in the period.

### **3.4 Outline of charging structure**

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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, through \$15,000 and \$30,000 to \$80,000 per applicant, which is minor in the context of an aggregate size of the CLF (circa \$250 billion).

### **3.5 Duration of the charge**

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The proposed fee is intended to recover the specific costs incurred in 2017 directly associated with the annual CLF approval activities of applicant ADIs. These charges are determined based on an estimation of APRA staff time involved in carrying out the work for each of the institutions involved.

### **3.6 Recipients of the charge**

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The recipients of this charge are the ADIs which have sought to access a CLF as part of their LCR in 2017.

A table of the estimated proportional costs is shown in the Appendix as aggregated percentage totals.

## **4. Ongoing monitoring**

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### **4.1 Monitoring mechanisms**

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The costs of the CLF approval activities are monitored as part of APRA's annual budget review processes. Analysis of the costs incurred is undertaken by APRA's finance group and an annual recommendation is made to the APRA Members for approval of the proposed cost recovery arrangement.

### **4.2 Stakeholder consultation**

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The recipients of the charge have been advised and understand the basis of the costs that are incurred in carrying out this work.



### 4.3 Periodic review

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The cost recovery arrangements for CLF approval activities are subject to an annual review process.

## 5. Certification

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I certify that this CRIS complies with the Australian Government cost recovery guidelines.



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*Wayne Byres  
Chairman  
Australian Prudential Regulation Authority  
Date: 25 June 2018*

## Appendix

### Basel III – CLF Cost Recovery – Costing Template for 2017

*\$'000*

#### A. Forecast costs - Basel III - CLF

Employee expenses	590
<b>Total forecast costs - Basel III - CLF</b>	<b>590</b>
<b>2017 Total costs to be recovered in 2017-18</b>	<b>590</b>

Which represents a charge for effort based on these approximate percentages:

Group 1 of entities on which APRA expended an estimated 10 days or less	1.69%
Group 2 of entities on which APRA expended an estimated 11 to 15 days	10.17%
Group 3 of entities on which APRA expended an estimated 16 to 30 days	20.34%
Group 4 of entities on which APRA expended an estimated 31 to 80 days	67.80%
	<hr/>
	100.00%



 **APRA**