Cost Recovery Implementation Statement:

Levies for ASIC industry funding (2017–18)

October 2017

About this CRIS

ASIC industry funding commenced on 1 July 2017. The Cost Recovery Implementation Statement (CRIS) provides information on how we will implement cost recovery for our regulatory activities.

We have published this version of the CRIS for comment. We will take into account stakeholder feedback in preparing the final CRIS, which we expect to publish in early 2018.

About ASIC regulatory documents

In administering legislation ASIC issues the following types of regulatory documents.

Consultation papers: seek feedback from stakeholders on matters ASIC is considering, such as proposed relief or proposed regulatory guidance.

Regulatory guides: give guidance to regulated entities by:

- explaining when and how ASIC will exercise specific powers under legislation (primarily the Corporations Act)
- explaining how ASIC interprets the law
- describing the principles underlying ASIC's approach
- giving practical guidance (e.g. describing the steps of a process such as applying for a licence or giving practical examples of how regulated entities may decide to meet their obligations).

Information sheets: provide concise guidance on a specific process or compliance issue or an overview of detailed guidance.

Reports: describe ASIC compliance or relief activity or the results of a research project.

Disclaimer

This CRIS does not constitute legal advice. We encourage you to seek your own professional advice to find out how the Corporations Act and other applicable laws apply to you, as it is your responsibility to determine your obligations.

Contents

A Introduction

Key points

This Cost Recovery Implementation Statement (CRIS) provides information about how we implement industry funding for our regulatory activities. We will publish a CRIS each year; we have published this version for comment.

Our industry funding is intended to:

- ensure that our costs are borne by those creating the need for regulation;
- establish price signals in the way resources are allocated within ASIC;
- create more incentive for self-regulation and improve behaviour in the financial system; and
- improve our cost transparency and accountability to industry.

The regulatory activities we engage in that form part of this industry funding model are stakeholder engagement, education, guidance, surveillance, enforcement, and policy advice.

Purpose of the CRIS

1 We are required to publish a CRIS each year under the Australian Government Cost Recovery Guidelines (PDF 1.9 MB). This CRIS provides information about how the cost of our regulatory activities will be recovered from each industry subsector. It includes our forecast of the work we will undertake for each subsector for 2017–18 and what it will cost to carry out that work (regulatory costs). It also includes an explanation of the design of the levy for each subsector.

2 In future years, the CRIS will include information on the actual expenses we incur and explain any material variation between our estimates and actual expenses.

3 We have published this version of the CRIS for comment. You can provide your feedback by emailing policy.submissions@asic.gov.au by 1 November 2017. We will take into account stakeholder feedback in preparing the final CRIS, which we expect to publish in early 2018.

4 The Australian Government has undertaken extensive consultation to develop and refine the industry funding model. Treasury consulted on the development of the industry funding model in August 2015 and again in November 2016. Exposure draft legislation was released for public consultation in 2017. Treasury also conducted roundtable meetings with

various stakeholder groups. See Section K for more detail on stakeholder engagement.

5 This CRIS provides key information on how ASIC will implement the model.

ASIC costs to be recovered

6 The Australian Government will continue to determine ASIC's total funding through the annual budget process. In 2017–18, $246.4 million of ASIC's total budgeted resources of $387.7 million (approximately 64%) will be recovered through levies on industry. Our forecasts of our regulatory costs for each subsector in this CRIS are calculated by apportioning the total amount of $246.4 million between each subsector, based on the amount of effort we project we will spend regulating each subsector. The costs in this CRIS are only a guide for the levies to be charged for 2017–18. The final levies will be based on our actual cost of regulating each subsector in 2017–18. This ensures that each subsector is only levied for the actual cost of regulating that subsector.

Background to the industry funding model

7 On 20 April 2016, the Australian Government announced it would introduce an industry funding model for ASIC. This was in response to the recommendation of the Financial System Inquiry (FSI) that the Government recover the cost of ASIC's regulatory activities directly from industry participants through fees and levies, calibrated to reflect the cost of regulating the different industry sectors that we regulate.

Note: See FSI, *Financial System Inquiry: Final report*, December 2014, recommendation 29.

8 The FSI identified that the Australian Government recovered only a small portion of ASIC's costs directly from industry participants, through the Financial Institutions Supervisory Levies, application fees, and Market Supervision Cost Recovery Regime. The FSI noted that, as a result, ASIC costs were not transparent to industry and ASIC was also exposed to an increased risk of funding cuts unrelated to changes in the cost of delivering on its mandate. It also noted that the Senate Economics References Committee's report, *Performance of the Australian Securities and Investments Commission* (published in June 2014), highlighted that resource constraints affect ASIC's capacity to conduct surveillance across regulated entities.

9 Ultimately, the rationale for an industry funding model is to provide greater stability and certainty in our funding, and to ensure that we are adequately resourced to carry out our regulatory mandate.

10 The industry funding model for ASIC will:

(a) ensure that the costs of the regulatory activities undertaken by ASIC are borne by those creating the need for regulation, rather than Australian taxpayers;

(b) establish price signals in the way resources are allocated within ASIC;

(c) provide economic incentives to drive the Government's desired regulatory outcomes for the financial system; and

(d) improve our cost transparency and accountability to industry.

About ASIC

11 ASIC is Australia's integrated corporate, markets, financial services and consumer credit regulator. ASIC is an independent Australian Government statutory authority, established under the *Australian Securities and Investments Commission Act 2001* (ASIC Act).

12 Our vision is to allow markets to fund the economy and, in turn, economic growth. In doing so, we contribute to the financial wellbeing of all Australians. We do this by:

(a) promoting investor and consumer trust and confidence;

(b) ensuring fair and efficient markets; and

(c) providing efficient registration services.

13 To achieve our vision, we use our 'detect, understand and respond' approach and our regulatory toolkit. That is, we:

(a) *detect* wrongdoing through surveillance, breach reports, and reports from the public and whistleblowers;

(b) *understand* our environment through continual scanning to identify issues and manage risks; and

(c) *respond* to wrongdoing and the risk of wrongdoing through education, guidance, enforcement and policy advice.

14 The ASIC Act requires ASIC to:

(a) maintain, facilitate and improve the performance of the financial system, and entities within it, in the interests of commercial certainty, reducing business costs, and the efficiency and development of the economy;

(b) promote confident and informed participation by investors and consumers in the financial system;

(c) administer the law effectively and with minimal procedural requirements;

(d) enforce and give effect to the law;

(e) efficiently and quickly receive, process and store information given to ASIC;

(f) make information about companies and other bodies available to the public as soon as practicable; and

(g) take whatever action we can, and which is necessary, to enforce and give effect to the law.

15 Our *Corporate Plan 2017–18 to 2020–21: Focus 2017–18* provides an overview of our strategic risks, our long-term challenges, and how we plan to address those risks and challenges. The Corporate Plan sets out 'what good looks like' for the industry sectors we regulate.

Description of our regulatory activities

16 We undertake a range of regulatory activities to satisfy our mandate. These activities can be broadly categorised as:

(a) stakeholder engagement;

(b) education;

(c) guidance;

(d) surveillance;

(e) enforcement; and

(f) policy advice.

17 These activities together form our regulatory toolkit for maintaining the resilience of our financial system. We use this toolkit across the multiple industry sectors we regulate. The toolkit helps us to better understand the behaviour of investors, consumers and gatekeepers, so we can better respond to their needs and those of the financial system.

18 Financial decisions are influenced by people's level of financial literacy and behavioural biases, while culture, incentives and deterrence are some of the key factors driving individual and firm behaviours in the sectors we regulate. Education, stakeholder engagement, guidance, surveillance and enforcement are the levers that can influence behaviour in the financial system.

19 Table 1 provides an overview of our regulatory activities and sub-activities that are subject to industry funding. We carry out these activities for all industry sectors. We track our regulatory effort for each subsector at the activity level.

Table 1: Our regulatory activities and sub-activities that are subject to industry funding

Activity	Activity description	Sub-activity overview
Stakeholder engagement	We engage with external stakeholders and manage our relationships with them through liaison meetings, presentations and other interactions. The purpose of our engagement activity is to set and maintain regulatory standards, better inform stakeholder practices, identify issues in the market, address stakeholder inquiries, and to ensure that our messages are communicated to industry.	Our sub-activities include: • attending industry liaison meetings and giving presentations; • responding to requests for advice in matters where stakeholders have regulatory doubt; • consulting with industry to better understand market issues; and • responding to stakeholder inquiries and requests for information.
Education	We undertake a range of educational activities. This includes developing tools and resources for our regulated population and consumers, and our contributions to industry publications.	Our sub-activities include: • developing tools and resources (e.g. online calculators) for consumers; • contributing to industry publications and material on ASIC's MoneySmart website; • facilitating the teaching and learning of financial literacy in schools, further education and workplaces; and • giving speeches and presentations to industry and consumers.
Guidance	We provide guidance to industry, on how we will administer the law, through regulatory guides, consultation papers, information sheets and ASIC legislative instruments.	Our sub-activities include: • developing and consulting on regulatory proposals; • providing guidance on regulatory topics to enhance industry's understanding of their legal obligations and how we administer the law; • drafting, consulting and issuing ASIC legislative instruments; and • deciding on novel relief applications for exemptions from or modifications of the law.

<table>
<tr><th>Activity</th><th>Activity description</th><th>Sub-activity overview</th></tr>
<tr><td>Surveillance</td><td>We conduct surveillance to test compliance with the laws we administer and promote positive consumer and investor outcomes.

We may gather and analyse information on:
• a specific entity or range of entities;
• a transaction; or
• a specific product or issue of concern in the market.</td><td>Our sub-activities include:
• making an initial regulatory assessment, as part of which we:
– accept breach reports or reports of misconduct;
– undertake initial inquiries and preliminary analysis;
– assess the nature and gravity of the suspected breach or misconduct;
– undertake initial testing of ASIC’s jurisdiction; and
– decide whether further action is required and, if so, prepare handover of referral materials;
• review, as part of which we:
– identify the risks of making a detailed inquiry for the purpose of a single or thematic surveillance;
– undertake stakeholder interviews and collect documentary information;
– use ASIC’s compulsory information gathering powers (e.g. under s912C of the Corporations Act 2001 (Corporations Act));
– analyse and assesse the information gathered; and
– develop and publish surveillance reports; and
• undertaking regulatory surveillance and monitoring, as part of which we:
– accept referrals for suspected, alleged or admitted breaches and misconduct;
– gather and analyse information and initial evidence, which may lead to an investigation and/or litigation; and
– use ASIC’s compulsory information gathering powers (e.g. under s912C of the Corporations Act).</td></tr>
</table>

Activity	Activity description	Sub-activity overview
Enforcement	An activity is classified as enforcement when we consider that there has been a breach of the law. Our investigations may lead to enforcement action such as criminal action, civil action and administrative action (e.g. banning or disqualifying persons from the financial services industry).	Our sub-activities include: • undertaking investigations, as part of which we: – accept referrals of alleged or admitted breaches and misconduct; – assess preliminary and detailed case theories; – using ASIC's formal investigatory powers (e.g. issuing notices requiring a person to assist ASIC with an investigation or appear before ASIC for examination); – obtain information and seize property; – collaborate and exchange information with other regulatory partners; and – convert information gathered into admissible evidence; • administrative decision making, as part of which we prepare briefs for ASIC hearing delegates for administrative actions (e.g. banning decisions and imposing stop orders on disclosure documents); • undertaking litigation, as part of which we: – consider evidence and relevant legal authorities; – develop, obtain and assess legal expert opinions; – decide on the merit of the case and determine which legal remedies will be sought; – for criminal matters, prepare briefs for the Commonwealth Director of Public Prosecutions and support ongoing case development; – for civil matters, draft and settle pleadings; and – attend court; and • handle appeals, as part of which we: – draft or receive an appeal notice; – consider evidence and relevant legal authorities; – develop, obtain and assess legal expert opinions; – prepare appeal briefs and supervise process service; and – attend court.
Policy advice	We provide advice to the Australian Government on the operational implications of Government policy initiatives and legislative change. We identify the opportunities and risks that inform our preferred position and influence law reform matters.	Our sub-activities include: • researching innovation, competition and emerging harms, and then identifying and analysing potential policy responses; • providing proposals for law reform and assisting in its development; • identifying and planning for the impact on external stakeholders and internal capabilities; and • providing submissions to parliamentary and Government inquiries on law reform issues.

20 The entities that will be liable to pay levies are those that are subject to the regulatory activities outlined in Table 1. The total levy a regulated entity

must pay is equal to the sum of the levy amounts applicable to the entity for each industry subsector the entity falls under for a financial year.

Description of industry sectors

21 The industry sectors and subsectors are set out in the ASIC Supervisory Cost Recovery Levy Regulations 2017 and described in Table 2.

Table 2: Summaries of industry sectors

Sectors	Subsectors	Further discussion
Corporate **(includes auditors and liquidators, which are subject to separate fees and levies)**	Corporations, including: • listed corporations; • unlisted public companies; • large proprietary companies; and • small proprietary companies (to be charged through an increase to the annual review fee for proprietary companies in the Corporations (Review Fees) Regulations 2003). Auditors of disclosing entities Registered company auditors Registered liquidators	Section D
Deposit taking and credit	Credit licensees, including: • credit providers; • small amount credit providers; and • credit intermediaries Deposit product providers Payment product providers Margin lenders	Section E
Investment management, superannuation and related services	Superannuation trustees Responsible entities Wholesale trustees Custodians Investor-directed portfolio service (IDPS) operators Managed discretionary account (MDA) providers Traditional trustee company service providers Crowd-sourced funding (CSF) intermediaries	Section F

Sectors	Subsectors	Further discussion
Market infrastructure and intermediaries	Market infrastructure providers, including: • Australian market licensees, including various types of market operator; • clearing and settlement (CS) facility operators; • Australian derivative trade repository operators; • exempt market operators; and • credit rating agencies Market intermediaries, including: • market participants; • securities dealers; • corporate advisers and over-the-counter (OTC) traders; • retail OTC derivatives issuers; • wholesale electricity dealers	Section G
Financial advice	Australian financial services (AFS) licensees that provide: • personal advice to retail clients on relevant financial products; • personal advice to retail clients on products that are not relevant financial products • general advice only; and • personal advice to wholesale clients only.	Section H
Insurance **(includes life and general insurance)**	Insurance product providers (including friendly societies) Insurance product distributors Risk management product providers	Section I

Note: 'Relevant financial products' are financial products other than basic banking products, general insurance products, consumer credit insurance, or a combination of any of these products (see s922C).

22 We have determined that we collect lodgement fees on approximately 40 forms, which are used to support work across an industry, rather than activities undertaken for an individual entity. An example of this is the lodgement of annual compliance certificates for Australian credit licensees (credit licensees). In these cases, the fees will be abolished and these activities will be funded by ongoing annual levies.

Costs recovered by APRA

23 We will not recover the costs associated with achieving improved outcomes in financial services (described in *Budget 2016–17: Budget measures—Budget paper no. 2*, under the heading 'Australian Securities and Investments Commission – improving outcomes in financial services') until 1 July 2019. These costs will be recovered by the Australian Prudential Regulation Authority (APRA) through the Financial Institutions Supervisory Levies until 30 June 2019.

24 APRA will continue to recover the costs of the Superannuation Complaints Tribunal (SCT) through the Financial Institutions Supervisory Levies until the SCT ceases to operate on 30 June 2020.

Changes to the cost recovery methodology since Treasury consulted

25 In November 2016, Treasury released *Proposed industry funding model for the Australian Securities and Investments Commission: Proposals paper* (Treasury proposals paper). The Treasury proposals paper included estimates of the amounts to be recovered and proposed levies for each subsector.

26 The Acts and regulations made to introduce the industry funding model (see Section B for more information) include a number of changes to reflect feedback from stakeholders on the Treasury proposals paper and the exposure draft legislation. These changes are reflected in this CRIS.

27 We set out the key changes made to the cost recovery arrangements, compared to the arrangements in the Treasury proposals paper, in paragraphs 28–49, by industry sector and subsector. If a subsector is not listed here, there was no change from the model set out in the proposals paper.

Corporate sector

Companies

28 The methodology for levying companies is substantially unchanged; however, the public company (unlisted, disclosing) subsector and the public company (unlisted, non-disclosing) subsector have been merged. All unlisted public companies will be charged a flat levy.

29 There is no longer a specific subsector for small proprietary companies as leviable entities in the final industry funding model. Instead, our regulatory costs in relation to small proprietary companies will be recovered through an increase, from 1 July 2018, of $5 to the annual review fee for proprietary companies under the Corporations (Review Fees) Regulations 2003.

Registered liquidators

30 The minimum levy for registered liquidators has been reduced from $5,000 to $2,500.

31 The graduated levy (see paragraph 71) will be charged based on:

(a) the number of ongoing external administration appointments at the beginning of the financial year, and the number of new external administration appointments the liquidator accepts during the financial year; and

(b) the number of prescribed documents lodged with ASIC during the financial year, and the number of prescribed notices published on the Published Notices Website maintained by ASIC during the financial year.

Deposit taking and credit sector

Credit intermediaries

32 The graduated levy for credit intermediaries will be charged on the number of authorised representatives the intermediary has at the end of the financial year.

Payment product providers

33 For payment product providers, a flat levy will apply in 2017–18. In 2018–19, this will move to a graduated levy based on revenue from payment product provider activity. A minimum levy of $2,000 will be payable by all payment product providers.

Investment management, superannuation and related services sector

Superannuation trustees

34 The levy metric for superannuation trustees is the total value of assets at the end of the financial in registrable superannuation entities operated by the trustee. To avoid double counting, the total value of assets is adjusted to exclude assets that are an interest in another registrable superannuation entity operated by the trustee.

Responsible entities

35 The metric for responsible entities is the total value of assets at the end of the financial year in registered schemes operated by the responsible entity. To avoid double counting, the total value of assets is adjusted to exclude assets that are an interest in another registered scheme operated by the responsible entity.

36 The current proposals for the Asia Region Funds Passport regime require an Australian passport fund to be a registered scheme. The assets of the passport fund will be included in the calculation of the metric for the responsible entity operating the passport fund and will therefore be captured in this industry subsector.

Wholesale trustees

37 For wholesale trustees, a flat levy will be charged in 2017–18. In 2018–19, a graduated levy will apply based on the value of assets at the end of the financial year in all unregistered managed investment schemes issued by the trustee, and a minimum levy of $1,000 will be payable by all wholesale trustees. To avoid double counting, the value of assets will be adjusted to exclude assets that are an interest in another unregistered managed investment scheme operated by the wholesale trustee.

IDPS operators

38 For IDPS operators, a graduated levy based on revenue from IDPS activity undertaken under the operator's AFS licence will apply. A minimum levy of $10,000 will also be payable by all IDPS operators.

Market infrastructure and intermediaries sector

Australian market licensees and exchange operators

39 With the exception of large securities exchange operators, there are no changes to the methodology proposed in November 2016.

40 The levy for large securities exchange operators will be graduated based on the value of transactions traded on each exchange.

Market participants

41 The costs related to regulating market participants will now be split between large securities exchange participants and large futures exchange participants.

42 Participants in these subsectors will be charged a minimum levy of $9,000 for each exchange they are a participant of, plus a graduated levy based on their share of the subsector's messages sent and transactions reported to a large securities or futures exchange that is recognised by our Market Analysis and Intelligence (MAI) system.

Securities dealers

43 The definition of 'securities dealers' has been changed to exclude dealers with a transaction value of less than $250,000 in the financial year.

Investment banks

44 Our costs related to regulating investment banks will now be split between the corporate advisers subsector and OTC traders subsector.

45 Corporate advisers will be charged a minimum levy of $1,000 and a graduated levy based on revenue above $100,000.

46 OTC traders will be charged a minimum levy of $1,000 and a graduated levy based on the number of full-time equivalent (FTE) staff engaged in OTC trading activities.

Financial advice sector

47 A minimum levy of $1,500 has been introduced for AFS licensees that provide personal advice to retail clients on relevant financial products. The graduated levy for these licensees is based on the number of advisers on the Financial Advisers Register, subject to the exclusions outlined in paragraph 48.

48 For securities dealers, large securities exchange participants and large futures exchange participants, the number of financial advisers used to calculate the levy will not include advisers who only provide advice on products that are not relevant financial products.

Insurance sector

49 The definition of ‘insurance product providers’ has been expanded to include AFS licensees who make offers to arrange for the issue of insurance products under an intermediary authorisation with an APRA-regulated insurer that does not hold an AFS licence.

B Policy and statutory authority for industry funding

Key points

Our regulatory costs will be recovered from all the industry sectors we regulate through a combination of general industry levies and fees for service.

The legislative framework for levies is established by five pieces of legislation:

- the *ASIC Supervisory Cost Recovery Levy Act 2017*;
- the *ASIC Supervisory Cost Recovery Levy (Collection) Act 2017*;
- the *ASIC Supervisory Cost Recovery Levy (Consequential Amendments) Act 2017;*
- the ASIC Supervisory Cost Recovery Levy Regulations 2017; and
- the ASIC Supervisory Cost Recovery Levy (Consequential Amendments) Regulations 2017.

The amounts payable each year are set through a combination of regulations and legislative instruments.

Commencement of the fees-for-service proposals has been delayed to allow time to refine the model and allow for further consultation in 2017–18.

Government policy approval for industry funding

50 On 20 April 2016, the Australian Government announced that it would introduce an industry funding model for ASIC, to commence in the second half of 2017.

51 Our regulatory costs will be recovered from all the industry sectors we regulate through a combination of:

(a) general industry levies, for ongoing regulatory activities that are consistent with the Australian Government Charging Framework. These activities relate to stakeholder engagement, education, guidance, enforcement, surveillance and policy advice; and

(b) fees for service, for user-initiated and transaction-based activities where we provide a specific service to individual entities. These activities include licensing, professional registration, applications for relief and review of corporate finance transaction documents.

52 The Australian Government has decided to delay commencement of the fees-for-service proposals to allow time to refine the model by gathering

further data to support determination of the fee amounts. The Government is expected to consult on revised fees-for-service proposals in 2017–18. The existing fees in the *Corporations (Fees) Act 2001* and regulations would continue to apply.

53 The ASIC Supervisory Cost Recovery Levy Regulations 2017 prescribe that certain amounts are not part of ASIC's regulatory costs and therefore will not be recovered under the industry funding regime, including the costs of:

(a) operating the SCT;

(b) operating the Company Auditors Disciplinary Board (CADB);

(c) operating the Insolvency Practitioners Disciplinary Committees;

(d) maintaining and operating ASIC's public registers;

(e) regulating self-managed superannuation fund auditors;

(f) preliminary investigations and reports by liquidators into the failure of a company with few or no assets; and

(g) for the financial years commencing before 1 July 2019, the costs associated with improving outcomes in financial services described in *Budget 2016–17: Budget measures—Budget paper no. 2*, under the heading 'Australian Securities and Investments Commission – improving outcomes in financial services'.

Statutory authority for industry funding

54 The industry funding model is established under a number of Acts and regulations:

(a) the *ASIC Supervisory Cost Recovery Levy Act 2017*, which impose a levy on persons we regulate to recover our regulatory costs;

(b) the *ASIC Supervisory Cost Recovery Levy (Collection) Act 2017*, which empowers ASIC to collect the levy and requires entities to submit returns annually so that we are able to calculate the levy;

(c) the ASIC Supervisory Cost Recovery Levy Regulations 2017, which establish the criteria for determining the subsectors an entity is part of and set out the formulas and metrics to be used for calculating the amount of the levy payable for entities in each subsector;

(d) the *ASIC Supervisory Cost Recovery Levy (Consequential Amendments) Act 2017*, which makes necessary consequential amendments to other Acts, including repealing the existing market supervision and competition cost recovery regimes that the new industry funding model replaces and

(e) the ASIC Supervisory Cost Recovery Levy (Consequential Amendments) Regulations 2017.

55 The amounts payable each year are set through a combination of regulations and legislative instruments. The regulations set out the methods or formulas used to allocate our regulatory costs. We will make a legislative instrument annually that sets out the information to be included in the methods or formulas.

56 Different methods, formulas and amounts are necessary to accommodate the different subsectors. However, the total levy payable by all entities in:

(a) a financial year will equal the amount of our recoverable regulatory costs in that financial year; and

a particular industry sector or subsector for a financial year will also equal the amount of our recoverable regulatory costs relating to that sector or subsector for that financial year.

C ASIC industry funding model

Key points

The industry funding model will recover the actual costs we expend during each financial year to undertake our regulatory activities.

At the end of each year, when we have collected information from entities through returns, we will issue a legislative instrument that sets out our costs for the financial year and how these will be allocated across entities. We will then issue notices to entities setting out the amount of levy due.

Our forecast for our 2017–18 regulatory costs is $246.4 million. This amount includes operating expenditure (excluding depreciation, amortisation and fee-for-service activities), plus a capital expenditure allowance.

The capital expenditure allowance is equal to ASIC's departmental capital budget and equity injection appropriations received from the Australian Government.

The metric used for calculating the levy for each subsector is a readily available metric of business activity that most closely aligns with the expected level of regulatory oversight, including the level of anticipated consumer or investor exposure to risk.

Outputs and business processes of the regulatory activity

57 We undertake a range of regulatory activities to satisfy ASIC's statutory functions. These activities can be broadly categorised as stakeholder engagement, education, guidance, surveillance, enforcement and policy advice: see Table 1.

58 The industry funding model will recover the actual costs we expended during the financial year to undertake these regulatory activities. The levy will be calculated and invoiced in the following financial year.

59 The method for determining the levies is set out through a combination of the *ASIC Supervisory Cost Recovery Levy Act 2017* and associated regulations. We will calculate levies based on information we hold and information in returns provided by entities we regulate. Each year, after we have collected this information, we will issue a legislative instrument that sets out what our regulatory costs were for the financial year and how these costs will be allocated across entities to be levied. The amount of the levy payable by each regulated entity will be calculated and invoiced in the following year. See Table 61, which sets out the key events and estimated dates for implementing industry funding.

60 For subsectors that use metrics that are measured at a point in time (as opposed to over a period of time), the graduated component of the metric will be calculated on a pro-rata basis, using the number of days in the financial year the entity was part of the relevant subsector.

Costs of the regulatory activity

61 Our forecast for our 2017–18 regulatory costs is $246.4 million. This amount includes operating expenditure (excluding depreciation, amortisation and fee-for-service activities), plus adjustments for other items (including capital expenditure allowance).

62 Our operating costs include the direct expenses of the stakeholder and enforcement teams, as well as the indirect costs that support these teams.

63 The capital expenditure allowance is equal to ASIC's departmental capital budget (funds to meet the costs associated with the replacement of minor assets or maintenance costs that are eligible to be capitalised) and equity injection appropriations to develop infrastructure to support new regulatory responsibilities (e.g. to build new registers, such as the Self-managed Superannuation Fund Auditors Register).

64 Our total budgeted costs to regulate each subsector also include adjustments to the total operating costs to reflect the following:

(a) Adjustments for ASIC-sourced revenue—Our regulatory costs are adjusted downwards to reflect revenue we use to offset regulatory costs. This revenue is generated from sources such as sub-leasing office space to other agencies, publishing royalties and the recovery of court awarded costs.

(b) Adjustments for market competition cost recovery—Some subsectors will include an upwards adjustment for market competition cost recovery. This adjustment relates to the deferred costs associated with implementing the market supervision functions we undertook from the transfer of market supervision in 2010. This cost recovery regime has been consolidated into the ASIC industry funding model for our regulatory activities, including the recovery of the deferred costs associated with implementation.

(c) Adjustments for new policy measures—An adjustment for new policy measures is made to reflect the implementation costs associated with new regulatory responsibilities. For the 2017–18 financial year these costs relate to the implementation of the crowd-sourced funding (CSF) regime (all subsectors), Asia Region Funds Passport regime (responsible entities subsector) and corporate collective investment vehicles (CCIVs) regime (responsible entities subsector).

65 The levies to be charged in February 2019 will be based on our actual cost of regulating each industry subsector in 2017–18. This ensures that each subsector is only levied for the actual costs of regulating that subsector.

66 Because of the wide variation between the way sectors operate and how the metrics for each sector work, more detail about the regulatory activities we undertake for each industry sector and their subsectors, and the cost estimates associated with these for 2017–18, are given in Sections D–I of this CRIS.

Design of regulatory charges

Basic and graduated levies

67 The metric used to calculate the levy for each subsector is a readily available metric of business activity—such as revenue generated or funds under management—that closely aligns to the expected level of regulatory oversight required, including the level of anticipated consumer or investor exposure to risk. The levy for each subsector is calculated using the basic levy component formula or the graduated levy component formula.

68 The basic levy component formula apportions our regulatory costs for the subsector to each entity based on each entity's share of activity within the subsector. As a default, the formula will apportion our regulatory costs equally between the entities in the subsector. We refer to this as a 'flat levy'.

69 Under the graduated levy component formula, all entities in the subsector must pay:

(a) a minimum levy; and

(b) an additional variable component, based on each entity's share of relevant activity within the subsector.

70 The minimum levy is an estimate of our direct and indirect costs of undertaking stakeholder engagement, policy advice, guidance, education and a portion of our capital expenditure allowance. Our remaining regulatory costs for the subsector will be recovered through the variable component of the levy.

71 The variable component of the graduated levy is driven by our enforcement and surveillance activities for each subsector. The cost to undertake these regulatory activities varies significantly—the conduct and behaviour of industry participants influences our resulting risk assessment of the subsector and the level of regulatory oversight required.

72 The variable component is calculated by first reducing our total budgeted costs by the amount to be recovered under the minimum levy and then apportioning the remainder of our costs to each entity in the subsector based on each entity's share of total business activity within the subsector.

73 For a small number of subsectors—including listed corporations, deposit product providers, and responsible entities—the minimum levy is lower than the figure derived with this methodology. This is because of stakeholder feedback on the effect of the levies on competition and innovation, received in response to Treasury's consultation paper, *Proposed industry funding model for the Australian Securities and Investments Commission: Consultation paper* (released in August 2015). In particular, there were concerns the minimum levy would have a disproportionally larger effect on small entities (relative to large entities in these subsectors), which could negatively affect competition and create a barrier to entry.

74 For the superannuation trustee and registered liquidator subsectors, the minimum levy accounts for a base level of surveillance for all entities. For the listed corporations subsector, a maximum levy applies. This maximum levy recognises that our regulatory costs in this subsector for a single entity do not generally rise above an upper threshold, due to economies of scale in regulation. For entities with a market capitalisation above $20 billion, a maximum levy of $662,000 applies: see paragraph 88.

75 A specific explanation of how the formulas operate in relation to each subsector is set out in Sections D–I.

D Corporate sector

Key points

This section details our budgeted costs and the work we will do over the next financial year in regulating each of the subsectors in the corporate sector. It also goes into more detail about the methodologies we use to calculate the levies that apply to:

- corporations (see paragraphs 79–93 and Table 3–Table 6);
- auditors (see paragraphs 94–102 and Table 7–Table 8); and
- registered liquidators (see paragraphs 103–109 and Table 9).

A summary of the levies is set out in Table 10.

Overview of the corporate sector

76 The corporate sector consists of companies and some of our regulated population that provide professional services to companies—that is, company auditors and registered liquidators. A company's obligations under the Corporations Act, the activities that we carry out and the intensity of the regulation required, will differ for each type of company.

77 The level of supervision of each subsector depends on the scale of potential harm to investors or consumers and the effect on the integrity and reputation of Australian financial markets. For example, we dedicate a significantly larger amount of our regulatory effort to listed corporations compared to small proprietary companies. This is because listed corporations have the potential to cause greater harm to investors and the reputation of Australia's financial markets.

78 The tables in this section (Table 3–Table 9) depict our forecast regulatory costs for each subsector. These costs are a guide only. The final levies will be based on our actual cost of regulating each subsector in 2017–18.

Corporations

Listed corporations

79 Our vision of 'what good looks like' for listed corporations is that they:

(a) treat investors fairly when undertaking fundraising and change of control transactions;

(b) are accountable to investors by ensuring disclosure is accurate, complete and timely; and

(c) adopt sound corporate governance practices that support market integrity and good investor outcomes.

80 To achieve this vision, we regulate conduct and disclosure by corporations in Australia with a particular focus on corporate governance, corporate transactions (such as fundraising, takeovers and schemes of arrangement) and financial reporting.

81 In 2017–18, we will continue to focus on promoting better gatekeeper culture and conduct in markets. This will include surveillance targeting:

(a) the processes for initial public offerings, by identifying areas of concern to ensure intervention mechanisms are in place;

(b) forward-looking statements by mining and resource companies, as a follow-up to the release of Information Sheet 214 *Mining and resources: Forward-looking statements* (INFO 214);

(c) public fundraising and control transactions;

(d) the practices of independent experts, including undue reliance on company analysis and lack of independence; and

(e) governance practices, to identify issues and promote better practices.

82 We will investigate potential breaches of the law and, where appropriate, take administrative, civil, criminal or other enforcement action—including:

(a) imposing stop orders on fundraising documents;

(b) requiring changes to the structure of transactions where we identify regulatory concerns;

(c) making applications and submissions to the Takeovers Panel; and

(d) taking action in relation to breaches of the corporate governance, corporations or market integrity laws.

83 We will also engage with external stakeholders and manage our relationships with them, such as:

(a) ongoing liaison meetings with key stakeholders;

(b) holding half-yearly Corporate Finance liaison meetings;

(c) publishing half-yearly reports on our regulation of corporate finance and our response to novel relief applications; and

(d) advising the Foreign Investment Review Board (FIRB) on any ASIC issues relevant to FIRB applications.

84 We will continue to facilitate business transactions by providing relief from the requirements of the law in circumstances where the commercial benefit for such relief outweighs any regulatory detriment.

85 In 2017–18, we will provide policy advice and contribute to key reforms and proposals, including the reforms to extend the CSF regime to proprietary companies. We will also provide guidance to industry about how they can comply with their obligations or to clarify our expectations. For example, in 2017–18 we will publish a regulatory guide to assist in the implementation of the CSF regime.

Levy for listed corporations

86 Listed corporations will pay a levy calculated in accordance with the graduated levy formula. The levy payable by listed corporations is based on their market capitalisation as at the end of the financial year. The levy applies to all companies (and stapled entities) listed on domestic exchanges, including foreign companies. Market capitalisation only includes market capitalisation of listed corporations (and stapled entities) on domestic exchanges. Where a corporation is admitted or removed from the official list of a domestic exchange during the year, a pro-rata adjustment will be made to their levy. In future, we may also consider whether to introduce a separate levy for stapled securities and foreign exempt listings.

87 Market capitalisation is treated as a proxy for our level of supervision because the intensity of our regulation varies depending on the scale of the company’s operation. Larger entities generally pose a higher risk to the Australian economy, as the number of investors and the entity’s significance to the market are large. However, as our costs to regulate listed corporations do not fall below (due to fixed costs) or rise above (due to economies of scale) certain thresholds, their levies are subject to a minimum and maximum.

88 A minimum levy of $4,000 applies for listed corporations with a market capitalisation of less than $5 million. Listed corporations that have a market capitalisation of $5 million or more will pay an additional graduated levy, depending on each entity’s share of the total market capitalisation of listed corporations in the subsector. Listed corporations with a market capitalisation of $20 billion or more pay the maximum levy.

96 We work cooperatively with audit firms to improve audit quality through our inspection program and other activities. We undertake risk-based reviews of auditors and take action when the law is breached. When we identify breaches of accounting and auditing standards or the Corporations Act, we investigate and, if appropriate, suspend or cancel the registration of the auditor, or ban them from practising.

97 Auditors have a duty to give qualified opinions on deficient financial reports, notify ASIC of improper accounts or practices, and conduct audits in accordance with appropriate standards. Auditors who fail in these obligations may be the subject of administrative action through the CADB.

98 In 2017–18, we will focus on ensuring auditors deliver professional and high-quality audits through experience and expertise, effective internal supervision and review, and robust accountability mechanisms. This will include:

(a) proactive and reactive surveillances of audit files;

(b) review of project management and root cause analysis, and monitoring the use of technology at the six largest audit firms;

(c) working with regulators domestically and internationally to improve audit quality;

(d) liaising with other stakeholders, such as standard setters, accounting bodies, audit committee chairs and academics; and

(e) taking appropriate enforcement action.

Levy for auditors of disclosing entities

99 For authorised audit companies and audit firms that audit disclosing entities with quoted securities (auditors of disclosing entities), we have based our levy metric on the value of work firms undertake. This is because entities that are making substantial fee revenue are either auditing more complex companies, a larger number of companies, or a combination of the two, and poor audit practices within these firms present a larger risk to the broader operation of Australia's financial markets.

100 The levy is based on the firm's audit fee revenue from audits of disclosing entities with quoted securities and their controlled entities, relative to the total value of audit fee revenue of the subsector.

standards, take appropriate action—which may result in the suspension or cancellation of the liquidators' registration. Administrative action is available through the Insolvency Practitioner Disciplinary Committee, or in a superior court;

(b) undertake project-based work aimed at improving the competence of registered liquidators;

(c) guide registered liquidators on our expectations concerning specific issues and behaviours; and

(d) liaise with stakeholders, including other government agencies and industry.

106 In 2017–18, we will continue directing our surveillance activities towards higher risk practitioners and will continue to focus on the areas of independence, competence and improper gain.

107 We will continue, with reactive surveillances, to respond to reports of misconduct by registered liquidators. Our focus will be on independence (especially the adequacy of disclosure in declarations of relevant relationships), remuneration disclosure, and disrupting the activities of professional facilitators (including pre-insolvency advisers).

108 In 2017–18, we will also:

(a) continue our current risk-based projects focused on the independence and remuneration of registered liquidators;

(b) continue our project assessing registered liquidators' compliance with their obligations to lodge certain documents with ASIC and publish various notices on the Published Notices Website (and addressing any systemic non-compliance identified); and

(c) provide input into legislative reforms addressing illegal phoenix activity.

Levy for registered liquidators

109 Registered liquidators will pay a minimum levy of $2,500 and a variable amount depending on each entity's share of the total number of prescribed notifiable events that occur each year. There is no pro-rata of the graduated levy amount because the formula already provides for an effective scale of business activity—an entity that only operates for part of the year would have less prescribed notifiable events.

Table 9: Budgeted costs to regulate registered liquidators

Expense	Cost
Stakeholder engagement	$0.150m
Education	$0.037m
Guidance	$0.198m
Surveillance	$1.094m
Enforcement	$3.666m
Policy advice	$0.162m
Financial capability work	N/A
Governance, central strategy and policy, and central legal functions	$0.878m
IT support	$1.292m
Operations support	$0.631m
Property and corporate services	$1.622m
Total operating costs	$9.731m
Adjustment for capital expenditure allowance	*$0.594m*
Adjustment for ASIC-sourced revenue	*($0.192m)*
Adjustment for market competition cost recovery	*N/A*
Adjustment for new policy measures	*$0.064m*
Total budgeted costs to be recovered by levy	**$10.196m**

E Deposit taking and credit sector

Key points

This section details our budgeted costs and the work we will do over the next financial year in regulating each of the subsectors in the deposit taking and credit sector. It also goes into more detail about the methodologies we use to calculate the levies that apply to:

- credit licensees (see paragraphs 113–122 and Table 11–Table 13);
- deposit product providers (see paragraphs 123–125 and Table 14);
- payment product providers (see paragraphs 126–128 and Table 15); and
- margin lenders (see paragraphs 129–131 and Table 16).

A summary of the levies is set out in Table 17.

Overview of the deposit taking and credit sector

110 The deposit taking and credit sector consists of credit licensees (including credit providers, credit intermediaries and small amount credit providers) and AFS licensees (including deposit product providers, payment product providers and margin lenders).

111 Our vision of 'what good looks like' for deposit taking and credit sector is that they:

(a) act professionally, treat consumers fairly and prioritise consumers' interests;

(b) develop and sell a range of products and services with features that are aligned with consumers' needs and deliver value for money; and

(c) ensure that consumers are fully compensated when losses result from poor conduct.

112 The tables in this section (Table 11–Table 16) depict our forecast regulatory costs for each subsector. These costs are a guide only. The final levies will be based on our actual cost of regulating each subsector in 2017–18.

Credit licensees

113 There are around 5,800 credit licensees with an authorisation to provide credit and/or engage in other credit activities. They include credit providers, such as authorised deposit-taking institutions (banks, credit unions and building societies), and credit intermediaries, such as mortgage and finance brokers.

114 We administer Australia's consumer credit laws to ensure that the credit industry operates efficiently, honestly and fairly. Our regulatory work includes monitoring credit licensees' compliance with the *National Consumer Credit Protection Act 2009* (National Credit Act) and taking appropriate action for non-compliance. We also engage with stakeholders to ensure risks are identified and addressed and provide guidance to credit licensees about their legal obligations.

115 Recent areas of focus have included reviewing compliance with the responsible lending laws, addressing misleading advertising and taking action in response to the sale of inappropriate products.

116 In 2017–18, we will continue our work promoting responsible lending practices and appropriate responses to financial hardship in the credit industry. We will continue to focus on the risk of loan payment stress resulting from inappropriate lending and changing economic conditions, with a particular focus on non-lender gatekeepers and high-risk products (i.e. small amount credit contracts and consumer leases).

117 We will also conduct follow-up work with lenders regarding interest-only loans, to ensure our concerns about responsible lending practices in that market (specifically relating to meeting the consumers' requirements and objectives) have been addressed.

118 We will also commence several reviews into specific markets and issues, including loan fraud across the Australian home loan market, credit card practices, and the responsible lending compliance arrangements for large finance brokers and lenders with high proportions of interest-only loans.

Levy for credit licensees

119 The intensity of our regulation depends on the services offered by a credit licensee (i.e. credit provision or intermediary services), as well as the scale of the licensee's operation. For example, large credit businesses with significant customer bases present a greater potential risk to consumer wellbeing and market effectiveness than smaller institutions, and therefore require more regulatory attention.

120 To recover our costs to regulate credit licensees, we have applied a graduated approach with minimum levies:

(a) For credit providers of loans that are *not* small amount credit contracts, the graduated levy is based on the provider's share of the total amount of credit provided above the $100 million threshold each financial year.

Note: 'Small amount credit contract' is defined in s5 of the National Credit Act. They are also known as 'small amount loans' and 'payday loans'.

F Investment management, superannuation and related services sector

Key points

This section details our budgeted costs and the work we will do over the next financial year in regulating each of the subsectors in the investment management, superannuation and related services sector. It also goes into more detail about the methodologies we use to calculate the levies that apply to:

- superannuation trustees and responsible entities (see paragraphs 138–144 and Table 18–Table 19);
- wholesale trustees (see paragraphs 145–147 and Table 20);
- custodians (see paragraphs 148–149 and Table 21);
- IDPS operators (see paragraphs 150–151 and Table 22);
- MDA providers (see paragraphs 152–153 and Table 23);
- traditional trustee company service providers (see paragraphs 154–155 and Table 24); and
- CSF intermediaries (see paragraphs 156–159).

A summary of the levies is set out in Table 25.

Overview of the investment management, superannuation and related services sector

132 The investment management, superannuation and related services sector consists of AFS licensees with authorisations to:

(a) operate registered managed investment schemes (responsible entities);

(b) issue or arrange for the issue of interests in a managed investment scheme to wholesale clients (wholesale trustees);

(c) provide custodial and depository services (custodians); and

(d) act as IDPS operators, MDA providers or traditional trustee company service providers.

133 Entities that are a registerable superannuation entities (RSE) licensee (within the meaning of the *Superannuation Industry (Supervision) Act 1993*) will also fall within the investment management, superannuation and related services sector (as ‘superannuation trustees’).

134 Our vision of ‘what good looks like’ for the investment management, superannuation and related services sector is that they:

(a) treat fund members and investors fairly and prioritise their interests;

(b) develop and sell a range of products and services that are transparent, aligned with fund members' and investors' needs, and deliver value for money;

(c) strike the right balance between innovation and risk to meet fund objectives; and

(d) ensure that investors are fully compensated when losses result for poor conduct.

135 We expend a large amount of regulatory effort within this industry sector. This is due to the large number of interactions entities in this sector have with retail and institutional investors. We monitor compliance with this sector's obligations under the Corporations Act, ASIC Act and *Superannuation Industry (Supervision) Act 1993* through a range of proactive and reactive surveillances and take disciplinary action where there are breaches of the law.

136 We provide assistance to Treasury on matters of law reform and provide education and guidance to industry in response to regulatory reforms, as well as market innovations and structural changes for entities in this industry sector.

137 The tables in this section (Table 18–Table 24) depict our forecast regulatory costs for each subsector. These costs are a guide only. The final levies will be based on our actual cost of regulating each subsector in 2017–18.

Superannuation trustees and responsible entities

138 Each year we undertake proactive surveillances of responsible entities and superannuation trustees that have been identified through risk profiling as being most at risk of non-compliance, or that exhibit particular risks.

139 We will also:

(a) focus on current superannuation practices to identify and respond to:

  (i) instances where trustees take advantage of member inertia, which may result in substandard outcomes for disengaged members of superannuation funds;

  (ii) issues with the role of employers in decisions made by consumers about superannuation, including the provision of advice by trustees and others, disclosure, benefits and inducements to employers, and the role of third-party service providers; and

  (iii) issues with complaints handling, management of conflicts of interest, incentives, culture and disclosure practices relating to insurance in superannuation;

(b) review issues affecting the managed investment scheme sector including for example industry approaches to new product delivery models, technology and cyber-risk management;

(c) focus on issuer conduct regarding exchange-traded funds, including compliance with periodic disclosure requirements, issues around unequal treatment in withdrawals, the accuracy and reliability of net asset values, and market-making activities;

(d) monitor and review compliance with fees and costs disclosure requirements by superannuation trustees and responsible entities;

(e) review industry practices relating to disclosure of performance information by superannuation entities and responsible entities; and

(f) issue guidance associated with law reform initiatives in the coming financial year.

140 In 2017–18, we will investigate and take action against licensed and unlicensed entities in the superannuation and managed funds sector. We will identify entities through our proactive risk-based surveillance programs and reports of misconduct. A particular focus will be the effectiveness of superannuation disclosure and failures by entities to comply with their duties.

141 We will also contribute to key reforms and proposals, including reforms relating to crowd-sourced funding, CCIVs, the Asia Region Funds Passport, Comprehensive Income Products for Retirement, and disclosure and conduct in superannuation.

Levy for superannuation trustees

142 Superannuation trustees must pay a levy calculated in accordance with the graduated levy formula. All superannuation trustees will pay a minimum levy of $18,000. Where the total value of assets in all registrable superannuation entities operated by the trustee exceeds $250 million, that trustee will have to pay a graduated levy amount. The graduated levy amount is equal to the value of assets in all registrable superannuation entities operated by the trustee as a proportion of the total value of assets in all registrable superannuation entities in the subsector above the $250 million threshold. To avoid double counting of assets, the total value of assets should not include any assets that are an interest in another registrable superannuation entity operated by the trustee.

Table 18: Budgeted costs to regulate superannuation trustees

Expense	Cost
Stakeholder engagement	$0.085m
Education	$0.010m
Guidance	$0.390m
Surveillance	$1.125m
Enforcement	$1.117m
Policy advice	$0.337m
Financial capability work	$0.707m
Governance, central strategy and policy, and central legal functions	$0.466m
IT support	$0.852m
Operations support	$0.413m
Property and corporate services	$1.112m
Total operating costs	*$6.615m*
Adjustment for capital expenditure allowance	*$0.477m*
Adjustment for ASIC-sourced revenue	*($0.170m)*
Adjustment for market competition cost recovery	*$0.219m*
Adjustment for new policy measures	*$0.057m*
Total budgeted costs to be recovered by levy	**$7.197m**

Note: The cost items do not add up to total costs due to rounding

Levy for responsible entities

143 All responsible entities in the subsector will pay a minimum levy of $7,000. Where the total value of assets in all registered schemes operated by a responsible entity at the end of the financial year exceeds $10 million, that entity will also have to pay a graduated levy amount. The graduated levy will equal the value of assets in all registered schemes operated by the entity as a proportion of the total value of assets in all registered schemes in the subsector that have a value above the $10 million threshold. For the purposes of the levy calculation, the total value of assets should not include any assets that are interests in another registered scheme operated by the responsible entity.

144 As the current proposals for the Asia Region Funds Passport regime require a passport fund to be a registered scheme, assets of a passport fund will be included in the calculation of the metric for the responsible entity operating the passport fund and will therefore be captured in this industry subsector.

Table 19: Budgeted costs to regulate responsible entities

Expense	Cost
Stakeholder engagement	$0.118m
Education	$0.009m
Guidance	$0.344m
Surveillance	$1.088m
Enforcement	$6.701m
Policy advice	$0.293m
Financial capability work	$1.065m
Governance, central strategy and policy, and central legal functions	$1.339m
IT support	$2.144m
Operations support	$1.067m
Property and corporate services	$2.810m
Total operating costs	*$16.977m*
Adjustment for capital expenditure allowance	*$3.371m*
Adjustment for ASIC-sourced revenue	*($0.271m)*
Adjustment for market competition cost recovery	*$0.219m*
Adjustment for new policy measures	*$2.381m*
Total budgeted costs to be recovered by levy	**$22.677m**

Note: The cost items do not add up to total costs due to rounding

Wholesale trustees

145 In 2016–17, we conducted risk-based surveillance activities in this subsector with a particular focus on entities that may target retail consumers.

146 In 2017–18, we will continue to promote improved behaviour of regulated entities by detecting, understanding and responding to conduct and disclosure that may negatively impact investors.

Levy for wholesale trustees

147 A flat levy applies in 2017–18. The subsector's regulatory costs will be shared equally between each entity in the subsector. For all future years, wholesale trustees must pay a graduated levy. A wholesale trustee will pay a minimum levy of $1,000; the graduated component will depend on its share of the total value of assets in all unregistered schemes in the subsector at the end of the financial year. To avoid double counting, the value of assets will

be adjusted to exclude assets that are an interest in another unregistered managed investment scheme operated by the wholesale trustee.

Table 20: Budgeted costs to regulate wholesale trustees

Expense	Cost
Stakeholder engagement	$0.009m
Education	$0.001m
Guidance	$0.035m
Surveillance	$0.118m
Enforcement	$3.308m
Policy advice	$0.030m
Financial capability work	$0.077m
Governance, central strategy and policy, and central legal functions	$0.549m
IT support	$0.690m
Operations support	$0.353m
Property and corporate services	$0.934m
Total operating costs	*$6.104m*
Adjustment for capital expenditure allowance	*$0.292m*
Adjustment for ASIC-sourced revenue	*($0.018m)*
Adjustment for market competition cost recovery	*$0.219m*
Adjustment for new policy measures	*$0.006m*
Total budgeted costs to be recovered by levy	**$6.603m**

Custodians

148 In 2017–18, we will engage in reactive surveillance work in this subsector, arising from the our review in 2016–17 of custodians' compliance with the revised custody requirements: see Report 531 *Review of compliance with asset holding requirements in funds management and custodial services* (REP 531).

Levy for custodians

149 A flat levy applies to custodians because a relatively small amount of our regulatory effort is expended on this subsector. The subsector regulatory costs will be shared equally between all entities in the subsector. A graduated levy would impose additional administrative costs and increase

the complexity of the model, which would exceed any benefits of a graduated levy.

Table 21: Budgeted costs to regulate custodians

Expense	Cost
Stakeholder engagement	$0.005m
Education	$0.001m
Guidance	$0.021m
Surveillance	$0.062m
Enforcement	$0.064m
Policy advice	$0.018m
Financial capability work	$0.047m
Governance, central strategy and policy, and central legal functions	$0.029m
IT support	$0.055m
Operations support	$0.026m
Property and corporate services	$0.071m
Total operating costs	*$0.400m*
Adjustment for capital expenditure allowance	*$0.031m*
Adjustment for ASIC-sourced revenue	*($0.011m)*
Adjustment for market competition cost recovery	*N/A*
Adjustment for new policy measures	*$0.004m*
Total budgeted costs to be recovered by levy	**$0.423m**

IDPS operators

150 In 2017–18, we will monitor the compliance of IDPS operators through risk-based, reactive surveillances and other actions, based on our ‘detect, understand and respond’ approach to identifying and addressing misconduct and the risk of misconduct.

Levy for IDPS operators

151 IDPS operators will pay a graduated levy based on each entity’s share of the total amount of gross revenue from IDPS activity in the subsector for the financial year. A minimum levy of $10,000 will also be payable by all IDPS operators.

Table 22: Budgeted costs to regulate IDPS operators

Expense	Cost
Stakeholder engagement	$0.022m
Education	$0.002m
Guidance	$0.100m
Surveillance	$0.289m
Enforcement	$0.474m
Policy advice	$0.086m
Financial capability work	$0.041m
Governance, central strategy and policy, and central legal functions	$0.115m
IT support	$0.144m
Operations support	$0.072m
Property and corporate services	$0.198m
Total operating costs	*$1.544m*
Adjustment for capital expenditure allowance	*$0.066m*
Adjustment for ASIC-sourced revenue	*($0.010m)*
Adjustment for market competition cost recovery	*N/A*
Adjustment for new policy measures	*$0.003m*
Total budgeted costs to be recovered by levy	**$1.603m**

MDA providers

152 In 2017–18, we will monitor the compliance of MDA providers through risk-based, reactive surveillances and other actions, based on our ‘detect, understand and respond’ approach to identifying and addressing misconduct and the risk of misconduct.

Levy for MDA providers

153 The flat levy will apply to MDA providers, because a relatively small amount of our regulatory effort is expended on this subsector. The subsector regulatory costs will be shared equally between all entities in the subsector. A graduated levy would impose additional administrative costs and increase the complexity of the model, which would exceed the benefits of a graduated levy.

Table 24: Budgeted costs to regulate traditional trustee company service providers

Expense	Cost
Stakeholder engagement	$0.011m
Education	$0.001m
Guidance	$0.002m
Surveillance	$0.064m
Enforcement	$0.067m
Policy advice	$0.005m
Financial capability work	$0.046m
Governance, central strategy and policy, and central legal functions	$0.024m
IT support	$0.042m
Operations support	$0.020m
Property and corporate services	$0.052m
Total operating costs	*$0.333m*
Adjustment for capital expenditure allowance	*$0.021m*
Adjustment for ASIC-sourced revenue	*($0.011m)*
Adjustment for market competition cost recovery	*N/A*
Adjustment for new policy measures	*$0.004m*
Total budgeted costs to be recovered by levy	**$0.347m**

CSF intermediaries

156 The *Corporations Amendment (Crowd-sourced Funding) Act 2017* introduces a legislative framework for crowd-sourced funding from 29 September 2017.

157 In 2017–18, we will publish guidance to help CSF intermediaries comply with their obligations under the new regime, and contribute to the Australian Government's plans to extend this regime to proprietary companies.

Levy for CSF intermediaries

158 Once the proposed CSF regime is implemented, CSF intermediaries will be subject to a separate levy linked to our effort in regulating the subsector.

159 We are not expecting to allocate any regulatory costs to the subsector for the 2017–18 year. The regulatory costs for CSF intermediaries for the 2017–18 year will consist of implementation costs, and these implementation costs will be allocated proportionally across all subsectors.

G Market infrastructure and intermediaries sector

Key points

This section details our budgeted costs and the work we will do over the next financial year in regulating the market infrastructure and intermediaries sector. It also goes into more detail about the methodologies we use to calculate the levy that applies to:

- Australian market licensees (see paragraphs 171–17548 and Table 26–Table 32);
- CS facility operators (see paragraphs 176–180and Table 33–Table 37);
- Australian derivative trade repository operators (see paragraphs 181–183 and Table 38);
- exempt market operators (see paragraphs 184–186 and Table 39);
- credit rating agencies (see paragraphs 187–190 and Table 40);
- market participants (see paragraphs 191–199 and Table 41–Table 42);
- securities dealers (see paragraphs 200–201 and Table 43);
- corporate advisers and OTC traders (see paragraphs 202–204 and Table 44–Table 45);
- retail OTC derivatives issuers (see paragraphs 205–209 and Table 46); and
- wholesale electricity dealers (see paragraphs 210–213 and Table 47.

Summaries of the levies are set out in Table 48–Table 49.

Overview of the market infrastructure and intermediaries sector

160 The market infrastructure and intermediaries sector consists of market infrastructure providers and market intermediaries.

161 The tables in this section (Table 26–Table 47) depict our forecast regulatory costs for each subsector. These costs are a guide only. The final levies will be based on our actual cost of regulating each subsector in 2017–18.

Market infrastructure providers

162 Market infrastructure providers are entities that are Australian market licensees, CS facility operators, Australian derivative trade repository licensees, credit rating agencies, and entities that otherwise hold an exemption from the requirement to hold a licence (exempt market operators).

163 Our vision of 'what good looks like' for market infrastructure providers is that they:

(a) ensure retail and wholesale markets are fair and efficient, characterised by reliable and effective price discovery and robust and efficient post-trade systems;

(b) provide a diverse and competitive range of services and products that meet different investor needs; and

(c) strike the right balance between innovation and risk to fair and efficient markets.

164 Our supervision of market infrastructure providers is critical to the operation of Australia's financial markets. Our role is to oversee these providers' compliance with their obligations under the financial services laws, the discharge of which plays a central role in ensuring investor trust and confidence in Australia's financial markets.

165 As part of our role, we undertake routine reviews of the performance and compliance of market infrastructure providers, which includes real-time frontline supervision of trading on licensed domestic markets, periodic assessments, strategic market-wide and individual entity reviews, ongoing engagement, and periodic remediation.

166 Our role also includes providing strategic advice to the Australian Government on market infrastructure reform proposals and providing regulatory guidance to industry, including guidance on standards.

Transitioning from market supervision cost recovery regime to industry funding

167 We currently recover around $4 million from domestic market licensees through fees charged under the current market supervision cost recovery regime. These market licensees have been subject to the cost recovery arrangements for our market supervision activities since August 2010.

168 The market supervision cost recovery regime recovered costs for market supervision functions we undertook from the transfer of market supervision from ASX. The $4 million recovered our costs for:

(a) performing market supervision functions, following their transfer from market operators to ASIC;

(b) regulating the market after the introduction of market competition for trading in ASX-listed securities and maintaining the supporting regulatory framework; and

(c) continued implementation of our Enhanced Market Supervision program of works.

169 Under industry funding, $10.9 million will be recovered from market infrastructure providers, including CS facility operators, Australian derivative trade repository operators, foreign market licensees in Australia and exempt market operators. This will recover all of our costs to regulate market infrastructure providers, including stakeholder engagement, education, guidance, surveillance, policy advice and capital expenditure allowance.

170 Entities that hold multiple licences pay a levy for each category of licence that they hold and for each market they operate or facility they provide.

Australian market licensees

171 For domestic market licensees, our activities include real-time frontline supervision of trading, market assessments, strategic market reviews, ongoing engagement, and periodic remediation reviews.

172 For foreign market licensees, our work includes reviewing annual reports, monitoring changes in market structure, monitoring regulatory developments and undertaking periodic engagement with regulators in the licensee's home jurisdiction to ensure equivalence of regulatory outcomes and to share advice and guidance on licensing and the scope of the licensee's activities.

173 In 2017–18, we will finalise and implement guidance on our approach to market licensing and regulation. We will work to transition markets smoothly into the new market licensing and regulation framework, including issuing new licences.

Levies for Australian market licensees

174 Entities that fall within the large securities exchange operators subsector will pay a levy calculated in accordance with the basic levy component formula. Our regulatory costs for the subsector will be shared between entities based on the value of all transactions (corrected for cancellations) that are entered into or reported to exchanges operated by the entity as a proportion of the total value of all transactions that are entered into or reported to all exchanges within the subsector.

175 The following subsectors are subject to the basic levy component formula. Our regulatory costs will be shared between the entities in the subsector in proportion to the number of days each entity operates each market that falls within the subsector. The relevant subsectors are:

(a) overseas market operators;

(b) small securities exchange operators with self-listing function only;

(c) small securities exchange operators;

(d) small futures exchange operators;

(e) small derivatives market operators;

(f) large futures exchange operators; and

(g) exempt market operators.

Table 26: Budgeted costs to regulate large securities exchange operators

Expense	Cost
Stakeholder engagement	$0.092m
Education	$0.003m
Guidance	$0.031m
Surveillance	$0.711m
Enforcement	$0.904m
Policy advice	$0.148m
Financial capability work	N/A
Governance, central strategy and policy, and central legal functions	$0.297m
IT support	$0.415m
Operations support	$0.207m
Property and corporate services	$0.557m
Total operating costs	*$3.365m*
Adjustment for capital expenditure allowance	*$0.220m*
Adjustment for ASIC-sourced revenue	*($0.071m)*
Adjustment for market competition cost recovery	*$0.219m*
Adjustment for new policy measures	*$0.0244m*
Total budgeted costs to be recovered by levy	**$3.757m**

Table 27: Budgeted costs to regulate large futures exchange operators

Expense	Cost
Stakeholder engagement	$0.069m
Education	$0.002m
Guidance	$0.020m
Surveillance	$0.536m
Enforcement	$0.036m
Policy advice	$0.108m
Financial capability work	N/A
Governance, central strategy and policy, and central legal functions	$0.105m
IT support	$0.171m
Operations support	$0.087m
Property and corporate services	$0.224m
Total operating costs	*$1.359m*
Adjustment for capital expenditure allowance	*$0.106m*
Adjustment for ASIC-sourced revenue	*($0.050m)*
Adjustment for market competition cost recovery	*N/A*
Adjustment for new policy measures	*$0.017m*
Total budgeted costs to be recovered by levy	**$1.431m**

Table 28: Budgeted costs to regulate small futures exchange operators

Expense	Cost
Stakeholder engagement	$0.032m
Education	$0.001m
Guidance	$0.009m
Surveillance	$0.086m
Enforcement	$0.017m
Policy advice	$0.003m
Financial capability work	N/A
Governance, central strategy and policy, and central legal functions	$0.012m
IT support	$0.027m
Operations support	$0.014m
Property and corporate services	$0.035m
Total operating costs	*$0.237m*

Expense	**Cost**
Adjustment for capital expenditure allowance	*$0.019m*
Adjustment for ASIC-sourced revenue	*($0.009m)*
Adjustment for market competition cost recovery	*N/A*
Adjustment for new policy measures	*$0.003m*
Total budgeted costs to be recovered by levy	**$0.250m**

Table 29: Budgeted costs to regulate small securities exchange operators with self-listing function only

Expense	**Cost**
Stakeholder engagement	$0.001m
Education	N/A
Guidance	N/A
Surveillance	$0.009m
Enforcement	$0.000m
Policy advice	$0.002m
Financial capability work	N/A
Governance, central strategy and policy, and central legal functions	$0.002m
IT support	$0.003m
Operations support	$0.001m
Property and corporate services	$0.004m
Total operating costs	$0.022m
Adjustment for capital expenditure allowance	*$0.002m*
Adjustment for ASIC-sourced revenue	*($0.001m)*
Adjustment for market competition cost recovery	*N/A*
Adjustment for new policy measures	*N/A*
Total budgeted costs to be recovered by levy	**$0.023m**

Table 30: Budgeted costs to regulate small securities exchange operators

Expense	Cost
Stakeholder engagement	$0.044m
Education	$0.001m
Guidance	$0.012m
Surveillance	$0.231m
Enforcement	$0.022m
Policy advice	$0.037m
Financial capability work	N/A
Governance, central strategy and policy, and central legal functions	$0.042m
IT support	$0.073m
Operations support	$0.038m
Property and corporate services	$0.096m
Total operating costs	$0.597m
Adjustment for capital expenditure allowance	*$0.047m*
Adjustment for ASIC-sourced revenue	*($0.022m)*
Adjustment for market competition cost recovery	*N/A*
Adjustment for new policy measures	*$0.007m*
Total budgeted costs to be recovered by levy	**$0.629m**

Table 31: Budgeted costs to regulate small derivatives market operators

Expense	Cost
Stakeholder engagement	$0.015m
Education	$0.001m
Guidance	$0.005m
Surveillance	$0.1826m
Enforcement	$0.006m
Policy advice	$0.042m
Financial capability work	N/A
Governance, central strategy and policy, and central legal functions	$0.037m
IT support	$0.058m
Operations support	$0.030m
Property and corporate services	$0.076m
Total operating costs	*$0.451m*

Expense	Cost
Adjustment for capital expenditure allowance	*$0.035m*
Adjustment for ASIC-sourced revenue	*($0.017m)*
Adjustment for market competition cost recovery	*N/A*
Adjustment for new policy measures	*$0.006m*
Total budgeted costs to be recovered by levy	**$0.475m**

Table 32: Budgeted costs to regulate overseas market operators

Expense	Cost
Stakeholder engagement	$0.017m
Education	$0.001m
Guidance	$0.005m
Surveillance	$0.206m
Enforcement	$0.007m
Policy advice	$0.048m
Financial capability work	N/A
Governance, central strategy and policy, and central legal functions	$0.042m
IT support	$0.065m
Operations support	$0.034m
Property and corporate services	$0.086m
Total operating costs	*$0.511m*
Adjustment for capital expenditure allowance	*$0.040m*
Adjustment for ASIC-sourced revenue	*($0.019m)*
Adjustment for market competition cost recovery	*N/A*
Adjustment for new policy measures	*$0.006m*
Total budgeted costs to be recovered by levy	**$0.538m**

CS facility operators

176 For CS facility operators, our work includes assessing facilities against statutory obligations, reviewing the annual reports of overseas licensees, developing policy and participating in policy reform, providing guidance and advice for licensees, and ensuring jurisdictional compliance with international standards.

177 In 2017–18, we will support the implementation of the Council of Financial Regulators' recommendations on competition in equities clearing and settlement.

Levies for CS facility operators

178 There are five subsectors for CS facility operators, depending on whether:

(a) the CS facility(ies) they operate fall into one of four tiers; or

(b) the entity themselves is exempt from holding a CS facility licence.

179 Determining which of the four tiers a CS facility falls within is based on the systemic importance and the strength of the domestic connection of the facility. The Council of Financial Regulators' *Application of the regulatory influence framework for cross-border central counterparties* (published March 2014) sets out requirements for the different tiers of CS facilities.

180 The basic levy component formula will apply to Tiers 1–4 CS facility operators and exempt CS facility operators. Our regulatory costs for each of these subsectors will be shared between all entities in the subsector in proportion to the number of days each entity operates each CS facility that falls within the tier or is exempt.

Table 33: Budgeted costs to regulate exempt CS facility operators

Expense	Cost
Stakeholder engagement	$0.001m
Education	N/A
Guidance	N/A
Surveillance	$0.009m
Enforcement	N/A
Policy advice	$0.002m
Financial capability work	N/A
Governance, central strategy and policy, and central legal functions	$0.002m
IT support	$0.003m
Operations support	$0.002m
Property and corporate services	$0.004m
Total operating costs	*$0.023m*
Adjustment for capital expenditure allowance	*$0.002m*
Adjustment for ASIC-sourced revenue	*($0.001m)*
Adjustment for market competition cost recovery	*N/A*

Expense	Cost
Adjustment for new policy measures	*N/A*
Total budgeted costs to be recovered by levy	**$0.024m**

Table 34: Budgeted costs to regulate Tier 1 CS facility operators

Expense	Cost
Stakeholder engagement	$0.054m
Education	$0.002m
Guidance	$0.017m
Surveillance	$0.668m
Enforcement	$0.023m
Policy advice	$0.156m
Financial capability work	N/A
Governance, central strategy and policy, and central legal functions	$0.137m
IT support	$0.211m
Operations support	$0.108m
Property and corporate services	$0.279m
Total operating costs	*$1.655m*
Adjustment for capital expenditure allowance	*$0.129m*
Adjustment for ASIC-sourced revenue	*($0.062m)*
Adjustment for market competition cost recovery	*N/A*
Adjustment for new policy measures	*$0.021m*
Total budgeted costs to be recovered by levy	**$1.742m**

Table 35: Budgeted costs to regulate Tier 2 CS facility operators

Expense	Cost
Stakeholder engagement	$0.006m
Education	N/A
Guidance	$0.002m
Surveillance	$0.077m
Enforcement	$0.003m
Policy advice	$0.018m
Financial capability work	N/A
Governance, central strategy and policy, and central legal functions	$0.016m
IT support	$0.024m
Operations support	$0.012m
Property and corporate services	$0.032m
Total operating costs	*$0.190m*
Adjustment for capital expenditure allowance	*$0.015m*
Adjustment for ASIC-sourced revenue	*($0.007m)*
Adjustment for market competition cost recovery	*N/A*
Adjustment for new policy measures	*$0.002m*
Total budgeted costs to be recovered by levy	**$0.200m**

Table 36: Budgeted costs to regulate Tier 3 CS facility operators

Expense	Cost
Stakeholder engagement	$0.003m
Education	N/A
Guidance	$0.001m
Surveillance	$0.031m
Enforcement	$0.001m
Policy advice	$0.007m
Financial capability work	N/A
Governance, central strategy and policy, and central legal functions	$0.006m
IT support	$0.010m
Operations support	$0.005m
Property and corporate services	$0.013m
Total operating costs	$0.076m
Adjustment for capital expenditure allowance	*$0.006m*

Expense	Cost
Adjustment for ASIC-sourced revenue	*($0.003m)*
Adjustment for market competition cost recovery	*N/A*
Adjustment for new policy measures	*$0.001m*
Total budgeted costs to be recovered by levy	**$0.080m**

Table 37: Budgeted costs to regulate Tier 4 CS facility operators

Expense	Cost
Stakeholder engagement	$0.001m
Education	N/A
Guidance	N/A
Surveillance	$0.009m
Enforcement	N/A
Policy advice	$0.002m
Financial capability work	N/A
Governance, central strategy and policy, and central legal functions	$0.002m
IT support	$0.003m
Operations support	$0.001m
Property and corporate services	$0.004m
Total operating costs	*$0.021m*
Adjustment for capital expenditure allowance	*$0.002m*
Adjustment for ASIC-sourced revenue	*($0.001m)*
Adjustment for market competition cost recovery	*N/A*
Adjustment for new policy measures	*N/A*
Total budgeted costs to be recovered by levy	**$0.023m**

Australian derivative trade repository operators

181 For Australian derivative trade repository operators, our work includes surveillance of data integrity and compliance with the ASIC Derivative Trade Repository Rules 2013, assessment of each entity’s annual compliance report, guidance on applicable rules, and oversight of breach reporting, remediation and related enforcement activity.

182 In 2017–18, we will continue to work with Australian derivative trade repositories and industry to improve data quality.

Levy for Australian derivative trade repository operators

183 We have applied the basic levy component formula to recover our costs for regulating Australian derivative trade repository operators because our regulatory activity and effort is relatively similar for each regulated trade repository. Our regulatory costs for the subsector will be shared between all entities in the subsector in proportion to the number of days each entity operates each repository that falls within the subsector.

Table 38: Budgeted costs to regulate Australian derivative trade repository operators

Expense	Cost
Stakeholder engagement	$0.008m
Education	N/A
Guidance	$0.002m
Surveillance	$0.092m
Enforcement	$0.003m
Policy advice	$0.022m
Financial capability work	N/A
Governance, central strategy and policy, and central legal functions	$0.019m
IT support	$0.029m
Operations support	$0.015m
Property and corporate services	$0.039m
Total operating costs	*$0.229m*
Adjustment for capital expenditure allowance	*$0.018m*
Adjustment for ASIC-sourced revenue	*($0.009m)*
Adjustment for market competition cost recovery	*N/A*
Adjustment for new policy measures	*$0.003m*
Total budgeted costs to be recovered by levy	**$0.241m**

Exempt market operators

184 There are currently two types of exempt market operators: entities that are exempt from holding a market licence and entities that are exempt from holding a CS facility licence (exempt CS facility operators: see Table 33).

185 Our work for exempt market operators includes:

(a) reviewing trading volumes;

(b) monitoring changes in market structure, where relevant;

(c) monitoring regulatory developments in their home jurisdiction to ensure equivalence of regulatory outcomes;

(d) advice and guidance on the scope of activities;

(e) reviewing periodic reports; and

(f) compliance with conditions of authorisation.

Levy for exempt market operators

186 Entities that fall within the exempt market operators subsector must pay a levy calculated under the basic levy component formula. Our regulatory costs will be shared between all entities in the subsector in proportion to the number of days each entity operates each exempt market that falls within the subsector.

Table 39: Budgeted costs to regulate exempt market operators

Expense	Cost
Stakeholder engagement	$0.040m
Education	$0.002m
Guidance	$0.013m
Surveillance	$0.460m
Enforcement	$0.028m
Policy advice	$0.107m
Financial capability work	N/A
Governance, central strategy and policy, and central legal functions	$0.096m
IT support	$0.151m
Operations support	$0.076m
Property and corporate services	$0.198m
Total operating costs	*$1.172m*
Adjustment for capital expenditure allowance	*$0.092m*
Adjustment for ASIC-sourced revenue	*($0.044m)*
Adjustment for market competition cost recovery	*N/A*
Adjustment for new policy measures	*$0.015m*
Total budgeted costs to be recovered by levy	**$1.234m**

Credit rating agencies

187 All credit rating agencies operating in Australia must hold an AFS licence. Under the conditions of this licence, credit rating agencies must provide a

report to ASIC each financial year that sets out their compliance with the International Organization of Securities Commission's (IOSCO's) Code of Conduct Fundamentals for Credit Rating Agencies (PDF 910 KB), their arrangements to monitor and update credit ratings, and how they are meeting their training requirements for representatives.

188 In 2017–18, we will conduct surveillance on credit rating agencies and develop a risk tool for assessing small market operators and credit rating agencies.

Levy for credit rating agencies

189 Entities that fall within this subsector must pay a levy calculated in accordance with the basic levy component formula. Our regulatory costs for the subsector will be shared equally between all entities in the subsector. However, if an entity does not hold the required AFS licence authorisation for the full financial year it will only share in the regulatory costs for the subsector in proportion to the number of days in the financial year it held the relevant AFS licence authorisation.

190 The levy is shared equally between entities in the subsector, because we expend a comparatively small amount of our regulatory effort on this subsector. A graduated levy is not appropriate, as it would impose additional administrative costs and increase the complexity of the model, which would offset any benefits of a graduated levy.

Table 40: Budgeted costs to regulate credit rating agencies

Expense	Cost
Stakeholder engagement	$0.007m
Education	N/A
Guidance	$0.002m
Surveillance	$0.092m
Enforcement	$0.003m
Policy advice	$0.021m
Financial capability work	N/A
Governance, central strategy and policy, and central legal functions	$0.019m
IT support	$0.029m
Operations support	$0.015m
Property and corporate services	$0.038m
Total operating costs	*$0.227m*
Adjustment for capital expenditure allowance	*$0.018m*
Adjustment for ASIC-sourced revenue	*($0.009m)*

Expense	Cost
Adjustment for market competition cost recovery	*N/A*
Adjustment for new policy measures	*$0.003m*
Total budgeted costs to be recovered by levy	**$0.239m**

Market intermediaries

191 Our vision of 'what good looks like' for market intermediaries is that they:

(a) ensure their conduct and behaviour supports the integrity of Australia's retail and wholesale markets;

(b) act professionally and treat investors fairly by managing confidential information and conflicts of interest appropriately;

(c) have effective risk management and internal supervision; and

(d) ensure that investors are fully compensated when losses result from poor conduct.

192 Market participants and securities dealers (market intermediaries) generally engage in the trading behaviour that creates demand for market supervision and have a recognised 'gatekeeper' role in the Australian regulatory regime. We supervise market intermediaries' compliance with the Corporations Act and ASIC market integrity rules, and ensure intermediaries are meeting their AFS licence conditions. Where potential market misconduct is detected, we conduct investigations and may take enforcement action.

193 In 2017–18, we will continue to promote better conduct by market intermediaries, including through:

(a) real-time surveillance of activity on Australia's financial markets;

(b) providing guidance on good practices for managing confidential information and conflicts of interest in research and corporate advisory activity, and identifying and facilitating remediation for inappropriate practices;

(c) assessing and enhancing intermediaries' risk management systems and controls; and

(d) continuing our work on standard setting on cyber resilience, as well as measuring and assessing the level of cyber preparedness at the individual entity and sector levels.

194 We will also continue to enhance our MAI system and incorporate transaction reporting data relating to OTC derivatives into this system.

We will provide feedback to entities and industry on the data gathered from surveillances, and highlight critical areas of concern.

Transitioning from the market supervision cost recovery regime to industry funding

195 From 2017–18 the costs previously recovered under the market supervision cost recovery regime will be recovered through the industry funding model. The market supervision cost recovery regime recovered costs for market supervision functions we undertook from the transfer of market supervision from ASX.

196 Under the industry funding model, we forecast we will recover $24.7 million from market participants. We will also recover $1.6 million from securities dealers, $5.6 million from corporate advisers, $13.1 million from OTC traders, $2.8 million from retail OTC derivatives issuers and $0.3 million from wholesale electricity dealers. This will recover all of our costs for these subsectors, including stakeholder engagement, education, guidance, surveillance, enforcement and policy advice.

Market participants

197 In 2017–18, we will monitor the compliance of market participants through risk-based, reactive surveillances and other actions, based on our ‘detect, understand and respond’ approach to identifying and addressing misconduct and the risk of misconduct.

Levy for market participants

198 The costs related to regulating market participants are split between large securities exchange participants and large futures exchange participants.

199 Participants in these subsectors are charged a minimum levy of $9,000 for each exchange they are a participant of, plus a graduated levy based on each entity’s share of the total number of messages sent and transactions reported to a large securities or futures exchange that is recognised by our MAI system.

other regulators (both in Australia and overseas). This reactive surveillance work may also be driven by key market events (e.g. the Swiss National Bank unpegging the franc from the euro in 2015 and Britain voting to exit the European Union in 2016). These events can have a significant impact on OTC issuers.

207 In 2017–18, we will also:

(a) undertake a project to collect key metrics about the subsector, to provide certainty about its size and the potential risks it poses and to drive our risk-based surveillance;

(b) assess ‘disruptive’ business models and their potential effect on regulation and markets;

(c) engage with stakeholders on the supervisory and governance frameworks of market intermediaries that are expanding their businesses into unique product lines where clients use complex technology trading systems and models;

(d) complete our consultation and implementation of client money reporting and reconciliation rules for retail OTC derivatives; and

(e) conduct thematic surveillance of retail OTC derivative issuers.

208 We will continue to liaise with industry to ensure clear expectations are set and to help raise standards across the industry.

Levy for retail OTC derivative issuers

209 The basic levy component formula applies to retail OTC derivative issuers in 2017–18. Under this formula our regulatory costs for the subsector will be shared equally between all entities in the subsector. If an entity does not hold the required AFS licence authorisation for the full financial year it will only be liable for a share of the regulatory costs in proportion to the number of days that it held the authorisation.

H Financial advice sector

Key points

This section details our budgeted costs and the work we will do over the 2017–18 financial year in regulating the financial advice sector. It also goes into more detail about the methodologies we use to calculate the levies that apply to:

- licensees that provide personal advice to retail clients on relevant financial products (see paragraphs 224–228 and Table 50);
- licensees that provide personal advice to retail clients on products that are not relevant financial products (see paragraphs 229–230 and Table 51);
- licensees that provide general advice only to retail or wholesale clients (see paragraphs 231–232 and Table 52);
- licensees that provide personal advice to wholesale clients only (see paragraphs 234–235 and Table 53); and
- digital advice providers (see paragraphs 236–0).

A summary of the levies is set out in Table 54.

Overview of the financial advice sector

214 The financial advice sector consists of AFS licensees with an authorisation to provide financial product advice to retail or wholesale clients—that is, licensees that provide:

(a) personal advice to retail clients;

(b) general advice only to retail and wholesale clients; and

(c) personal advice to wholesale clients only.

215 In 2017–18, our forecast effort to regulate the financial advice sector is expected to cost $29.5 million. This is 12% of the total regulatory costs we will recover in 2017–18.

216 Of the costs to be recovered from the financial advice sector in 2017–18, we estimate $26.15 million (88%) will be recovered from licensees that provide personal advice to retail clients on relevant financial products, $0.46 million (2%) from licensees that provide personal advice to retail clients on products that are not relevant financial products, $2.02 million (7%) from licensees that provide only general advice and $0.87 million (3%) from wholesale advice providers.

217 Our vision of 'what good looks like' for the financial advice sector is that they:

(a) act professionally, treat consumers fairly and prioritise consumers' interests;

(b) provide accessible, strategic financial advice that is aligned with consumer needs and delivers value for money; and

(c) ensure that consumers are fully compensated when losses result from poor conduct.

218 To achieve this vision, our regulation of the financial advice sector is focused on promoting investor and financial consumer trust and confidence by holding financial advisers to account.

219 Our work includes monitoring financial advisers' compliance with their advice conduct obligations under the Corporations Act, identifying breaches of the Corporations Act and ASIC Act, and taking appropriate action for non-compliance. We also engage with stakeholders to ensure risks are identified and addressed, and provide guidance and education to financial advisers regarding their legal obligations.

220 In 2017–18, we will focus on:

(a) risk-based surveillance of the practices of financial advisers, based on our 'detect, understand and respond' approach to identifying and addressing misconduct and the risk of misconduct;

(b) advice compliance at the five largest financial advice firms;

(c) monitoring firms' compliance with remediation programs and enforceable undertakings;

(d) accountants who have recently entered the new limited licence regime, to ensure they fully comply with the law when providing advice, and accountants who are providing unlicensed financial advice;

(e) improving the financial advisers register to help licensees when recruiting financial advisers and consumers when seeking an adviser, and to better track advisers in the industry;

(f) promoting better life insurance advice through our review of life insurance Statements of Advice (SOAs), and undertaking a surveillance of life insurance advisers (reported under exception reporting by life insurers) to test whether the advice they have provided to consumers complies with the law; and

(g) continuing to support the transition to a professional advice industry by commencing a 'shadow shop' and surveillance to assess the current quality of advice and supporting the Australian Government's initiatives to improve the professional standards of financial advisers.

221 We will also provide guidance to industry about compliance with their obligations or to clarify our expectations. For example, in 2017–18, we will publish website guidance explaining how the law applies to accountants offering financial advice.

222 In 2017–18, we will also contribute to the Australian Government's reforms to raise advisers' education, training and ethical standards, including considering our revised guidance on education and training advisers who provide general advice and personal advice to retail clients on products that are no relevant financial products, and our guidance on ASIC approval of code compliance schemes.

223 The tables in this section (Table 50–Table 53) depict our forecast regulatory costs for each subsector. These costs are a guide only. The final levies will be based on our actual cost of regulating each subsector in 2017–18.

Licensees that provide personal advice to retail clients on relevant financial products

224 In 2017–18, we will focus on risk based surveillance of the practices of financial advisers in this subsector and take enforcement or other regulatory action, using our 'detect, understand and respond' approach to identify and address misconduct.

225 We will also improve the quality of life insurance advice through our surveillance activities. Following consultation conducted in 2016–17, we will further refine our life insurance example SOA, intended to make disclosure simpler and more effective. We will also update Regulatory Guide 90 *Example Statement of Advice: Scaled advice for a new client* (RG 90).

226 In 2017–18, we will continue to monitor the fee-for-no-service compensation programs in the advice divisions of the four major banks and AMP Limited.

227 These programs are in response to instances of these firms failing to provide financial advice to customers while charging them ongoing advice fees. We will continue to supervise their further reviews to determine whether any additional instances are identified of fees being charged without advice being provided.

Levy for licensees that provide personal advice to retail clients on relevant financial products

228 AFS licensees in this subsector will pay a levy calculated in accordance with the graduated levy formula. We will charge a minimum levy of $1,500, and

a graduated levy based on each licensee's share of the total number of advisers registered on the financial advisers register. This is because the greater the number of advisers, the larger the number of clients able to be serviced and the higher the level of regulatory oversight required. A licensee will only pay the levy in proportion to the number of days in the financial year they held the relevant AFS licence authorisation.

Table 50: Budgeted costs to regulate licensees that provide personal advice to retail clients on relevant financial products

Expense	Cost
Stakeholder engagement	$0.218m
Education	$0.014m
Guidance	$0.270m
Surveillance	$2.447m
Enforcement	$9.758m
Policy advice	$0.133m
Financial capability work	$1.099m
Governance, central strategy and policy, and central legal functions	$2.731m
IT support	$3.072m
Operations support	$1.493m
Property and corporate services	$3.839m
Total operating costs	*$25.073m*
Adjustment for capital expenditure allowance	*$1.416m*
Adjustment for ASIC-sourced revenue	*($0.506m)*
Adjustment for market competition cost recovery	*N/A*
Adjustment for new policy measures	*$0.168m*
Total budgeted costs to be recovered by levy	**$26.152m**

Licensees that provide personal advice to retail clients on products that are not relevant financial products

229 In 2017–18, we will monitor the compliance of these licensees through risk-based, reactive surveillances and other actions, based on our 'detect, understand and respond' approach to identifying and addressing misconduct and the risk of misconduct.

Levy for licensees that provide personal advice to retail clients on products that are not relevant financial products

230 Licensees in this subsector will pay a levy calculated under the basic levy component formula. The subsector regulatory costs will be shared equally between entities that are part of the subsector for the full financial year, because regulatory effort in relation to each entity is not dependent on the size of the entity. If an entity does not operate for the full financial year, it will only share in the regulatory costs for the subsector in proportion to the number of days in the financial year that it holds the relevant AFS licence authorisation.

Table 51: Budgeted costs to regulate licensees that provide personal advice to retail clients on products that are not relevant financial products

Expense	Cost
Stakeholder engagement	$0.007m
Education	N/A
Guidance	$0.009m
Surveillance	$0.078m
Enforcement	$0.064m
Policy advice	$0.004m
Financial capability work	$0.036m
Governance, central strategy and policy, and central legal functions	$0.066m
IT support	$0.065m
Operations support	$0.030m
Property and corporate services	$0.081m
Total operating costs	*$0.441m*
Adjustment for capital expenditure allowance	*$0.032m*
Adjustment for ASIC-sourced revenue	*($0.016m)*
Adjustment for market competition cost recovery	*N/A*
Adjustment for new policy measures	*$0.006m*
Total budgeted costs to be recovered by levy	**$0.462m**

Licensees that provide general advice only

231 In 2017–18, we will monitor the compliance of these licensees through risk-based, reactive surveillances and other actions, based on our ‘detect,

understand and respond' approach to identifying and addressing misconduct and the risk of misconduct.

Levy for licensees that provide general advice only

232 A flat levy applies. This subsector's regulatory costs will be shared equally between all entities in the subsector. Our regulatory costs for each entity in the subsector are not dependent on the size of the entity.

233 There is no pro-rata of the levy for the number of days the entity held the relevant AFS licence authorisation because the low annual levy rate means that pro-rataing the levy would be administratively burdensome and disproportionately increase costs to be passed on to the subsector.

Table 52: Budgeted costs to regulate licensees that provide general advice only

Expense	Cost
Stakeholder engagement	$0.025m
Education	$0.001m
Guidance	$0.022m
Surveillance	$0.126m
Enforcement	$1.097m
Policy advice	$0.011m
Financial capability work	$0.045m
Governance, central strategy and policy, and central legal functions	$0.110m
IT support	$0.195m
Operations support	$0.092m
Property and corporate services	$0.223m
Total operating costs	*$1.946m*
Adjustment for capital expenditure allowance	*$0.097m*
Adjustment for ASIC-sourced revenue	*($0.030m)*
Adjustment for market competition cost recovery	*N/A*
Adjustment for new policy measures	*$0.010m*
Total budgeted costs to be recovered by levy	**$2.023m**

Licensees that provide personal advice to wholesale clients only

234 In 2017–18, we will monitor the compliance of wholesale advice providers through risk-based, reactive surveillances and other actions, based on our ‘detect, understand and respond’ approach to identifying and addressing misconduct and the risk of misconduct.

Levy for licensees that provide personal advice to wholesale clients only

235 A flat levy applies. The subsector regulatory costs will be shared equally between all entities in the subsector, because our regulatory costs for each entity are not dependent on each entity’s share of total business activity within the subsector. There is no pro-rata of the levy, for the reasons outlined at paragraph 232.

Table 53: Budgeted costs to regulate licensees that provide personal advice to wholesale clients only

Expense	Cost
Stakeholder engagement	$0.013m
Education	$0.001m
Guidance	$0.017m
Surveillance	$0.148m
Enforcement	$0.121m
Policy advice	$0.008m
Financial capability work	$0.067m
Governance, central strategy and policy, and central legal functions	$0.125m
IT support	$0.123m
Operations support	$0.057m
Property and corporate services	$0.153m
Total operating costs	*$0.834m*
Adjustment for capital expenditure allowance	*$0.060m*
Adjustment for ASIC-sourced revenue	*($0.031m)*
Adjustment for market competition cost recovery	*N/A*
Adjustment for new policy measures	*$0.010m*
Total budgeted costs to be recovered by levy	**$0.874m**

Digital advice providers

236 There is a subsector of licensees that provide digital financial product advice (often called robo-advice or automated advice). We consider digital advice to be the provision of automated financial product advice using algorithms and technology and without the direct involvement of a human adviser.

Digital advice is a developing area. We support innovation and will not charge a separate levy on digital advice providers at this time. However, we may charge a levy for digital advice providers in the future. In the meantime, we will deem digital advice providers that provide personal advice to retail clients in relation to relevant financial products (and that do not have an adviser on the financial advisers register because they only provide digital advice) to hold at least one adviser on the financial advisers register. This is to ensure they are captured by the levy for licensees that provide personal advice on relevant financial products to retail clients. Where digital advice licensees only provide general advice or wholesale advice, they will be required to pay the relevant levy for these subsectors.

Summary table of budgeted levies for the financial advice sector

Table 54: Budgeted levies for the financial advice sector

Subsectors	Budgeted cost recovery amount	Number of entities	Levy metric and description	Minimum levy	Graduated levy threshold	Cost recovery regulations
Licensees that provide personal advice to retail clients on relevant financial products	$26.152m	2,895 AFS licensees with 25,406 advisers	**Adjusted number of advisers on the financial advisers register** The levy metric is based on the number of relevant providers (within the meaning of s910A) that are: • registered on the financial advisers register at the end of financial year; and • authorised to provide personal advice to retail clients on behalf of the entity.	$1,500	No threshold	Regulation 43
Licensees that provide personal advice to retail clients on products that are not relevant financial products	$0.462m	607	**Number of days authorised** The number of days in the financial year on which the entity holds the prescribed AFS licence authorisation.	N/A	N/A	Regulation 42
Licensees that provide general advice only	$2.023m	935 (estimate only)	Flat levy	N/A	N/A	Regulation 40
Licensees that provide personal advice to wholesale clients only	$0.874m	1,409	Flat levy	N/A	N/A	Regulation 41

Note: The number of licensees that provide general advice only is an estimate. We are unable to estimate the impact of the exclusion from the levy calculation of entities that fall within the large futures exchange participants subsector, large securities exchange participants subsector and the securities dealers subsector.

I Insurance sector

Key points

This section details our budgeted costs and the work we will do over the next financial year in regulating the insurance sector. It also goes into more detail about the methodologies we use to calculate the levies that apply to:

- insurance product providers (see paragraphs 243–248 and Table 55);
- insurance product distributors (see paragraphs 249–250 and Table 56); and
- risk management product providers (see paragraphs 251 and Table 57).

A summary of the levies is set out in Table 58.

Overview of the insurance sector

237 The insurance sector consists of AFS licensees, including life and general insurance product providers, insurance product distributors (insurance brokers), and risk management product providers.

238 In 2017–18, our forecast effort to regulate the insurance sector is expected to cost $14.1 million. This is 5.7% of the total regulatory costs we will recover in 2017–18.

239 Of the costs to be recovered from the insurance sector, we estimate $11.45 million (81%) will be recovered from insurance product providers, $2.38 million (17%) from insurance product distributors and $0.29 million (2%) from risk management product providers.

240 In this industry sector, we have focused on the mis-selling of inappropriate products, with a particular emphasis on products sold to vulnerable consumers. Our work has included publishing market snapshots of some insurance subsectors, such as add-on insurance sold through car dealerships, as well as subsequent regulatory action. We have also taken action in response to misleading advertising and other poor practices and published consumer guidance on common insurance products on ASIC's MoneySmart website.

241 In 2017–18, we will review the current practices in the life insurance industry, with a focus on claims handling and consumer outcomes, and will also continue to consider other issues that arise, such as the direct sale of life insurance products. We will also focus on the mis-selling of general and life insurance products to vulnerable consumers (including in Indigenous communities).

242 The tables in this section (Table 55–Table 57) depict our forecast regulatory costs for each subsector. These costs are a guide only. The final levies will be based on our actual cost of regulating each subsector in 2017–18.

Insurance product providers

243 In 2017–18, we will focus on reducing the sale of inappropriate insurance products to consumers, and the extent of negative outcomes from insurance products.

244 In particular, we will conduct a review of the direct sale of life insurance, to address the risk of mis-selling of products to vulnerable consumers. We will also focus on the sale of inappropriate products in Indigenous communities (e.g. funeral insurance).

Levy for insurance product providers

245 Our regulatory effort for insurance product providers varies depending on whether the entity is a life insurer (or friendly society) or a general insurance product provider, and the scale of its operation. For example, a large general insurer with a substantial customer base presents a significantly larger risk to the broader financial system than a small general insurer with a limited number of products and customers.

246 To ensure the levies on insurance product providers reflect our costs, we apply a graduated levy for AFS licensees with an authorisation to deal in general insurance, life risk insurance products or investment life products.

247 All entities in the subsector will pay a minimum levy of $20,000. Entities within the subsector that have more than $5 million in relevant insurance product income in the financial year will pay a graduated levy based on the entity’s share of the total amount of relevant insurance product income in the subsector.

248 These levies will impose minimal additional reporting requirements, as insurers already provide APRA with the information on which the levies will be based.

Table 55: Budgeted costs to regulate insurance product providers

Expense	Cost
Stakeholder engagement	$0.242m
Education	$0.025m
Guidance	$0.041m
Surveillance	$1.422m
Enforcement	$3.056m
Policy advice	$0.101m
Financial capability work	$1.004m
Governance, central strategy and policy, and central legal functions	$1.052m
IT support	$1.425m
Operations support	$0.688m
Property and corporate services	$1.882m
Total operating costs	*$10.938m*
Adjustment for capital expenditure allowance	*$0.664m*
Adjustment for ASIC-sourced revenue	*($0.232m)*
Adjustment for market competition cost recovery	*N/A*
Adjustment for new policy measures	*$0.077m*
Total budgeted costs to be recovered by levy	**$11.448m**

Insurance product distributors

249 In 2017–18, we will review insurance offered through superannuation, focusing on complaints handling, conflicts management and culture, and board involvement in decision making.

Levies for insurance product distributors

250 A flat levy applies. Our regulatory costs for insurance product distributors will be shared equally between all entities in the subsector, because our level of regulatory activity is relatively similar for entities with each authorisation.

Table 56: Budgeted costs to regulate insurance product distributors

Expense	Cost
Stakeholder engagement	$0.055m
Education	$0.006m
Guidance	$0.009m
Surveillance	$0.322m
Enforcement	$0.582m
Policy advice	$0.023m
Financial capability work	$0.228m
Governance, central strategy and policy, and central legal functions	$0.215m
IT support	$0.297m
Operations support	$0.143m
Property and corporate services	$0.390m
Total operating costs	*$2.271m*
Adjustment for capital expenditure allowance	*$0.140m*
Adjustment for ASIC-sourced revenue	*($0.053m)*
Adjustment for market competition cost recovery	*N/A*
Adjustment for new policy measures	*$0.018m*
Total budgeted costs to be recovered by levy	**$2.376m**

Risk management product providers

251 Entities that hold an AFS licence with an authorisation to deal in a financial product for managing financial risk that is not a financial product specified in s764A of the Corporations Act will fall within this subsector (e.g. providers of mutual risk products).

252 In 2017–18, we will focus on reducing the sale of inappropriate products to consumers, and the extent of inappropriate outcomes from products. We will monitor the compliance of risk management product providers through risk-based, reactive surveillances and other actions, based on our ‘detect, understand and respond’ approach to identifying and addressing misconduct and the risk of misconduct.

Levy for risk management product providers

253 Risk management product providers will pay a flat levy. Our regulatory costs will be shared equally between all entities in the subsector in

proportion to the number of days in the financial year the entity held the required AFS licence authorisation.

Table 57: Budgeted costs to regulate risk management product provider

Expense	Cost
Stakeholder engagement	$0.011m
Education	$0.001m
Guidance	$0.002m
Surveillance	$0.064m
Enforcement	$0.028m
Policy advice	$0.005m
Financial capability work	$0.046m
Governance, central strategy and policy, and central legal functions	$0.023m
IT support	$0.039m
Operations support	$0.018m
Property and corporate services	$0.048m
Total operating costs	*$0.284m*
Adjustment for capital expenditure allowance	*$0.020m*
Adjustment for ASIC-sourced revenue	*($0.011m)*
Adjustment for market competition cost recovery	*N/A*
Adjustment for new policy measures	*$0.004m*
Total budgeted costs to be recovered by levy	**$0.297m**

Summary table of levies for the insurance sector

Table 58: Budgeted levies for insurance sector

Subsectors	Budgeted cost recovery amount	Number of entities	Levy metric definition	Minimum levy	Graduated levy threshold	Cost recovery regulations
Insurance product providers	$11.448m	144 (estimate only)	**Gross premium and net policy revenue** Gross amount of premiums written and net revenue received, less any reinsurance expenses, in relation to business covered by the entity's AFS licence.	$20,000	$5 million	Regulation 72
Insurance product distributors	$2.376m	2,862	Flat levy	N/A	N/A	Regulation 70
Risk management product providers	$0.297m	53	Flat levy	N/A	N/A	Regulation 71

J Risk assessment

Key points

We have a wide and varied regulated population, and this breadth and complexity is reflected in our industry funding model. The model incorporates a number of methodologies to calculate how our regulatory costs should be allocated within a subsector to most closely align them with the allocation of our resources.

The potential risks of this model include:

- entities being uncertain about the inputs used to calculate levies;
- failing to collect sufficient information from entities to calculate the levies that ought to be paid;
- a perception arising among entities that the model lacks transparency because of its complexity;
- over or under collecting levies from year to year;
- volatility in levies from year to year; and
- differences between estimated levy amounts and the actual amounts levied.

These risks have been mitigated and managed by increasing the level of consultation and communication with stakeholders throughout the process, to ensure maximum transparency and understanding.

254 We will calculate our levies based on the returns each leviable entity must provide to ASIC each year. Because of the diversity of entities and activities that we regulate, which can change over time, a large number of different methods are required for allocating our regulatory costs, and these will need to be updated and amended as circumstances change. This is a complex model, and its accuracy is dependent on collecting complete, accurate and timely information from the entities we regulate.

255 The risks arising from this model, and how we will mitigate them, are set out in Table 59.

Table 59: Mitigation of risks arising from the industry funding model

Risk	Mitigation
Entity uncertainty about the inputs used to calculate levies	Every October we will publicly consult on our industry funding; stakeholders will have the opportunity to provide feedback on how the model is working and the methodology. Also, each March we will consult on the draft strategic risks of each sector and subsector for the coming financial year. These consultations should help entities understand the rationale underlying the levy calculations.

Risk	Mitigation
Failure to collect sufficient information from entities to correctly apportion our regulatory costs	Each regulated entity is responsible for: • determining the subsectors to which it belongs; and • reporting against all relevant subsectors that apply to that entity. However, we will pre-fill the reporting forms with information we already hold where this is possible. The shortfall penalty provisions of the *ASIC Supervisory Cost Recovery Levy (Collection) Act 2017* should also ensure industry is motivated to report accurate information so we can correctly allocate our costs.
Perception that the model lacks transparency because of its complexity	We are required to report on sector-level activity through an annual industry funding 'dashboard' report and in the CRIS. There will be transparency in how the funding has been spent, the regulatory activities that we have undertaken and the outcomes delivered. Stakeholders will be able to scrutinise the levy cost drivers for each sector we regulate. The annual dashboard report is a new requirement introduced under amendments to the ASIC Act to increase the transparency of our expenditure. As soon as practicable after 31 October 2018, we must publish on our website an annual dashboard report, which must include our *actual* costs for regulating leviable entities and how we have apportioned those costs across each industry sector and subsector. We must also publish the types (and cost) of activities undertaken for each industry sector.
Over or under collection of levies	Each year we must reduce our regulatory costs by the amount of any excess levy paid in the previous financial year. Similarly, where there has been a shortfall in the recovery of our costs for a previous financial year, we must increase our regulatory costs by the amount of the shortfall. We must attribute any excess or shortfall to the subsectors where the excess or shortfall previously arose. This will ensure that, if there is over or under recovery, it is transparent and the adjustments are equitable.
Volatility in regulated entities' year-to-year bills	Each year, we will consult on our strategic risks for the coming year. The outcome of the consultation will feed into our allocation of resources to address those risks. As the strategic risks change over time, so will the allocation of regulatory effort and cost allocation to different subsectors. We will publish indicative levies for the coming year and the CRIS, along with the dashboard report setting out actual costs for each subsector, so that stakeholders will be able to understand the levy cost drivers for each subsector that we regulate.
Levies invoiced differ significantly from the estimates provided due to changes in the regulatory landscape	We cannot prevent change in the regulatory and market landscape between the time the estimate is provided and the time the levy is invoiced. However, we will provide updates to industry sectors as soon as it becomes apparent that this situation is arising, to give our regulated sectors as much advance notice of these changes as is possible.

K Stakeholder engagement

Key points

Treasury released a consultation paper, *Proposed industry funding model for the Australian Securities and Investments Commission: Consultation paper* (Treasury consultation paper), in August 2015. This received 77 submissions in response.

In November 2016, Treasury released *Proposed industry funding model for the Australian Securities and Investments Commission: Proposals paper* (Treasury proposals paper), which contained a detailed model.

Treasury also held extensive consultation and conducted roundtables with various stakeholder groups.

Based on this feedback, exposure draft legislation was released for public comment on 22 February 2017. The draft legislation received 19 submissions in response.

Stakeholder consultation

256 The Australian Government led the consultation with industry to refine and settle the industry funding model.

257 In August 2015, the Government released the Treasury consultation paper. In response to the consultation paper, Treasury received 77 submissions, including 15 confidential submissions. Treasury also held a number of stakeholder meetings and roundtables to refine aspects of the model.

258 Following feedback from stakeholders, the levies for each industry sector were refined with a number of design objectives in mind:

(a) *Simplicity*—The model should be simple to enable any entity to calculate its applicable levy.

(b) *Certainty*—The levies should, wherever possible, provide enough certainty for entities to allow them to incorporate the levies into their commercial decisions.

(c) *Proportionality*—Levies for each industry sector should be calculated from readily available metrics of business activity, such as revenue generated or funds under management. Selection of each sector's activity metric should:

(i) align to expected regulatory oversight, including the level of anticipated consumer or investor exposure to risk; and

(ii) ensure that the reporting burden for industry is kept to a minimum.

(d) *Commercially based*—Industry sector definitions should group together entities that provide similar services and compete in the same markets.

(e) *Efficient processing*—Billing and business activity collection should be done through a web portal that users find simple, clear and fast to use, and that is seamlessly connected to ASIC databases.

259 In November 2016, the Government released the Treasury proposals paper. This paper contained a detailed model that was developed with the benefit of broader consultation during 2015. Elements from industry funding models in Australia and overseas were incorporated into the design, where appropriate.

260 In response to this paper, Treasury received 231 submissions, of which 52 were confidential. Treasury also held extensive consultation and conducted roundtables with various stakeholder groups.

261 Exposure draft legislation was prepared based on this feedback, and was released for public comment on 22 February 2017. A total of 19 submissions were received.

262 In July 2017, we released Report 535 *ASIC cost recovery arrangements: 2017–18* (REP 535). This explains the changes that were made to ASIC's cost recovery arrangements since the Treasury proposals paper.

L Financial and non-financial performance

Key points

We measure how well we are performing by evaluating the outcomes we achieve against a number of benchmarks, which include qualitative and quantitative measures of our performance.

Financial estimates

263 In 2017–18, $246.4 million of our regulatory activities are expected to be recovered through levies on industry. We anticipate that this will fall to $236.7 million in 2018–19.

Table 60: Estimated and actual expenses, revenue, balances and cumulative balances

Figure type	Estimates for 2017–18	Actual figure for 2017–18	Estimates for 2018–19	Estimates for 2019–20	Estimates for 2020–21
Expenses	$246.4m	Not available	$236.7m	$244.0m	$243.8m
Revenue	$246.4m	Not available	$236.7m	$244.0m	$243.8m
Balance (revenue minus expenses)	$0	Not available	$0	$0	$0
Cumulative balance	$0	Not available	$0	$0	$0

264 In future years, our CRIS will provide information on the actual expenses we incurred and explain any material variation between our estimates and actual expenses.

Non-financial performance

Corporate plan

265 We published our *Corporate Plan 2017–18 to 2020–21: Focus 2017–18* in August 2017. The corporate plan outlines our vision for fulfilling ASIC's mandate over the next four years, and the challenges we face in achieving this vision. It also outlines our view of 'what good looks like' for the industry sectors we regulate.

266 It includes a specific section, *Measuring and evaluating our performance*, which sets out the measures we will use to track and report on our performance.

Annual report

267 We publish an annual performance statement as part of our annual report each year, in compliance with s39(1)(a) of the *Public Governance, Performance and Accountability Act 2013*. This outlines how we have performed over the last financial year, using the performance indicators outlined in the Corporate Plan. Our annual report will be released in October 2017.

Regulator Performance Framework

268 The Regulator Performance Framework was introduced by the Australian Government in 2015. It establishes key performance indicators to assess how Commonwealth regulators operate, with a particular focus on the extent to which the regulator minimises the regulatory burden in the course of conducting its activities.

269 We completed our first self-assessment under the Regulator Performance Framework in December 2016, using evidence metrics we published in July 2015: see Report 511 *Regulator Performance Framework: ASIC self-assessment 2015–16* (REP 511). We will publish our next self-assessment in December 2017.

M Key events and estimated dates

Key points

This section sets out an outline of the key events and estimated dates for implementing industry funding.

Table 61: Key events and estimated dates

Key event	Estimated date
We publish our 2016–17 Annual Report	October 2017
We publish our summary business plans	October 2017
Treasury consultation on fees for service	November 2017
We publish the final CRIS	January 2018
We release the indicative levies for 2017–18 Note: We cannot require a person to provide information to ASIC about the 2016–17 financial year for the purpose of calculating indicative industry levies. Indicative levies will be produced for subsectors where ASIC can calculate the levy. This equates to approximately 80% of the leviable entities by population, and 55% of total expected levy collections.	March 2018
We publish forecast cost data and indicative levies for 2018–19	June 2018
ASIC portal open for 2017–18 annual returns	July to September 2018
We publish the Corporate Plan for 2018–19 to 2021–22	August 2018
We publish our 2017–18 Annual Report and CRIS for consultation	October 2018
We publish on our website the dashboard report for 2017–18	November 2018
We publish a legislative instrument with business activity details	December 2018
We send invoices for 2017–18	January 2019
Invoices due for payment	February 2019

N CRIS approval and change register

Key points

The table below shows approvals and changes pertaining to this CRIS.

Table 62: CRIS approval and change register

Date	Description	Approved by	Comments
December 2017	Certification of the CRIS	ASIC Chair	N/A
January 2018	Approval of the CRIS	The Minister for Revenue and Financial Services	N/A

Key terms

Term	Meaning in this document
AFS licence	An Australian financial services licence under s913B of the Corporations Act that authorises a person who carries on a financial services business to provide financial services Note: This is a definition contained in s761A.
AFS licensee	A person who holds an AFS licence under s913B of the Corporations Act Note: This is a definition contained in s761A.
APRA	Australian Prudential Regulation Authority
ASIC Act	*Australian Securities and Investments Commission Act 2001*
ASIC-sourced revenue	Revenue generated from sources such as sub-leasing office space to other agencies, publishing royalties and the recovery of court awarded costs
ASX	ASX Limited or the exchange market operated by ASX Limited
auditors of disclosing entities	Authorised audit companies and audit firms that audit disclosing entities with quoted securities
Australian derivative trade repository operators	Has the meaning given in reg 59 of the ASIC Supervisory Cost Recovery Levy Regulations 2017
Australian market licence	An Australian market licence under s795B of the Corporations Act that authorises a person to operate a financial market
basic levy component formula	Formula apportioning our regulatory costs for a subsector to each entity, based on each entity's share of activity within the subsector. For more information, see paragraph 68.
CADB	Companies Auditors Disciplinary Board, formerly known as the Companies Auditors and Liquidators Disciplinary Board (CALDB)
capital expenditure allowance	A figure equal to ASIC's departmental capital budget and equity injection appropriations to develop infrastructure to support new regulatory responsibilities. For more information, see paragraph 63.
Corporations Act	*Corporations Act 2001*, including regulations made for the purposes of that Act
corporate advisers	Has the meaning given in reg 63 of the ASIC Supervisory Cost Recovery Levy Regulations 2017

Term	Meaning in this document
credit licence	An Australian credit licence under s35 of the National Credit Act that authorises a licensee to engage in particular credit activities
credit licensee	A person who holds an Australian credit licence under s35 of the National Credit Act
credit providers	Has the meaning given in s5 of the National Credit Act
credit rating agencies	Has the meaning given in reg 60 of the ASIC Supervisory Cost Recovery Levy Regulations 2017
CRIS	Cost Recovery Implementation Statement
CS facility	A clearing and settlement facility as defined in s768A of the Corporations Act
CS facility licence	An Australian CS facility licence under s824B that authorises a person to operate a CS facility in Australia
CS facility operator	An entity that operates a CS facility under a CS facility licence
CSF	Crowd-sourced funding
CSF intermediary	An AFS licensee whose licence expressly authorises the licensee to provide a crowd-funding service Note: See s738C of the Corporations Act.
CSF regime	The statutory regime for crowd-sourced funding in Pt 6D.3A of the Corporations Act regulating CSF offers
custodians	AFS licensees with authorisations to provide custodial and depository services
deposit product provider	Australian deposit-taking institutions (i.e. banks, credit unions and building societies) that provide deposit products to consumers, such as deposit accounts, certificates of deposit, and foreign currency deposits
digital advice	Also known as 'robo-advice' or 'automated advice'—the provision of automated financial product advice using algorithms and technology and without the direct involvement of a human adviser
digital advice provider	A person to whom the obligations in Div 2 of Pt 7.7A of the Corporations Act apply when personal advice is provided through a computer program—that is, the legal person that provides the digital advice (e.g. a corporate licensee or authorised representative)
equity injection appropriation	Funds provided by the Australian Government to ASIC to enable investment in assets (e.g. capital expenditure)
exempt CS facility operators	Market infrastructure providers that hold an exemption from the requirement to hold a CS facility licence

Term	Meaning in this document
exempt market operators	Market infrastructure providers that hold an exemption from the requirement to hold a market licence
financial advisers register	A register maintained by ASIC of individuals who are authorised to provide personal advice to retail clients on investments, superannuation and life insurance
financial product advice	A recommendation or a statement of opinion, or a report of either of these things, that: • is intended to influence a person or persons in making a decision about a particular financial product or class of financial product, or an interest in a particular financial product or class of financial product; or • could reasonably be regarded as being intended to have such an influence. This does not include anything in an exempt document Note: This is a definition contained in s766B of the Corporations Act.
flat levy	A levy based on the basic levy component formula where the cost is shared equally between the entities in a subsector
FSI	Financial System Inquiry
FTE staff	Full-time equivalent staff
general advice	Financial product advice that is not personal advice Note: This is a definition contained in s766B(4) of the Corporations Act.
graduated levy	A levy based on the graduated levy component formula, where all entities in a subsector must pay: • a minimum levy; and • an additional variable component, based on each entity's share of relevant activity within the subsector
IDPS	An investor directed portfolio service as defined in Class Order [CO 13/763] Investor directed portfolio services or any instrument that amends or replaces that class order
IDPS operator	An entity that operates an IDPS
INFO 214 (for example)	An ASIC information sheet (in this example numbered 214)
insurance product providers	Has the meaning given in reg 72 of the ASIC Supervisory Cost Recovery Levy Regulations 2017
insurance product distributors	Has the meaning given in reg 70 of the ASIC Supervisory Cost Recovery Levy Regulations 2017
IOSCO	International Organization of Securities Commissions

Term	Meaning in this document
large proprietary companies	Has the meaning given in reg 16 of the ASIC Supervisory Cost Recovery Levy Regulations 2017
listed corporations	Has the meaning given in reg 22 of the ASIC Supervisory Cost Recovery Levy Regulations 2017
MAI system	Markets Analysis and Intelligence system
managed investment scheme	Has the meaning given in s9 of the Corporations Act
market competition cost recovery	Has the meaning given at paragraph 64(b) of this CRIS
Market Supervision Cost Recovery Regime	Has the meaning given at paragraph 168 of this CRIS
market licensee	The holder of an Australian market licence
market participants	Has the meaning given in s761A of the Corporations Ac
margin lenders	Has the meaning given in reg 23 of the ASIC Supervisory Cost Recovery Levy Regulations 2017
MDA	A managed discretionary account
National Credit Act	*National Consumer Credit Protection Act 2009*
OTC	Over the counter
OTC traders	Has the meaning given in reg 66 of the ASIC Supervisory Cost Recovery Levy Regulations 2017
payment product providers	Has the meaning given in reg 28 of the ASIC Supervisory Cost Recovery Levy Regulations 2017
personal advice	Financial product advice given or directed to a person (including by electronic means) in circumstances where: • the person giving the advice has considered one or more of the person's objectives, financial situation and needs; or • a reasonable person might expect the person giving the advice to have considered one or more of these matters Note: This is a definition contained in s766B(3) of the Corporations Act.
process service	The official service of documents on a party that alerts them that court proceedings have been initiated
risk management product provider	An entity that holds an AFS licence with an authorisation to deal in a product for managing financial risks that is not a financial product specified in s764A of the Corporations Act

Term	Meaning in this document
reg 20 (for example)	A regulation of the ASIC Supervisory Cost Recovery Levy Regulations 2017 (in this example numbered 20), unless otherwise specified
registered company auditors	Has the meaning given in reg 18 of the ASIC Supervisory Cost Recovery Levy Regulations 2017
registered liquidator	A person registered by ASIC under s20-30 of Sch 2 to the Corporations Act
registered scheme	A managed investment scheme that is registered under s601EB of the Corporations Act
registerable superannuation entity	Has the meaning given in the *Superannuation Industry (Supervision) Act 1993*
relevant financial product	A financial products other than a basic banking product, general insurance product, consumer credit insurance, or a combination of any of these products (see s922C of the Corporations Act)
retail client	A client as defined in s761G of the Corporations Act and Div 2 of Pt 7.1 of the Corporations Regulations
retail OTC derivatives issuers	Has the meaning given in reg 61 of the ASIC Supervisory Cost Recovery Levy Regulations 2017
responsible entity	A responsible entity of a registered scheme as defined in s9 of the Corporations Act
RG 90 (for example)	An ASIC regulatory guide (in this example numbered 90)
risk management product providers	Has the meaning given in reg 71 of the ASIC Supervisory Cost Recovery Levy Regulations 2017
RSE licensee	Has the meaning given in s10 of the *Superannuation Industry (Supervision) Act 199*3
s912C (for example)	A section of the Corporations Act (in this example numbered 912C), unless otherwise specified
securities dealers	Has the meaning given in reg 67 of the ASIC Supervisory Cost Recovery Levy Regulations 2017
small amount credit contract	Has the meaning given in s5 of the National Credit Act
small proprietary companies	Has the meaning given in s45A(2) of the Corporations Act
SOA	A Statement of Advice—a document that must be given to a retail client for the provision of personal advice under Subdivs C and D of Div 3 of Pt 7.7 of the Corporations Act Note: See s761A for the exact definition.

Term	Meaning in this document
superannuation fund	Has the meaning given in s10(1) of the *Superannuation Industry (Supervision) Act 1993*
superannuation trustee	A person or group of person licenced by APRA under s29D of the *Superannuation Industry (Supervision) Act 1993* to operate a registrable superannuation entity (e.g. superannuation fund) (also known as an 'RSE licensee')
Takeovers Panel	The panel established under s171 of the ASIC Act and given various powers under Pt 6.10 of the Corporations Act
Tier 1 CS facility	Has the meaning given in reg 54 of the ASIC Supervisory Cost Recovery Levy Regulations 2017
Tier 2 CS facility	Has the meaning given in reg 55 of the ASIC Supervisory Cost Recovery Levy Regulations 2017
Tier 3 CS facility	Has the meaning given in reg 56 of the ASIC Supervisory Cost Recovery Levy Regulations 2017
Tier 4 CS facility	Has the meaning given in reg 57 of the ASIC Supervisory Cost Recovery Levy Regulations 2017
traditional trustee company services	Has the meaning given in s601RAC(1) of the Corporations Act, and includes: • performing estate management functions (as defined in s601RAC(2)); • preparing a will, a trust instrument, a power of attorney or an agency arrangement; • applying for probate of a will, applying for grant of letters of administration, or electing to administer a deceased estate; • establishing and operating common funds; and • any other services prescribed by the regulations for the purpose of s601RAC(1)
Treasury consultation paper	*Proposed industry funding model for the Australian Securities and Investments Commission: Consultation paper*, published August 2015
Treasury proposals paper	*Proposed industry funding model for the Australian Securities and Investments Commission: Proposals paper*, published November 2016
unlisted public companies	Has the meaning given in reg 17 of the ASIC Supervisory Cost Recovery Levy Regulations 2017
wholesale client	A client who is not a retail client as defined in s761G of the Corporations Act and Div 2 of Pt 7.1 of the Corporations Regulations 2001
wholesale electricity dealers	Has the meaning given in reg 62 of the ASIC Supervisory Cost Recovery Levy Regulations 2017
wholesale trustee	Has the meaning given in reg 37 of the ASIC Supervisory Cost Recovery Levy Regulations 2017

Related information

Headnotes

basic levy component formula, cost recovery, education, enforcement, flat levy, graduated levy, guidance, industry funding model, policy advice, regulatory activity, regulatory costs, stakeholder engagement, surveillance

Regulatory guides

RG 90 *Example Statement of Advice: Scaled advice for a new client*

Legislation

ASIC Act

ASIC Supervisory Cost Recovery Levy Act 2017

ASIC Supervisory Cost Recovery Levy (Collection) Act 2017

ASIC Supervisory Cost Recovery Levy (Consequential Amendments) Act 2017

ASIC Supervisory Cost Recovery Levy Regulations 2017, regs 15–20, 23–28, 31–37, 40–43, 46–59

ASIC Supervisory Cost Recovery Levy (Consequential Amendments) Regulations 2017

Corporations Act, Ch 5, s764A, 910A, 912C, 922C

Corporations Amendment (Crowd-sourced Funding) Act 2017

Corporations (Fees) Act 2001

Corporations (Review Fees) Regulations 2003

National Credit Act, s5

Public Governance, Performance and Accountability Act 2013, s39(1)(a)

Superannuation Industry (Supervision) Act 1993

Reports

REP 511 *Regulator Performance Framework: ASIC self-assessment 2015–16*

REP 531 *Review of compliance with asset holding requirements in funds management and custodial services*

REP 535 *ASIC cost recovery arrangements: 2017–18*

Information sheets

INFO 214 *Mining and resources: Forward-looking statements*

Rules

ASIC Derivative Trade Repository Rules 2013

Other ASIC documents

Corporate Plan 2017–18 to 2020–21: Focus 2017–18

Non-ASIC documents

Council of Financial Regulators, *Application of the regulatory influence framework for cross-border central counterparties*, March 2014

IOSCO, Code of Conduct Fundamentals for Credit Rating Agencies (PDF 910 KB), March 2015

FSI, *Financial System Inquiry: Final report*, December 2014

Senate Economics References Committee, *Performance of the Australian Securities and Investments Commission*, June 2014

Treasury, *Budget 2016–17: Budget measures—Budget paper no. 2*, May 2016

Treasury, Treasury consultation paper, August 2015

Treasury, Treasury proposals paper, November 2016