



ASIC

Australian Securities & Investments Commission

Cost Recovery Implementation Statement: Levies for ASIC industry funding (2017–18)

May 2018

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.

This version of the 2017–18 CRIS takes into account stakeholder feedback on the version we published for comment in October 2017.

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.

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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; this version takes into account stakeholder feedback on the version we published for comment in October 2017.

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, policy advice and financial capability work.

Purpose of the CRIS

- 1 We are required to publish a CRIS each year under the Australian Government Charging Framework, specifically 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 This version takes into account stakeholder feedback we received on the version we published for comment in October 2017. For a discussion of the main issues raised by respondents and our responses to them, see Section K.
- 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 information.

- 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. ASIC’s total budgeted resources for 2017–18 is \$387.7 million.
- 7 There are a number of mechanisms that we use to recover our costs from industry. They include cost recovery fees, cost recovery levies, statutory industry levies and general taxes.
- 8 This CRIS covers our regulatory costs of \$246.4 million that are being recovered via cost recovery levies and statutory industry levies. User-initiated service costs and transaction-based activities where we provide a specific service to individual entities (e.g. licence applications) will be recovered via cost recovery fees-for-service. The Australian Government is currently consulting on the introduction of fees-for-service under the industry funding model. They will be incorporated into this CRIS before the commencement of fees-for-service on 1 July 2018.
- 9 Activities that are consistent with the Australian Government’s Charging Framework will be recovered from industry via a cost recovery levy. Other activities will be recovered via a statutory industry levy. Statutory levies make up \$36.3 million of the total regulatory costs of \$246.4 million that are being recovered. Table 1 depicts the regulatory costs to be recovered by cost recovery and statutory levies for each sector.

Table 1: Regulatory costs to be recovered by cost recovery and statutory levies for each sector

| Sector | Cost recovery component | Statutory component | Total levy |
|---------------------------|-------------------------|---------------------|------------|
| Corporate | \$67.2m | \$5.5m | \$72.8m |
| Deposit taking and credit | \$27.5m | \$4.5m | \$32.0m |
| Financial advice | \$22.3m | \$7.2m | \$29.5m |
| Insurance | \$12.5m | \$1.5m | \$14.1m |

| Sector | Cost recovery component | Statutory component | Total levy |
|--|-------------------------|---------------------|-----------------|
| Investment management, superannuation and related services | \$33.0m | \$6.1m | \$39.1m |
| Market infrastructure and intermediaries | \$47.5m | \$11.5m | \$58.9m |
| Total costs to be recovered | \$210.1m | \$36.3m | \$246.4m |

- 10 The activities that will be recovered via a statutory levy are:
- the ASIC Enforcement Special Account (ESA);
 - financial capability;
 - administration of unclaimed money; and
 - operation of the North Queensland insurance aggregator website.
- 11 The regulatory costs to be recovered under a statutory levy for each of these activities are set out in Table 2.

Table 2: Regulatory costs to be recovered by statutory levies

| Activity | Cost |
|--|-----------------|
| ESA | \$26.25m |
| Financial capability | \$8.50m |
| Unclaimed money | \$0.90m |
| North Queensland insurance aggregator | \$0.65m |
| Total costs to be recovered by statutory levies | \$36.30m |

- 12 Statutory industry levies will be included in the same invoice as the other cost recovery levies.
- 13 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

14 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.

15 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.

16 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;
- (d) provide greater stability and certainty in ASIC’s funding and ensure that ASIC is adequately resourced to carry out our regulatory mandate; and
- (e) improve our cost transparency and accountability to industry.

About ASIC

17 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).

18 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.
- 19 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.
- 20 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.
- 21 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

- 22 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;
 - (f) policy advice; and
 - (g) financial capability work.
- 23 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.
- 24 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.
- 25 Table 3 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 3: 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: <ul style="list-style-type: none"> • 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. |

| Activity | Activity description | Sub-activity overview |
|---------------------|---|--|
| Education | <p>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.</p> | <p>Our sub-activities include:</p> <ul style="list-style-type: none"> • 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 | <p>We provide guidance to industry, on how we will administer the law, through regulatory guides, consultation papers, information sheets and ASIC legislative instruments.</p> | <p>Our sub-activities include:</p> <ul style="list-style-type: none"> • 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. |
| Surveillance | <p>We conduct surveillance to test compliance with the laws we administer and promote positive consumer and investor outcomes.</p> <p>We may gather and analyse information on:</p> <ul style="list-style-type: none"> • a specific entity or range of entities; • a transaction; or • a specific product or issue of concern in the market. | <p>Our sub-activities include:</p> <ul style="list-style-type: none"> • making an initial regulatory assessment, as part of which we: <ul style="list-style-type: none"> – 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: <ul style="list-style-type: none"> – 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 <i>Corporations Act 2001</i> (Corporations Act)); – analyse and assess the information gathered; and – develop and publish surveillance reports; and • undertaking regulatory surveillance and monitoring, as part of which we: <ul style="list-style-type: none"> – 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). |

| Activity | Activity description | Sub-activity overview |
|----------------------|---|---|
| Enforcement | <p>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).</p> | <p>Our sub-activities include:</p> <ul style="list-style-type: none"> • undertaking investigations, as part of which we: <ul style="list-style-type: none"> – 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: <ul style="list-style-type: none"> – 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: <ul style="list-style-type: none"> – 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 | <p>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.</p> | <p>Our sub-activities include:</p> <ul style="list-style-type: none"> • 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. |

| Activity | Activity description | Sub-activity overview |
|----------------------------------|---|---|
| Financial capability work | <p>We lead and coordinate the National Financial Literacy Strategy to:</p> <ul style="list-style-type: none"> educate the next generation, particularly through the formal education system; increase the use of free and impartial information, tools and resources; provide quality, targeted guidance and support; strengthen coordination and effective partnerships between ASIC and other organisations; and improve financial wellbeing research, measurement and evaluation. | <p>Our sub-activities include:</p> <ul style="list-style-type: none"> promoting and supporting financial literacy through the formal education sector, including supporting teacher capability; delivering and promoting access to trusted and impartial financial information, tools and guidance for consumers and investors (especially vulnerable consumers); reviewing and updating the National Financial Literacy Strategy; supporting and growing key partnerships with other organisation to enhance collaboration and increase the reach and impact of financial capability initiatives; contributing to research and measurement supporting the financial wellbeing of Australians; and ensuring ASIC is globally engaged and effectively participates in shaping and influencing the international financial capability agenda. |

- 26 The entities that will be liable to pay levies are those that are subject to the regulatory activities outlined in Table 3. 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

- 27 The industry sectors and subsectors are set out in the ASIC Supervisory Cost Recovery Levy Regulations 2017 and described in Table 4.

Table 4: Summaries of industry sectors

| Sectors | Subsectors | Further discussion |
|---|--|--------------------|
| Corporate (includes auditors and liquidators, which are subject to separate fees and levies) | <p>Corporations, including:</p> <ul style="list-style-type: none"> 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). <p>Auditors of disclosing entities</p> <p>Registered company auditors</p> <p>Registered liquidators</p> | Section D |

| Sectors | Subsectors | Further discussion |
|---|---|--------------------|
| Deposit taking and credit | Credit licensees, including: <ul style="list-style-type: none"> • 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 |
| Market infrastructure and intermediaries | Market infrastructure providers, including: <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> • personal advice to retail clients on relevant financial products; • personal advice to retail clients on products that are not relevant financial products; <p style="margin-left: 40px;">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).</p> <ul style="list-style-type: none"> • general advice only; and • personal advice to wholesale clients only. | Section H |

| Sectors | Subsectors | Further discussion |
|--|--|--------------------|
| Insurance (includes life and general insurance) | Insurance product providers (including friendly societies) | Section I |
| | Insurance product distributors | |
| | Risk management product providers | |

- 28 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

- 29 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.
- 30 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

- 31 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.
- 32 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.
- 33 We set out the key changes made to the cost recovery arrangements, compared to the arrangements in the Treasury proposals paper, in paragraphs 34–55, 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

- 34 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.
- 35 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

- 36 The minimum levy for registered liquidators has been reduced from \$5,000 to \$2,500.
- 37 The graduated levy (see paragraph 77) will be charged based on:
- (a) the number of ongoing external administration appointments the registered liquidator has at the beginning of the financial year, and the number of new external administration appointments the registered liquidator accepts during the financial year; and
 - (b) the number of prescribed documents lodged by the registered liquidator 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.

Note: In the case of two or more joint and several appointees each appointee must include the appointment in the calculation of their entity metric but only the registered liquidator who lodges a prescribed document will include the lodgement in the calculation of their entity metric.

Deposit taking and credit sector

Credit intermediaries

- 38 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

- 39 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

- 40 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

- 41 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.

- 42 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

- 43 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

- 44 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

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

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

Market participants

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

48 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

49 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

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

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

52 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

53 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 54.

54 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

55 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 six 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;
- the Corporations (Review Fees) Regulations 2003; 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

- 56 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.
- 57 Our regulatory costs will be recovered from all the industry sectors we regulate through a combination of:
- (a) general industry levies (cost recovery 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;
 - (b) statutory industry levies for activities the Australian Government has decided should be cross subsidised between industry subsectors (see paragraph 9); and
 - (c) 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.

- 58 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 currently [consulting on the introduction of fees-for-service under the industry funding model](#). The existing fees in the *Corporations (Fees) Act 2001* and regulations will continue to apply.
- 59 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

- 60 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;

- (e) the Corporations (Review Fees) Regulations 2003, under which our regulatory costs for small proprietary companies will be recovered through an increase to the annual review fee for proprietary companies; and
- (f) the ASIC Supervisory Cost Recovery Levy (Consequential Amendments) Regulations 2017.

61 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.

62 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
- (b) 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

- 63 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, policy advice and financial capability work: see Table 3.
- 64 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.
- 65 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 63, which sets out the key events and estimated dates for implementing industry funding.

- 66 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

- 67 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).
- 68 Our operating costs include the direct expenses of the stakeholder and enforcement teams, as well as the indirect costs that support these teams.
- 69 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).
- 70 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).

- 71 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.
- 72 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

- 73 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.
- 74 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’.
- 75 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.
- 76 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.
- 77 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.

- 78 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.
- 79 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 disproportionately larger effect on small entities (relative to large entities in these subsectors), which could negatively affect competition and create a barrier to entry.
- 80 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 94.
- 81 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 85–99 and Table 5–Table 8);
- auditors (see paragraphs 100–108 and Table 9–Table 10); and
- registered liquidators (see paragraphs 109–115 and Table 11).

A summary of the levies is set out in Table 12.

Overview of the corporate sector

- 82 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.
- 83 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.
- 84 The tables in this section (Table 5–Table 11) 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

- 85 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.
- 86 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.
- 87 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.
- 88 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.
- 89 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.

90 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.

91 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

92 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.

93 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.

94 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.

Table 5: Budgeted costs to regulate listed corporations

| Expense | Cost |
|--|-------------------|
| Stakeholder engagement | \$0.828m |
| Education | \$0.023m |
| Guidance | \$0.379m |
| Surveillance | \$3.143m |
| Enforcement | \$14.892m |
| Policy advice | \$0.292m |
| Financial capability work | N/A |
| Governance, central strategy and policy, and central legal functions | \$2.292m |
| IT support | \$3.584m |
| Operations support | \$1.643m |
| Property and corporate services | \$4.692m |
| <i>Total operating costs</i> | <i>\$31.768m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$1.821m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.432m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>\$0.658m</i> |
| <i>Adjustment for new policy measures</i> | <i>\$0.144m</i> |
| Total budgeted costs to be recovered by levy | \$33.959m |

Other company subsectors

95 Flat annual levies apply for unlisted public companies, and large and small proprietary companies. Our level of supervision is generally similar for entities in each of these subsectors.

Levy for unlisted public companies

96 Unlisted public companies will pay a flat levy. Under this formula our regulatory costs will be shared equally between all unlisted public companies in the financial year. We will prescribe the number of unlisted public companies for each year as part of our annual legislative instrument.

97 There is no pro-rata of the levy, because the low annual levy means that pro-rataing would be administratively burdensome, disproportionately increasing costs to be passed on to the subsector.

Table 6: Budgeted costs to regulate unlisted public companies

| Expense | Cost |
|--|-------------------|
| Stakeholder engagement | \$0.091m |
| Education | \$0.004m |
| Guidance | \$0.064m |
| Surveillance | \$0.263m |
| Enforcement | \$3.401m |
| Policy advice | \$0.042m |
| Financial capability work | N/A |
| Governance, central strategy and policy, and central legal functions | \$0.524m |
| IT support | \$0.749m |
| Operations support | \$0.338m |
| Property and corporate services | \$0.991m |
| <i>Total operating costs</i> | <i>\$6.466m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$0.356m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.060m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>N/A</i> |
| <i>Adjustment for new policy measures</i> | <i>\$0.677m</i> |
| Total budgeted costs to be recovered by levy | \$7.440m |

Levy for large proprietary companies

98 Large proprietary companies will pay a flat levy. Our regulatory costs for the subsector will be shared equally between all large proprietary companies in the financial year. There is no pro-rata of the levy, for the reasons set out at paragraph 97.

Table 7: Budgeted costs to regulate large proprietary companies

| Expense | Cost |
|--|-------------------|
| Stakeholder engagement | \$0.025m |
| Education | \$0.002m |
| Guidance | \$0.019m |
| Surveillance | \$0.167m |
| Enforcement | \$4.023m |
| Policy advice | \$0.017m |
| Financial capability work | N/A |
| Governance, central strategy and policy, and central legal functions | \$0.658m |
| IT support | \$0.816m |
| Operations support | \$0.410m |
| Property and corporate services | \$1.107m |
| <i>Total operating costs</i> | <i>\$7.244m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$0.344m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.022m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>N/A</i> |
| <i>Adjustment for new policy measures</i> | <i>\$0.008m</i> |
| Total budgeted costs to be recovered by levy | \$7.573m |

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

Levy for small proprietary companies

99 There is no longer a specific subsector for small proprietary companies. Our regulatory costs for small proprietary companies will be recovered through an increase to the annual review fee for proprietary companies in the Corporations (Review Fees) Regulations 2003. This will ensure small proprietary companies only have to pay one fee each year, and will minimise the regulatory burden on small proprietary companies.

Table 8: Budgeted costs to regulate small proprietary companies

| Expense | Cost |
|--|-------------------|
| Stakeholder engagement | \$0.071m |
| Education | \$0.014m |
| Guidance | \$0.082m |
| Surveillance | \$0.455m |
| Enforcement | \$4.511m |
| Policy advice | \$0.067m |
| Financial capability work | N/A |
| Governance, central strategy and policy, and central legal functions | \$0.462m |
| IT support | \$0.471m |
| Operations support | \$0.221m |
| Property and corporate services | \$1.033m |
| <i>Total operating costs</i> | <i>\$7.386m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$0.297m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.203m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>N/A</i> |
| <i>Adjustment for new policy measures</i> | <i>\$0.068m</i> |
| Total budgeted costs to be recovered by levy | \$7.548m |

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

Auditors

- 100 Our vision of ‘what good looks like’ for auditors of disclosing entities and registered company auditors is that they deliver professional, high-quality financial reports (that provide useful information for investors and other users) and audits through:
- (a) experience and expertise;
 - (b) effective internal supervision and review;
 - (c) robust accountability mechanisms; and
 - (d) addressing key risks and issues on a timely basis.
- 101 The regulation of auditors supports the operation of Australia’s financial markets by ensuring that data provided to the market by companies is credible and independently verifiable. This is reflected in our ongoing focus on improving audit quality and the consistency of audit execution.

102 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.

103 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.

104 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

105 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.

106 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.

Table 9: Budgeted costs to regulate auditors of disclosing entities

| Expense | Cost |
|--|-------------------|
| Stakeholder engagement | \$0.063m |
| Education | \$0.002m |
| Guidance | \$0.029m |
| Surveillance | \$2.045m |
| Enforcement | \$0.223m |
| Policy advice | \$0.153m |
| Financial capability work | N/A |
| Governance, central strategy and policy, and central legal functions | \$0.343m |
| IT support | \$0.678m |
| Operations support | \$0.347m |
| Property and corporate services | \$0.868m |
| <i>Total operating costs</i> | <i>\$4.750m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$0.370m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.176m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>N/A</i> |
| <i>Adjustment for new policy measures</i> | <i>\$0.059</i> |
| Total budgeted costs to be recovered by levy | \$5.003m |

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

Levy for registered company auditors

- 107 Registered company auditors are charged a flat levy. The flat levy recognises that we also undertake proactive and reactive surveillance of audits of unlisted entities, such as registered schemes, AFS licensees, unlisted non-bank lenders, unlisted public companies and large proprietary companies. These activities may result in referrals of individual registered company auditors to the CADB, enforceable undertakings or other actions.
- 108 A flat levy applies as a relatively small amount of our regulatory effort is expended on registered company auditors. In addition, the total amount to be recovered is small compared to the number of registered company auditors from which the costs will be recovered. A graduated levy would impose additional administrative costs, increase the complexity of the model and recover only a relatively small amount of our regulatory costs.

Table 10: Budgeted costs to regulate registered company auditors

| Expense | Cost |
|--|-------------------|
| Stakeholder engagement | \$0.011m |
| Education | N/A |
| Guidance | \$0.005m |
| Surveillance | \$0.409m |
| Enforcement | \$0.101m |
| Policy advice | \$0.028m |
| Financial capability work | N/A |
| Governance, central strategy and policy, and central legal functions | \$0.060m |
| IT support | \$0.126m |
| Operations support | \$0.065m |
| Property and corporate services | \$0.160m |
| <i>Total operating costs</i> | <i>\$0.966m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$0.069m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.032m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>N/A</i> |
| <i>Adjustment for new policy measures</i> | <i>\$0.011m</i> |
| Total budgeted costs to be recovered by levy | \$1.013m |

Registered liquidators

- 109 Our vision of ‘what good looks like’ for registered liquidators is that they:
- act independently and competently;
 - ensure cost-effective, timely and appropriate outcomes; and
 - perform their role in accordance with proper standards of professional conduct.
- 110 Registered liquidators are gatekeepers in the financial system. At any given time there are in excess of 20,000 external administration appointments and they control significant assets and property. Our regulation of liquidators seeks to ensure that liquidators fulfil their role as fiduciaries diligently, independently and with creditors’ interests central to their actions. Consequently, we focus on independence, competence and ensuring that liquidators do not improperly gain from their appointments.

- 111 To achieve this, we will:
- (a) undertake proactive, risk-based and reactive surveillances and, where we identify breaches of Corporations legislation or professional 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 through the courts;
 - (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.
- 112 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.
- 113 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 of illegal activity (including pre-insolvency advisers).
- 114 In 2017–18, we will also:
- (a) continue our current risk-based projects focused on the independence and remuneration of registered liquidators;
 - (b) finalise and report on 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

- 115 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 11: 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 |
| <i>Total operating costs</i> | <i>\$9.731m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$0.594m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.192m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>N/A</i> |
| <i>Adjustment for new policy measures</i> | <i>\$0.064m</i> |
| Total budgeted costs to be recovered by levy | \$10.196m |

Summary table of budgeted levies for the corporate sector

Table 12: Budgeted levies for the corporate sector

| Subsector | Budgeted cost recovery amount | Number of entities | Levy metric and description | Minimum levy | Graduated levy threshold | Cost recovery regulations |
|-----------------------------|-------------------------------|--------------------|---|--------------|--|---------------------------|
| Listed corporations | \$33.959m | 2,026 | <p>Market capitalisation</p> <p>An entity <i>listed</i> at the end of the financial year must multiply:</p> <ul style="list-style-type: none"> the price for the entity's main class of securities at the time market closes on the last trading day of the financial year; and the number of securities in that class at that relevant time. <p>An entity <i>unlisted</i> at end of financial year (but listed in the financial year) must multiply:</p> <ul style="list-style-type: none"> the last price for the entity's main class of securities on the last day the entity was listed; and the number of securities in that class at that relevant time. | \$4,000 | <p>\$5 million market capitalisation (minimum levy threshold)</p> <p>\$20 billion market capitalisation (maximum levy threshold)</p> | Regulation 19 |
| Unlisted public companies | \$7.440m | 21,222 | Flat levy | N/A | N/A | Regulation 17 |
| Large proprietary companies | \$7.573m | 8,724 | <p>Flat levy</p> <p>Note: To ensure large proprietary companies are not overcharged, the actual levy will be reduced by the increase in the annual review fee for proprietary companies.</p> | N/A | N/A | Regulation 16 |
| Small proprietary companies | \$7.548m | 2,409,919 | Levy charged via an increase in the annual review fee for proprietary companies | N/A | N/A | N/A |

| Subsector | Budgeted cost recovery amount | Number of entities | Levy metric and description | Minimum levy | Graduated levy threshold | Cost recovery regulations |
|---------------------------------|-------------------------------|--------------------|--|--------------|--------------------------|---------------------------|
| Auditors of disclosing entities | \$5.003m | 114 | <p>Audit fee revenue</p> <p>The total of the fees paid or payable to the entity in the financial year for the auditing and review of financial reports that relate to:</p> <ul style="list-style-type: none"> • a disclosing entity with quoted securities; or • an entity controlled by a disclosing entity with quoted securities. | None | No threshold | Regulation 15 |
| Registered company auditors | \$1.013m | 4,367 | Flat levy | N/A | N/A | Regulation 18 |
| Registered liquidators | \$10.196m | 711 | <p>Number of external administration appointments and notifiable events</p> <p>The sum of:</p> <ul style="list-style-type: none"> • the number of specified appointments under Ch 5 of the Corporations Act accepted by the entity that financial year and in an earlier financial year if the entity is still acting at the start of the financial year for which the levy is to be calculated (see reg 20(3)(a)–(b)); • the number of specified notifiable events entered on the Published Notices Website by the entity (see reg 20(3)(c)); and • the number of documents lodged with ASIC by the entity for: <ul style="list-style-type: none"> – a notice of the outcome of a proposal to pass a resolution without a meeting; and – an executed deed of company arrangement (see reg 20(3)(d)). | \$2,500 | No threshold | Regulation 20 |

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 119–128 and Table 13–Table 15);
- deposit product providers (see paragraphs 129–131 and Table 16);
- payment product providers (see paragraphs 132–134 and Table 17); and
- margin lenders (see paragraphs 135–137 and Table 18).

A summary of the levies is set out in Table 19.

Overview of the deposit taking and credit sector

- 116 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).
- 117 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.
- 118 The tables in this section (Table 13–Table 18) 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

- 119 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.

120 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.

121 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.

122 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).

123 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.

124 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

125 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.

126 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’.

- (b) For credit intermediaries, the graduated levy is based on the number of credit representatives the entity has as a proportion of the total number of credit representatives in the subsector.
- 127 Small amount credit providers will pay a levy based on the basic levy component formula. The subsector regulatory costs will be shared between providers based on each provider's share of the total amount of credit provided under small amount credit contracts.
- 128 The credit licensee levies are generally cumulative—for example, if a credit licensee holds authorisations as a credit provider and a credit intermediary and provides both small amount credit contracts and regular loans, they are required to pay the levy applicable for all three subsectors. Each graduated levy is calculated separately and only relates to the licensee's involvement in that activity or subsector.

Table 13: Budgeted costs to regulate credit providers

| Expense | Cost |
|--|-------------------|
| Stakeholder engagement | \$0.428m |
| Education | \$0.044m |
| Guidance | \$0.073m |
| Surveillance | \$2.513m |
| Enforcement | \$4.206m |
| Policy advice | \$0.180m |
| Financial capability work | \$1.780m |
| Governance, central strategy and policy, and central legal functions | \$1.599m |
| IT support | \$2.240m |
| Operations support | \$1.075m |
| Property and corporate services | \$2.933m |
| <i>Total operating costs</i> | <i>\$17.072m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$1.065m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.412m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>N/A</i> |
| <i>Adjustment for new policy measures</i> | <i>\$0.137m</i> |
| Total budgeted costs to be recovered by levy | \$17.861m |

Table 14: Budgeted costs to regulate small amount credit providers

| Expense | Cost |
|--|-------------------|
| Stakeholder engagement | \$0.055m |
| Education | \$0.006m |
| Guidance | \$0.009m |
| Surveillance | \$0.320m |
| Enforcement | \$0.138m |
| Policy advice | \$0.023m |
| Financial capability work | \$0.228m |
| Governance, central strategy and policy, and central legal functions | \$0.117m |
| IT support | \$0.193m |
| Operations support | \$0.090m |
| Property and corporate services | \$0.242m |
| <i>Total operating costs</i> | <i>\$1.421m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$0.099m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.053m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>N/A</i> |
| <i>Adjustment for new policy measures</i> | <i>\$0.018m</i> |
| Total budgeted costs to be recovered by levy | \$1.485m |

Table 15: Budgeted costs to regulate credit intermediaries

| Expense | Cost |
|--|-----------------|
| Stakeholder engagement | \$0.176m |
| Education | \$0.018m |
| Guidance | \$0.030m |
| Surveillance | \$1.036m |
| Enforcement | \$2.700m |
| Policy advice | \$0.074m |
| Financial capability work | \$0.730m |
| Governance, central strategy and policy, and central legal functions | \$0.794m |
| IT support | \$1.091m |
| Operations support | \$0.530m |
| Property and corporate services | \$1.434m |
| <i>Total operating costs</i> | <i>\$8.615m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$0.506m</i> |

| Expense | Cost |
|--|-------------------|
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.169m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>N/A</i> |
| <i>Adjustment for new policy measures</i> | <i>\$0.056m</i> |
| Total budgeted costs to be recovered by levy | \$9.008m |

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

Deposit product providers

- 129 Deposit product providers are the 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. An entity that holds an AFS licence authorisation to deal in a financial product by issuing deposit products will fall within this subsector.

Levy for deposit product providers

- 130 To recover our costs to regulate deposit product providers, we have applied a graduated levy based on total deposits of the entity. A minimum levy applies for all deposit product providers, reflecting our regulatory effort for this subsector. A deposit product provider that holds more than \$10 million in deposits at the end of the financial year will pay a variable component based on its share of the total value of deposits above the \$10 million threshold held by the subsector in the financial year.
- 131 The level of our supervision for deposit product providers is affected by the scale of the entity's operations. Total deposits provide a measure of the entity's scale, customer base and significance to the market.

Table 16: Budgeted costs to regulate deposit product providers

| Expense | Cost |
|--|-------------------|
| Stakeholder engagement | \$0.055m |
| Education | \$0.006m |
| Guidance | \$0.009m |
| Surveillance | \$0.321m |
| Enforcement | \$0.423m |
| Policy advice | \$0.023m |
| Financial capability work | \$0.228m |
| Governance, central strategy and policy, and central legal functions | \$0.140m |
| IT support | \$0.230m |
| Operations support | \$0.110m |
| Property and corporate services | \$0.288m |
| <i>Total operating costs</i> | <i>\$1.832m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$0.114m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.053m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>N/A</i> |
| <i>Adjustment for new policy measures</i> | <i>\$0.018m</i> |
| Total budgeted costs to be recovered by levy | \$1.911m |

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

Payment product providers

- 132 Payment product providers are AFS licensees that deal in financial products through which, or through the acquisition of which, non-cash payments can be made.
- 133 In 2017–18, we will continue to monitor these licensees' compliance with their obligations under the Corporations Act through proactive and reactive surveillances, and will take disciplinary action where we identify breaches of the law.

Levy for payment product providers

- 134 In the 2017–18 financial year, payment product providers must pay a flat levy. Our regulatory costs will be shared equally between each entity in the subsector in proportion to the number of days in the financial year that it held the relevant AFS licence. In 2018–19, this will move to a graduated

levy, based on revenue from payment product provider activity, and a minimum levy for all payment product providers.

Table 17: Budgeted costs to regulate payment product providers

| Expense | Cost |
|--|-------------------|
| Stakeholder engagement | \$0.055m |
| Education | \$0.006m |
| Guidance | \$0.009m |
| Surveillance | \$0.320m |
| Enforcement | \$0.138m |
| Policy advice | \$0.023m |
| Financial capability work | \$0.228m |
| Governance, central strategy and policy, and central legal functions | \$0.117m |
| IT support | \$0.193m |
| Operations support | \$0.090m |
| Property and corporate services | \$0.242m |
| <i>Total operating costs</i> | <i>\$1.421m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$0.099m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.053m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>N/A</i> |
| <i>Adjustment for new policy measures</i> | <i>\$0.018m</i> |
| Total budgeted costs to be recovered by levy | \$1.485m |

Margin lenders

- 135 AFS licensees with an authorisation to deal in a financial product by issuing margin lending facilities during a financial year fall within this subsector. A margin lending facility allows a person to borrow money to invest in securities and other financial products against the security of any equity contribution. While this can help investors increase their returns, it can also magnify any losses.
- 136 In 2017–18, we will continue to focus on reducing the sale of inappropriate margin lending products to consumers, through surveillance and enforcement action (where appropriate).

Levy for margin lenders

137 A flat levy applies for the margin lender subsector.

Table 18: Budgeted costs to regulate margin lenders

| 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 |
| <i>Total operating costs</i> | <i>\$0.284m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$0.020m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.011m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>N/A</i> |
| <i>Adjustment for new policy measures</i> | <i>\$0.004m</i> |
| Total budgeted costs to be recovered by levy | \$0.297m |

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

Summary table of budgeted levies for deposit taking and credit sector

Table 19: Budgeted levies for the deposit taking and credit sector

| Subsectors | Budgeted cost recovery amount | Number of entities | Levy metric and description | Minimum levy | Graduated levy threshold | Cost recovery regulations |
|-------------------------------|-------------------------------|--|---|--------------|--------------------------|---------------------------|
| Credit providers | \$17.861m | 1,081 | <p>Credit provided in the financial year</p> <p>The gross amount of credit provided by the entity in the financial year under credit contracts (other than small amount credit contracts).</p> | \$2,000 | \$100 million | Regulation 26 |
| Small amount credit providers | \$1.485m | To be reported by industry | <p>Credit provided in the financial year</p> <p>The gross amount of credit provided under small amount credit contracts.</p> | N/A | No threshold | Regulation 24 |
| Credit intermediaries | \$9.008m | 4,861 with 36,149 credit representatives | <p>Authorised representatives</p> <p>The number of credit representatives (within the meaning of the National Credit Act) that the entity has at the end of the financial year.</p> | \$1,000 | No threshold | Regulation 25 |
| Deposit product providers | \$1.911m | 240 | <p>Total deposits</p> <p>The total value of deposits held at the end of the financial year in deposit products issued by the entity (whether the deposit product was issued in the financial year or an earlier financial year).</p> | \$2,000 | \$10 million | Regulation 27 |
| Payment product providers | \$1.485m | 268 | <p>Flat levy</p> <p>Note: From 2018–19 the levy will be graduated, based on revenue from payment product provider activity</p> | N/A | N/A | Regulation 28 |
| Margin lenders | \$0.297m | 24 | Flat levy | N/A | N/A | Regulation 23 |

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 144–150 and Table 20–Table 21);
- wholesale trustees (see paragraphs 151–153 and Table 22);
- custodians (see paragraphs 154–155 and Table 23);
- IDPS operators (see paragraphs 156–157 and Table 24);
- MDA providers (see paragraphs 158–159 and Table 25);
- traditional trustee company service providers (see paragraphs 160–161 and Table 26); and
- CSF intermediaries (see paragraphs 162–165).

A summary of the levies is set out in Table 27.

Overview of the investment management, superannuation and related services sector

- 138 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.
- 139 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’).
- 140 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.

141 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.

142 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.

143 The tables in this section (Table 20–Table 26) 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

144 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.

145 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.

146 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.

147 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

148 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 20: 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 |
| <i>Total operating costs</i> | <i>\$6.615m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$0.477m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.170m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>\$0.219m</i> |
| <i>Adjustment for new policy measures</i> | <i>\$0.057m</i> |
| 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

- 149 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.
- 150 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 21: 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 |
| <i>Total operating costs</i> | <i>\$16.977m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$3.371m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.271m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>\$0.219m</i> |
| <i>Adjustment for new policy measures</i> | <i>\$2.381m</i> |
| 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

- 151 In 2016–17, we conducted risk-based surveillance activities in this subsector with a particular focus on entities that may target retail consumers.
- 152 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

- 153 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 22: 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 |
| <i>Total operating costs</i> | <i>\$6.104m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$0.292m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.018m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>\$0.219m</i> |
| <i>Adjustment for new policy measures</i> | <i>\$0.006m</i> |
| Total budgeted costs to be recovered by levy | \$6.603m |

Custodians

154 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

155 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 23: 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 |
| <i>Total operating costs</i> | <i>\$0.400m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$0.031m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.011m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>N/A</i> |
| <i>Adjustment for new policy measures</i> | <i>\$0.004m</i> |
| Total budgeted costs to be recovered by levy | \$0.423m |

IDPS operators

156 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

157 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 24: 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 |
| <i>Total operating costs</i> | <i>\$1.544m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$0.066m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.010m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>N/A</i> |
| <i>Adjustment for new policy measures</i> | <i>\$0.003m</i> |
| Total budgeted costs to be recovered by levy | \$1.603m |

MDA providers

158 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

159 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 25: Budgeted costs to regulate MDA providers

| Expense | Cost |
|--|-------------------|
| Stakeholder engagement | \$0.004m |
| Education | N/A |
| Guidance | \$0.017m |
| Surveillance | \$0.049m |
| Enforcement | \$0.012m |
| Policy advice | \$0.015m |
| Financial capability work | \$0.038m |
| Governance, central strategy and policy, and central legal functions | \$0.015m |
| IT support | \$0.034m |
| Operations support | \$0.016m |
| Property and corporate services | \$0.044m |
| <i>Total operating costs</i> | <i>\$0.243m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$0.021m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.009m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>N/A</i> |
| <i>Adjustment for new policy measures</i> | <i>\$0.003m</i> |
| Total budgeted costs to be recovered by levy | \$0.258m |

Traditional trustee company service providers

160 In 2017–18, we will continue to monitor traditional trustee company service providers' compliance with their obligations under the Corporations Act through surveillance activity and will take disciplinary action where we identify breaches of the law.

Levy for traditional trustee company service providers

161 The flat levy applies to traditional trustee company service providers, because a relatively small amount of our regulatory effort is expended on this subsector. The subsector's 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 26: 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 |
| <i>Total operating costs</i> | <i>\$0.333m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$0.021m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.011m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>N/A</i> |
| <i>Adjustment for new policy measures</i> | <i>\$0.004m</i> |
| Total budgeted costs to be recovered by levy | \$0.347m |

CSF intermediaries

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

163 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

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

165 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.

Summary table of budgeted levies for the investment management, superannuation and related services sector

Table 27: Budgeted levies for the investment management, superannuation and related services sector

| Subsectors | Budgeted cost recovery amount | Number of entities | Levy metric and description | Minimum levy | Graduated levy threshold | Cost recovery regulations |
|-------------------------|-------------------------------|--------------------|---|--------------|--------------------------|---------------------------|
| Superannuation trustees | \$7.197m | 140 | <p>Adjusted total assets</p> <p>The total value of assets in all registrable superannuation entities operated by the entity at the end of financial year, except any assets that are an interest in another registrable superannuation entity operated by the entity.</p> | \$18,000 | \$250 million | Regulation 36 |
| Responsible entities | \$22.677m | 466 | <p>Adjusted total assets</p> <p>The total value of assets in all registered schemes operated by the entity at the end of financial year, except any assets that are an interest in another registered scheme operated by the entity.</p> | \$7,000 | \$10 million | Regulation 35 |
| Wholesale trustees | \$6.603m | 1,548 | <p>Flat levy</p> <p>Note 1: From 1 July 2018, a graduated levy will apply for wholesale trustees.</p> <p>Note 2: The levy will be graduated based on the total value of assets at the end of financial year in all unregistered schemes in which the entity issues interests, except any assets that are an interest in another unregistered scheme issued by the entity.</p> | N/A | N/A | Regulation 37 |
| Custodians | \$0.423m | 956 | Flat levy | N/A | N/A | Regulation 31 |

| Subsectors | Budgeted cost recovery amount | Number of entities | Levy metric and description | Minimum levy | Graduated levy threshold | Cost recovery regulations |
|---|-------------------------------|--------------------|--|--------------|--------------------------|---------------------------|
| IDPS operators | \$1.603m | 92 | <p>Revenue from IDPS activity</p> <p>The levy metric will be the sum of:</p> <ul style="list-style-type: none"> the amount of gross revenue received from IDPS activities undertaken under the entity's licence in the financial year; and unless covered under the previous point, any amount paid or payable in the financial year from the IDPS for the performance of obligations imposed on the IDPS operator (even if those obligations are performed by another entity). | \$10,000 | No threshold | Regulation 34 |
| MDA providers | \$0.258m | 197 | Flat levy | N/A | N/A | Regulation 32 |
| Traditional trustee company service providers | \$0.347m | 13 | Flat levy | N/A | N/A | Regulation 33 |

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 177–181 and Table 28–Table 34);
- CS facility operators (see paragraphs 182–186 and Table 35–Table 39);
- Australian derivative trade repository operators (see paragraphs 187–189 and Table 40);
- exempt market operators (see paragraphs 190–192 and Table 41);
- credit rating agencies (see paragraphs 193–196 and Table 42);
- market participants (see paragraphs 197–205 and Table 43–Table 44);
- securities dealers (see paragraphs 206–207 and Table 45);
- corporate advisers and OTC traders (see paragraphs 208–210 and Table 46–Table 47);
- retail OTC derivatives issuers (see paragraphs 211–215 and Table 48); and
- wholesale electricity dealers (see paragraphs 216–219 and Table 49).

Summaries of the levies are set out in Table 50–Table 51.

Overview of the market infrastructure and intermediaries sector

- 166 The market infrastructure and intermediaries sector consists of market infrastructure providers and market intermediaries.
- 167 The tables in this section (Table 28–Table 49) 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

- 168 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).

- 169 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.
- 170 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.
- 171 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.
- 172 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

- 173 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.
- 174 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.

- 175 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.
- 176 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

- 177 For domestic market licensees, our activities include real-time frontline supervision of trading, market assessments, strategic market reviews, ongoing engagement, and periodic remediation reviews.
- 178 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.
- 179 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

- 180 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.
- 181 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 28: 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 |
| <i>Total operating costs</i> | <i>\$3.365m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$0.220m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.071m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>\$0.219m</i> |
| <i>Adjustment for new policy measures</i> | <i>\$0.0244m</i> |
| Total budgeted costs to be recovered by levy | \$3.757m |

Table 29: 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 |
| <i>Total operating costs</i> | <i>\$1.359m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$0.106m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.050m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>N/A</i> |
| <i>Adjustment for new policy measures</i> | <i>\$0.017m</i> |
| Total budgeted costs to be recovered by levy | \$1.431m |

Table 30: 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 |
| <i>Total operating costs</i> | <i>\$0.237m</i> |

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

Table 31: 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 |
| <i>Total operating costs</i> | <i>\$0.022m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$0.002m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.001m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>N/A</i> |
| <i>Adjustment for new policy measures</i> | <i>N/A</i> |
| Total budgeted costs to be recovered by levy | \$0.023m |

Table 32: 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 |
| <i>Total operating costs</i> | <i>\$0.597m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$0.047m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.022m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>N/A</i> |
| <i>Adjustment for new policy measures</i> | <i>\$0.007m</i> |
| Total budgeted costs to be recovered by levy | \$0.629m |

Table 33: 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 |
| <i>Total operating costs</i> | <i>\$0.451m</i> |

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

Table 34: 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 |
| <i>Total operating costs</i> | <i>\$0.511m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$0.040m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.019m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>N/A</i> |
| <i>Adjustment for new policy measures</i> | <i>\$0.006m</i> |
| Total budgeted costs to be recovered by levy | \$0.538m |

CS facility operators

182

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.

183 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

184 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.

185 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.

186 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 35: 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 |
| <i>Total operating costs</i> | <i>\$0.023m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$0.002m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.001m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>N/A</i> |

| Expense | Cost |
|---|-----------------|
| <i>Adjustment for new policy measures</i> | <i>N/A</i> |
| Total budgeted costs to be recovered by levy | \$0.024m |

Table 36: 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 |
| <i>Total operating costs</i> | <i>\$1.655m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$0.129m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.062m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>N/A</i> |
| <i>Adjustment for new policy measures</i> | <i>\$0.021m</i> |
| Total budgeted costs to be recovered by levy | \$1.742m |

Table 37: 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 |
| <i>Total operating costs</i> | <i>\$0.190m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$0.015m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.007m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>N/A</i> |
| <i>Adjustment for new policy measures</i> | <i>\$0.002m</i> |
| Total budgeted costs to be recovered by levy | \$0.200m |

Table 38: 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 |
| <i>Total operating costs</i> | <i>\$0.076m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$0.006m</i> |

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

Table 39: 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 |
| <i>Total operating costs</i> | <i>\$0.021m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$0.002m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.001m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>N/A</i> |
| <i>Adjustment for new policy measures</i> | <i>N/A</i> |
| Total budgeted costs to be recovered by levy | \$0.023m |

Australian derivative trade repository operators

187 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.

188 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

189 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 40: 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 |
| <i>Total operating costs</i> | <i>\$0.229m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$0.018m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.009m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>N/A</i> |
| <i>Adjustment for new policy measures</i> | <i>\$0.003m</i> |
| Total budgeted costs to be recovered by levy | \$0.241m |

Exempt market operators

190 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 35).

191 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

192 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 41: 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 |
| <i>Total operating costs</i> | <i>\$1.172m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$0.092m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.044m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>N/A</i> |
| <i>Adjustment for new policy measures</i> | <i>\$0.015m</i> |
| Total budgeted costs to be recovered by levy | \$1.234m |

Credit rating agencies

193 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.

194 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

195 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.

196 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 42: 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 |
| <i>Total operating costs</i> | <i>\$0.227m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$0.018m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.009m)</i> |

| Expense | Cost |
|--|-----------------|
| <i>Adjustment for market competition cost recovery</i> | <i>N/A</i> |
| <i>Adjustment for new policy measures</i> | <i>\$0.003m</i> |
| Total budgeted costs to be recovered by levy | \$0.239m |

Market intermediaries

- 197 Our vision of ‘what good looks like’ for market intermediaries is that they:
- ensure their conduct and behaviour supports the integrity of Australia’s retail and wholesale markets;
 - act professionally and treat investors fairly by managing confidential information and conflicts of interest appropriately;
 - have effective risk management and internal supervision; and
 - ensure that investors are fully compensated when losses result from poor conduct.
- 198 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.
- 199 In 2017–18, we will continue to promote better conduct by market intermediaries, including through:
- real-time surveillance of activity on Australia’s financial markets;
 - 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;
 - assessing and enhancing intermediaries’ risk management systems and controls; and
 - 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.
- 200 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

201 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.

202 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, policy advice and financial capability work.

Market participants

203 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

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

205 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.

Table 43: Budgeted costs to regulate large securities exchange participants

| Expense | Cost |
|--|-------------------|
| Stakeholder engagement | \$1.598m |
| Education | \$0.044m |
| Guidance | \$0.437m |
| Surveillance | \$4.808m |
| Enforcement | \$2.647m |
| Policy advice | \$0.291m |
| Financial capability work | \$0.023m |
| Governance, central strategy and policy, and central legal functions | \$1.073m |
| IT support | \$1.910m |
| Operations support | \$0.970m |
| Property and corporate services | \$2.490m |
| <i>Total operating costs</i> | <i>\$16.290m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$1.181m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.492m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>\$1.895m</i> |
| <i>Adjustment for new policy measures</i> | <i>\$0.164m</i> |
| Total budgeted costs to be recovered by levy | \$19.039m |

Table 44: Budgeted costs to regulate large futures exchange participants

| Expense | Cost |
|--|-----------------|
| Stakeholder engagement | \$0.307m |
| Education | \$0.009m |
| Guidance | \$0.084m |
| Surveillance | \$0.997m |
| Enforcement | \$2.269m |
| Policy advice | \$0.076m |
| Financial capability work | \$0.002m |
| Governance, central strategy and policy, and central legal functions | \$0.192m |
| IT support | \$0.485m |
| Operations support | \$0.258m |
| Property and corporate services | \$0.578m |
| <i>Total operating costs</i> | <i>\$5.258m</i> |

| Expense | Cost |
|--|-----------------|
| <i>Adjustment for capital expenditure allowance</i> | \$0.283m |
| <i>Adjustment for ASIC-sourced revenue</i> | (\$0.100m) |
| <i>Adjustment for market competition cost recovery</i> | \$0.211m |
| <i>Adjustment for new policy measures</i> | \$0.033m |
| Total budgeted costs to be recovered by levy | \$5.684m |

Securities dealers

206 In 2017–18, we will monitor the compliance of securities dealers 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 securities dealers

207 We have applied a graduated levy, based on the annual transaction value attributable to each securities dealer compared to the total annual transaction value of all securities dealers. A minimum levy of \$1,000 applies to all securities dealers, reflecting our fixed cost to regulate a securities dealer. The levy imposes no additional reporting burden on securities dealers, as we calculate it using data from our MAI system.

Table 45: Budgeted costs to regulate securities dealers

| Expense | Cost |
|--|-----------------|
| Stakeholder engagement | \$0.072m |
| Education | \$0.002m |
| Guidance | \$0.021m |
| Surveillance | \$0.204m |
| Enforcement | \$0.510m |
| Policy advice | \$0.013m |
| Financial capability work | N/A |
| Governance, central strategy and policy, and central legal functions | \$0.131m |
| IT support | \$0.179m |
| Operations support | \$0.088m |
| Property and corporate services | \$0.243m |
| <i>Total operating costs</i> | <i>\$1.463m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$0.092m</i> |

| Expense | Cost |
|--|-------------------|
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.023m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>\$0.088m</i> |
| <i>Adjustment for new policy measures</i> | <i>\$0.008m</i> |
| Total budgeted costs to be recovered by levy | \$1.627m |

Corporate advisers and OTC traders

208 In 2017–18, we will monitor the compliance of corporate advisers 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 corporate advisers and OTC traders

209 Corporate advisers are charged a minimum levy of \$1,000. Entities in the subsector that make more than \$100,000 in gross revenue from providing the prescribed financial services in the financial year will pay a graduated levy based on the entity’s share of the total amount of gross revenue made by all entities in the subsector.

210 OTC traders are charged a minimum levy of \$1,000 and a graduated levy, based on each entity’s share of the total number of FTE staff engaged in prescribed activities during the financial year.

Table 46: Budgeted costs to regulate corporate advisers

| Expense | Cost |
|--|-----------------|
| Stakeholder engagement | \$0.311m |
| Education | \$0.009m |
| Guidance | \$0.087m |
| Surveillance | \$0.954m |
| Enforcement | \$1.302m |
| Policy advice | \$0.067m |
| Financial capability work | N/A |
| Governance, central strategy and policy, and central legal functions | \$0.365m |
| IT support | \$0.555m |
| Operations support | \$0.278m |
| Property and corporate services | \$0.740m |
| <i>Total operating costs</i> | <i>\$4.668m</i> |

| Expense | Cost |
|--|-----------------|
| <i>Adjustment for capital expenditure allowance</i> | \$0.307m |
| <i>Adjustment for ASIC-sourced revenue</i> | (\$0.099m) |
| <i>Adjustment for market competition cost recovery</i> | \$0.658m |
| <i>Adjustment for new policy measures</i> | \$0.033m |
| Total budgeted costs to be recovered by levy | \$5.568m |

Table 47: Budgeted costs to regulate OTC traders

| Expense | Cost |
|--|-------------------|
| Stakeholder engagement | \$0.298m |
| Education | \$0.008m |
| Guidance | \$0.081m |
| Surveillance | \$0.899m |
| Enforcement | \$8.565m |
| Policy advice | \$0.049m |
| Financial capability work | N/A |
| Governance, central strategy and policy, and central legal functions | \$0.264m |
| IT support | \$0.945m |
| Operations support | \$0.526m |
| Property and corporate services | \$1.027m |
| <i>Total operating costs</i> | <i>\$12.661m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$0.473m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.088m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>N/A</i> |
| <i>Adjustment for new policy measures</i> | <i>\$0.029m</i> |
| Total budgeted costs to be recovered by levy | \$13.075m |

Retail OTC derivatives issuers

- 211 We regulate the conduct and disclosure of issuers of retail OTC derivatives in Australia, including issuers of products such as margin foreign exchange accounts, contracts for difference and binary options.
- 212 In 2017–18, we will continue our reactive surveillance of the industry, which arises from complaints or intelligence received from investors, industry and

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.

- 213 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.
- 214 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

- 215 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.

Table 48: Budgeted costs to regulate retail OTC derivative issuers

| Expense | Cost |
|--|-------------------|
| Stakeholder engagement | \$0.135m |
| Education | \$0.004m |
| Guidance | \$0.037m |
| Surveillance | \$0.424m |
| Enforcement | \$0.918m |
| Policy advice | \$0.029m |
| Financial capability work | N/A |
| Governance, central strategy and policy, and central legal functions | \$0.222m |
| IT support | \$0.311m |
| Operations support | \$0.159m |
| Property and corporate services | \$0.419m |
| <i>Total operating costs</i> | <i>\$2.659m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$0.161m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.042m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>N/A</i> |
| <i>Adjustment for new policy measures</i> | <i>\$0.014m</i> |
| Total budgeted costs to be recovered by levy | \$2.791m |

Wholesale electricity dealers

- 216 Many participants in the electricity sector deal or make a market in OTC derivatives relating to the wholesale price of electricity. They are therefore required to hold an AFS licence with appropriate authorisations. We have primary responsibility for regulatory oversight of this aspect of their business.
- 217 Stakeholders in this subsector include entities such as electricity generators, retailers, distributors, renewable energy providers, gas providers and commodity traders (including some investment banks). The substantive operational businesses of these stakeholders are also subject to regulation by three other regulators—the Australian Energy Market Commission, the Australian Energy Regulator and the Australian Energy Market Operator.
- 218 In 2017–18, we will continue our reactive surveillance work in this subsector, which primarily arises from breach reports regarding compliance with Australian financial services law. Other business as usual work that we will undertake includes providing input, advice and assistance to other regulators and government bodies (both in Australia and overseas).

Levy for wholesale electricity dealers

219 Entities that fall within this subsector must pay a levy calculated under the basic levy component formula. Under this formula, our regulatory costs will be shared equally between entities in the subsector, because a relatively small amount of our regulatory effort is expended on this subsector. A graduated levy would impose an additional reporting burden and increase the complexity of the model, which would offset the benefits of a graduated levy.

Table 49: Budgeted costs to regulate wholesale electricity dealers

| Expense | Cost |
|--|-------------------|
| Stakeholder engagement | \$0.033m |
| Education | \$0.001m |
| Guidance | \$0.009m |
| Surveillance | \$0.096m |
| Enforcement | \$0.018m |
| Policy advice | \$0.005m |
| Financial capability work | N/A |
| Governance, central strategy and policy, and central legal functions | \$0.015m |
| IT support | \$0.031m |
| Operations support | \$0.016m |
| Property and corporate services | \$0.040m |
| <i>Total operating costs</i> | <i>\$0.263m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$0.021m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.010m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>N/A</i> |
| <i>Adjustment for new policy measures</i> | <i>\$0.003m</i> |
| Total budgeted costs to be recovered by levy | \$0.277m |

Summary tables for the market infrastructure and intermediaries sector

Table 50: Budgeted levies for the market infrastructure sector

| Subsectors | Budget cost recovery amount | Number of entities | Levy metric description | Minimum levy | Graduated levy threshold | Cost recovery regulations |
|---|-----------------------------|--------------------|---|-----------------|--------------------------|---------------------------|
| Large securities exchange operators | \$3.757m | 2 | <p>Value of transactions</p> <p>The total value of all transactions that:</p> <ul style="list-style-type: none"> • are entered into on, or reported to, the large securities exchange(s) operated by the entity in the financial year; • are within the operating rules of the exchange(s); and • are not invalid or cancelled. | No minimum levy | No threshold | Regulation 51 |
| Large futures exchange operators | \$1.431m | 1 | <p>Number of exchanges</p> <p>The number of days in the financial year on which the entity operated their exchange(s), multiplied by the number of exchanges the entity operates.</p> | N/A | N/A | Regulation 52 |
| Small futures exchange operators | \$0.250m | 1 | <p>Number of exchanges</p> <p>The number of days in the financial year on which the entity operated their exchange(s), multiplied by the number of exchanges the entity operates.</p> | N/A | N/A | Regulation 49 |
| Small securities exchange operators with self-listing function only | \$0.023m | 1 | <p>Number of exchanges</p> <p>The number of days in the financial year on which the entity operated their exchange(s), multiplied by the number of exchanges the entity operates.</p> | N/A | N/A | Regulation 47 |

| Subsectors | Budget cost recovery amount | Number of entities | Levy metric description | Minimum levy | Graduated levy threshold | Cost recovery regulations |
|-------------------------------------|-----------------------------|---------------------------|---|--------------|--------------------------|---------------------------|
| Small securities exchange operators | \$0.629m | 3 | Number of exchanges The number of days in the financial year on which the entity operated their exchange(s), multiplied by the number of exchanges the entity operates. | N/A | N/A | Regulation 48 |
| Small derivatives market operators | \$0.475m | 4 operating 11 markets | Number of markets The number of days in the financial year on which the entity operated their market(s), multiplied by the number of markets the entity operates. | N/A | N/A | Regulation 50 |
| Overseas market operators | \$0.538m | 6 | Number of markets The number of days in the financial year on which the entity operated their market(s), multiplied by the number of markets the entity operates. | N/A | N/A | Regulation 46 |
| Exempt CS facility operators | \$0.024 | 0 | Number of facilities The number of days in the financial year on which the entity operated their facility(ies), multiplied by the number of facilities the entity operates | N/A | N/A | Regulation 58 |
| Tier 1 CS facility operators | \$1.742m | 4 | Number of facilities The number of days in the financial year on which the entity operated their facility(ies), multiplied by the number of facilities the entity operates. | N/A | N/A | Regulation 54 |
| Tier 2 CS facility operators | \$0.200m | 1 | Number of facilities The number of days in the financial year on which the entity operated their facility(ies), multiplied by the number of facilities the entity operates | N/A | N/A | Regulation 55 |

| Subsectors | Budget cost recovery amount | Number of entities | Levy metric description | Minimum levy | Graduated levy threshold | Cost recovery regulations |
|--|-----------------------------|--------------------|--|--------------|--------------------------|---------------------------|
| Tier 3 CS facility operators | \$0.080m | 2 | <p>Number of facilities</p> <p>The number of days in the financial year on which the entity operated their facility(ies), multiplied by the number of facilities the entity operates</p> | N/A | N/A | Regulation 56 |
| Tier 4 CS facility operators | \$0.023 | 1 | <p>Number of facilities</p> <p>The number of days in the financial year on which the entity operated their facility(ies), multiplied by the number of facilities the entity operates</p> | N/A | N/A | Regulation 57 |
| Australian derivative trade repository operators | \$0.241m | 2 | <p>Number of trade repositories</p> <p>The number of days in the financial year on which the entity operated their trade repository(ies), multiplied by the number of repositories the entity operates.</p> | N/A | N/A | Regulation 59 |
| Exempt market operators | \$1.234m | 35 | <p>Number of markets</p> <p>The number of days in the financial year on which the entity operated their market(s), multiplied by the number of markets the entity operates.</p> | N/A | N/A | Regulation 53 |
| Credit rating agencies | \$0.239m | 7 | <p>Number of days authorised</p> <p>The number of days in the financial year on which the entity holds the prescribed AFS licence authorisation.</p> | N/A | N/A | Regulation 60 |

Table 51: Budgeted levies for market intermediaries sector

| Subsectors | Budgeted cost recovery amount | Number of entities | Levy metric description | Minimum levy | Graduated levy threshold | Cost recovery regulations |
|--|-------------------------------|--------------------|---|--------------|--------------------------|---------------------------|
| Large securities exchange participants | \$19.039m | 70 | <p>Relative volume of transactions and messages on large securities exchanges</p> <p>The number of messages that:</p> <ul style="list-style-type: none"> • are sent by the participant in the financial year to a large securities exchange; • are reported by the large securities exchange operator to our MAI system; and • are recognised by our MAI system as orders or executed transactions. <p>The number of transactions that:</p> <ul style="list-style-type: none"> • are executed on, or reported to, a large securities exchange by the participant in a financial year; • are reported by the large securities exchange operator to our MAI system; and • are recognised by our MAI system as executed transactions. | \$9,000 | No threshold | Regulation 65 |

| Subsectors | Budgeted cost recovery amount | Number of entities | Levy metric description | Minimum levy | Graduated levy threshold | Cost recovery regulations |
|-------------------------------------|-------------------------------|--------------------|--|--------------|--------------------------|---------------------------|
| Large futures exchange participants | \$5.684m | 38 | <p>Relative volume of transactions and messages on large futures exchanges</p> <p>The number of messages that:</p> <ul style="list-style-type: none"> • are sent by the entity in the financial year to a large futures exchange; • are reported by the operator of a large futures exchange to our MAI system; and • are recognised by our MAI system as orders or executed transactions. <p>The number of transactions that:</p> <ul style="list-style-type: none"> • are executed on, or reported to, a large futures exchange by the entity in a financial year; • are reported by the operator of a large futures exchange to our MAI system; and • are recognised by our MAI system as executed transactions. | \$9,000 | No threshold | Regulation 64 |
| Securities dealers | \$1.627m | 879 | <p>Annual transaction turnover value</p> <p>The total value of transactions in securities (as measured by the buy price plus sale price of securities) that:</p> <ul style="list-style-type: none"> • are executed on, or reported to, a large securities exchange in the financial year; • are reported by the large securities exchange operator to our MAI system; and • are recognised by our MAI system as executed transactions. | \$1,000 | No threshold | Regulation 67 |

| Subsectors | Budgeted cost recovery amount | Number of entities | Levy metric description | Minimum levy | Graduated levy threshold | Cost recovery regulations |
|-------------------------------|-------------------------------|-----------------------------|---|--------------|--------------------------|---------------------------|
| Corporate advisers | \$5.568m | To be reported by industry. | <p>Revenue from corporate advisory activity</p> <p>The total gross revenue made in the financial year by the corporate adviser, and the authorised representative of the adviser, from:</p> <ul style="list-style-type: none"> • providing financial product advice in Australia to a wholesale client in the course of advising on: <ul style="list-style-type: none"> – takeover bids and/or mergers; – structure pricing and acquisition or disposal of assets or enterprises; – raising or reducing capital through the issue or acquisition of equities or debt; and • dealing in a financial product in Australia by underwriting the issue, acquisition or sale of the product. | \$1,000 | \$100,000 | Regulation 63 |
| OTC traders | \$13.075m | To be reported by industry. | <p>FTE staff engaged in OTC trading activity</p> <p>The number of persons who ordinarily act on behalf of the OTC trader or their authorised representative and have, at any time in the financial year, carried out one or more of the following activities in relation to dealing in an OTC financial product with a professional investor:</p> <ul style="list-style-type: none"> • determining the terms on which the OTC trader is willing to deal; • making or accepting an offer or an invitation to deal; and • managing the financial risk arising from dealing in a financial product. | \$1,000 | No threshold | Regulation 66 |
| Retail OTC derivative issuers | \$2.791m | 131 | <p>Number of days authorised</p> <p>The number of days in the financial year on which the entity holds the prescribed AFS licence authorisation.</p> | N/A | N/A | Regulation 61 |

| Subsectors | Budgeted cost recovery amount | Number of entities | Levy metric description | Minimum levy | Graduated levy threshold | Cost recovery regulations |
|-------------------------------|-------------------------------|--------------------|-------------------------|--------------|--------------------------|---------------------------|
| Wholesale electricity dealers | \$0.277m | 197 (estimate) | Flat levy | N/A | N/A | Regulation 62 |

Note: Number of wholesale electricity dealers is only an estimate. The definition relies on AFS licensees to undertake a certain activity that they need to confirm to ASIC.

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 230–234 and Table 52);
- licensees that provide personal advice to retail clients on products that are not relevant financial products (see paragraphs 235–236 and Table 53);
- licensees that provide general advice only to retail or wholesale clients (see paragraphs 237–239 and Table 54);
- licensees that provide personal advice to wholesale clients only (see paragraphs 240–241 and Table 55); and
- digital advice providers (see paragraphs 242–243).

A summary of the levies is set out in Table 56.

Overview of the financial advice sector

- 220 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.
- 221 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.
- 222 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.
- 223 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.
- 224 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.
- 225 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.
- 226 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.
- 227 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.

- 228 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.
- 229 The tables in this section (Table 52–Table 55) 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

- 230 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.
- 231 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).
- 232 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.
- 233 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

- 234 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 52: 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 |
| <i>Total operating costs</i> | <i>\$25.073m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$1.416m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.506m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>N/A</i> |
| <i>Adjustment for new policy measures</i> | <i>\$0.168m</i> |
| 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

235 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

236 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 53: 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 |
| <i>Total operating costs</i> | <i>\$0.441m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$0.032m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.016m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>N/A</i> |
| <i>Adjustment for new policy measures</i> | <i>\$0.006m</i> |
| Total budgeted costs to be recovered by levy | \$0.462m |

Licensees that provide general advice only

- 237 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

- 238 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.

239 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 54: 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 |
| <i>Total operating costs</i> | <i>\$1.946m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$0.097m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.030m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>N/A</i> |
| <i>Adjustment for new policy measures</i> | <i>\$0.010m</i> |
| Total budgeted costs to be recovered by levy | \$2.023m |

Licensees that provide personal advice to wholesale clients only

240 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

241 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 239.

Table 55: 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 |
| <i>Total operating costs</i> | <i>\$0.834m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$0.060m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.031m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>N/A</i> |
| <i>Adjustment for new policy measures</i> | <i>\$0.010m</i> |
| Total budgeted costs to be recovered by levy | \$0.874m |

Digital advice providers

- 242 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.
- 243 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 56: 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 | <p>Adjusted number of advisers on the financial advisers register</p> <p>The levy metric is based on the number of relevant providers (within the meaning of s910A) that are:</p> <ul style="list-style-type: none"> • 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 | <p>Number of days authorised</p> <p>The number of days in the financial year on which the entity holds the prescribed AFS licence authorisation.</p> | 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 250–255 and Table 57);
- insurance product distributors (see paragraphs 256–257 and Table 58); and
- risk management product providers (see paragraphs 258 and Table 59).

A summary of the levies is set out in Table 60.

Overview of the insurance sector

- 244 The insurance sector consists of AFS licensees, including life and general insurance product providers, insurance product distributors (insurance brokers), and risk management product providers.
- 245 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.
- 246 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.
- 247 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.
- 248 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).

249 The tables in this section (Table 57–Table 59) 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

250 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.

251 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

252 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.

253 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.

254 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.

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

Table 57: 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 |
| <i>Total operating costs</i> | <i>\$10.938m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$0.664m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.232m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>N/A</i> |
| <i>Adjustment for new policy measures</i> | <i>\$0.077m</i> |
| Total budgeted costs to be recovered by levy | \$11.448m |

Insurance product distributors

256 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

257 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 58: 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 |
| <i>Total operating costs</i> | <i>\$2.271m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$0.140m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.053m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>N/A</i> |
| <i>Adjustment for new policy measures</i> | <i>\$0.018m</i> |
| Total budgeted costs to be recovered by levy | \$2.376m |

Risk management product providers

- 258 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).
- 259 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

- 260 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 59: 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 |
| <i>Total operating costs</i> | <i>\$0.284m</i> |
| <i>Adjustment for capital expenditure allowance</i> | <i>\$0.020m</i> |
| <i>Adjustment for ASIC-sourced revenue</i> | <i>(\$0.011m)</i> |
| <i>Adjustment for market competition cost recovery</i> | <i>N/A</i> |
| <i>Adjustment for new policy measures</i> | <i>\$0.004m</i> |
| Total budgeted costs to be recovered by levy | \$0.297m |

Summary table of levies for the insurance sector

Table 60: 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.

261 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.

262 The risks arising from this model, and how we will mitigate them, are set out in Table 61.

Table 61: 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 |
|--|---|
| <p>Failure to collect sufficient information from entities to correctly apportion our regulatory costs</p> | <p>Each regulated entity is responsible for:</p> <ul style="list-style-type: none"> • determining the subsectors to which it belongs; and • reporting against all relevant subsectors that apply to that entity. <p>However, we will pre-fill the reporting forms with information we already hold where this is possible.</p> <p>The shortfall penalty provisions of the <i>ASIC Supervisory Cost Recovery Levy (Collection) Act 2017</i> should also ensure industry is motivated to report accurate information so we can correctly allocate our costs.</p> |
| <p>Perception that the model lacks transparency because of its complexity</p> | <p>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.</p> <p>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 <i>actual</i> 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.</p> |
| <p>Over or under collection of levies</p> | <p>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.</p> <p>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.</p> |
| <p>Volatility in regulated entities' year-to-year bills</p> | <p>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.</p> <p>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.</p> |
| <p>Levies invoiced differ significantly from the estimates provided due to changes in the regulatory landscape</p> | <p>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.</p> |

K Stakeholder engagement

Key points

This section outlines the two main stakeholder consultations undertaken regarding the industry funding model:

- our consultation on the version of the CRIS we released in October 2017; and
- the Australian Government’s consultation on the industry funding model.

In this section, we outline the key issues that arose out of the submissions we received on the CRIS and detail our response to those issues.

We also detail the consultation and proposal papers Treasury released on the industry funding model, as well as the extensive consultation and roundtables they held with various stakeholder groups.

Stakeholder consultation on the CRIS

- 263 We released the CRIS for comment on 6 October 2017. We received 27 responses and are grateful to respondents for taking the time to send us their comments.
- 264 For a list of the non-confidential respondents to the CRIS, see the appendix. Copies of these submissions are available on the [Cost recovery implementation statement page on the ASIC website](#).
- 265 In this section we highlight the feedback we received and our response to this feedback. This is not meant to be a comprehensive summary of all responses received. We have limited it to the key issues.
- 266 The main issues raised by respondents related to:
- (a) the design of the industry funding model (see paragraphs 267–272);
 - (b) the allocation of budgeted costs to different industry subsectors and categories of regulatory activities (see paragraphs 273–275);
 - (c) the changes to the allocation of budgeted cost since we released forecasts of our 2016–17 regulatory costs in November 2016 (see paragraphs 276–277);
 - (d) whether the budgeted costs and industry levies will be subject to independent assurance (see paragraph 278);
 - (e) the meaning of ‘financial capability work’ (see paragraph 279);
 - (f) whether the CRIS should include indicative levies (see paragraph 280);
 - (g) the removal of certain lodgement fees (see paragraph 281);

- (h) the allocation of overheads (see paragraph 282); and
- (i) whether the budgeted costs for registered liquidators include an offset for revenue received from lodgement fees on the [Published Notices Website](#) (see paragraph 283).

Design of the industry funding model

- 267 A number of respondents raised issues related to the design of the industry funding model, rather than the content of this CRIS. Some of these submissions are outlined below.
- 268 Some respondents were concerned about the application of subsector levies to specific leviable entities—for example, whether:
- (a) the levy for AFS licensees that provide personal advice should apply to accountants with limited authorisations;
 - (b) the flat levy for credit rating agencies should apply to small entities;
 - (c) the graduated component of the levy for registered liquidators should apply to smaller insolvency firms;
 - (d) the flat levy for companies of different types should apply to charities registered with the Australian Charities and Not-for-profits Commission; and
 - (e) the levy for insurance product distributors should apply to financial advisers who implement their advice about life risk insurance products.
- 269 A number of respondents raised concerns about the potential effect of the industry funding model on the number of registered liquidators and how they accept appointments, the number of abandoned companies, and the activity of pre-insolvency advisers.
- 270 One respondent recommended that our enforcement costs should be borne by the entity who is the subject of the enforcement action, rather than all of the entities in the subsector. The respondent suggested that this approach would more closely align with a user-pays model.
- 271 A number of respondents raised concerns that the levies will be calculated after the business activity has occurred and we have finalised our regulatory costs (i.e. ‘ex post’). The respondents were concerned about their ability to budget for the levy and finalise financial reports.
- 272 One respondent queried the rationale for imposing the costs of regulation on regulated entities, rather than all taxpayers. The respondent argued that a well-functioning, efficient capital market that operates with integrity is a public good that benefits society more generally.

ASIC's response

The Australian Government has undertaken extensive consultation to develop and refine the industry funding model: see paragraphs 284–290 on stakeholder consultation on the model.

The industry funding model is now prescribed in a number of Acts and regulations: see paragraph 60. Amendments to the model are a matter for Government policy and will require legislative change.

The CRIS provides information about how ASIC will implement the industry funding model for our regulatory activities. We do not propose to address concerns about the construction of the industry funding model in this CRIS.

Allocation of budgeted costs to subsectors

273 A number of respondents queried our allocation of budgeted costs to different subsectors. One respondent was concerned that there was insufficient allocation of budgeted costs to regulate small proprietary companies, because the vast majority of illegal phoenix activity is believed to occur in those companies.

274 One respondent suggested that there is a need to re-evaluate our cost allocation, to distinguish between the regulation of registered liquidators and broader activities in the insolvency arena more properly characterised as addressing corporate misconduct.

ASIC's response

These concerns relate to our allocation of limited resources to ensure that investors and consumers have trust and confidence in the financial system, and that markets are fair and efficient.

The Australian Government recognises that ASIC is an independent agency and continued confidence in the regulatory framework requires that we exercise, and are seen to be exercising, independent judgement about the application of the regulatory framework to individual circumstances: see p. 13 of Treasury's [Proposed industry funding model for the Australian Securities and Investments Commission: Proposals paper](#) (Treasury proposals paper).

Each year we will consult on our key risks and long-term challenges. Our assessment of the likelihood and potential impact of these risks and challenges is used to determine and prioritise the key regulatory responses in ASIC's Corporate Plan and business plans, and how we allocate effort across different subsectors and different regulatory tools.

ASIC is an independent agency and industry groups will not be consulted on how we will address the key risks and long-term

challenges through the allocation of our budget to different subsectors and regulatory activities.

The industry funding model will, however, introduce greater transparency and accountability around our regulatory activities for stakeholders. Each year we will publish ASIC's Corporate Plan and business plans for each of the sectors we regulate. We will be accountable for how we actually allocate our budget at the end of each financial year. We will publicly report on our performance relative to our stated objectives in our annual report and our annual dashboard report, which sets out sector-level activity.

The costs attributed to the registered liquidators subsector do not include the work the Insolvency Practitioners team does to address corporate misconduct. For example, the following costs would be attributed to the relevant company subsector, and not registered liquidators:

- regulatory activity arising from a liquidator's report of director misconduct;
- administering the Assetless Administration (AA) Fund or liquidator assistance program; and
- enforcement costs arising from matters reported by registered liquidators in an AA funded report.

Allocation of budgeted costs to regulatory activities

275

Some respondents recommended that this CRIS should provide more detail about the allocation of budgeted costs by regulatory activity. For example, one respondent queried the allocation of surveillance and enforcement costs for various subsectors when compared to the cost allocation for education and guidance.

ASIC's response

Based on the key risks and long-term challenges we identify through our risk identification process, we will use our 'detect, understand and respond' approach to allocate effort across the different regulatory activities. That is, we will:

- detect wrongdoing through surveillance, gatekeeper breach reports and reports from the public and whistleblowers;
- understand our environment through continual scanning to identify issues and manage risks; and
- respond to wrongdoing and the risk of wrongdoing.

How we use our regulatory toolkit is a matter for ASIC as an independent agency. We track our regulatory effort for each subsector at the activity level: see Table 3. In 2016–17, we commenced a regulatory transformation program that will deliver an integrated data platform. Over the next three years it will progressively include standardised workflows and business processes across ASIC teams. As part of this project, we will

refine our management information systems and the activity-level information we collect. This will provide better data to track our efficiency and effectiveness and improve our resource allocation.

These improvements to our activity-level information will be reflected in future publications of the CRIS.

Changes to the budgeted costs since 2016

- 276 In November 2016, Treasury released the Treasury proposals paper. The paper has a supporting attachment, in which we set out our forecast for our 2016–17 regulatory costs for each industry subsector: see [Proposed industry funding model for ASIC: Supporting attachment to the Government’s proposals paper](#) (PDF 1.41 MB).
- 277 A number of respondents have queried the changes to the allocation of budgeted costs to different industry subsectors since we published the forecast costs in the Treasury proposals paper.

ASIC’s response

The costs in the Treasury proposals paper reflected our forecast for our 2016–17 regulatory costs. The budgeted costs in this CRIS relate to our 2017–18 budget.

The costs we allocate to different subsectors will change from year to year, and this should be expected. A change in the allocation of costs to different subsectors could result from several factors, including a change in regulatory priorities and resource allocation over the year ahead for ASIC.

In addition, the costs in the Treasury proposals paper did not include extra funding received to implement and maintain several new budget measures approved after the release of the paper. These include CCIVs, the Asia Region Funds Passport, crowd-sourced funding, improving external dispute resolution and improving financial literacy. These costs are reflected in this CRIS.

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

Independent assurance for budgeted costs and industry levies

- 278 Some respondents recommended that our levies each year should be subject to an independent audit and report to stakeholders to verify that the levy charged to each subsector is appropriate and complies with statutory requirements. One respondent observed that the CRIS does not address how the content of the CRIS will be verified. The respondent suggested that it

would be useful to know that the figures will be subject to some form of independent assurance.

ASIC's response

Our financial statements are audited each year by the Australian National Audit Office. Our allocation methodology has been externally reviewed to ensure it is coherent, soundly structured and in line with industry practice.

Each financial year we must make a determination in a legislative instrument that specifies our regulatory costs for the year and the costs for each subsector. No ASIC legislative instrument is to take effect until the end of a 'disallowance period'. The disallowance period will ensure that we do not collect any levies before Parliament has an opportunity to consider and scrutinise the matters included in the legislative instrument.

Definition of 'financial capability work'

279 One respondent observed that, unlike other regulatory activities, the term 'financial capability work' is not defined in this CRIS.

ASIC's response

We have amended Table 3 to include a description of financial capability work and the key activities that are subject to cost recovery.

Indicative levies in the CRIS

280 A number of respondents were concerned about their ability to budget for levies, because the levy will not be finalised until the invoices are issued in the following financial year. One respondent suggested that it would be helpful if the CRIS included indicative levies, calculated on the basis of the costs allocated in the CRIS. Another respondent strongly encouraged ASIC to provide indicative levies as soon as possible.

ASIC's feedback

Some regulated entities may use the figures in this CRIS to estimate their industry funding invoice amount. However, final invoice amounts will, in many cases, depend heavily on data that we are yet to collect from entities.

We will release the indicative levies for 2017–18 in March 2018. However, we cannot require a person to provide information to ASIC about the 2016–17 financial year for the purpose of calculating indicative industry levies. We will produce indicative levies for subsectors where we can calculate the levy. This equates to approximately 80% of the leviable entities by population, and 55% of total expected levy collections.

From the 2017–18 financial year, we will be able to require the provision of information to calculate levies and we will publish forecast cost data and indicative levies at the start of each financial year: see Table 63 for key events and expected dates for implementing the industry funding model.

Removal of certain lodgement fees

281 Two respondents noted that the CRIS refers to lodgement fees that will be abolished and funded by ongoing annual levies. They suggested the CRIS should identify the particular lodgement fees we intend to abolish.

ASIC's response

Treasury released [Introduction of Australian Securities and Investments Commission's fees for service under the industry funding model: Consultation paper](#) (Fees for service consultation paper) on 22 November 2017. Under the proposed changes, from 1 July 2018 fees for service will be introduced to recover ASIC regulatory costs that are directly attributable to a single, identifiable entity. These fees will be imposed under the *Corporations (Fees) Act 2001* and specified in the *Corporations (Fees) Regulations 2001*.

Treasury also proposes to remove fees currently charged for activities that are associated with the supervision of the industry, rather than for the benefit of an individual entity (e.g. compliance certificates). A list of the fees to be removed is available at Schedule B of the Fees for service consultation paper.

We do not propose to list these fees in this CRIS, because these proposals are still subject to consultation and will require legislative amendment.

Allocation of overheads

282 A number of respondents raised concerns about the transparency of the allocation of overheads to the Insolvency Practitioners team. The respondents suggested that our allocation of expenditure on IT support, operations support, and property and corporate services is relatively high in light of the number of FTE staff in the Insolvency Practitioners team.

ASIC's response

We have attributed costs to each subsector based on the amount of effort we spend regulating that subsector.

Direct costs of our stakeholder and enforcement teams are allocated to the subsectors they regulate.

Indirect costs are allocated to stakeholder and enforcement teams in proportion to the internal support they receive to carry

out their work. For example, costs to build, support and maintain our IT systems are attributed to ASIC teams based on the number of FTE staff who use those systems. Property costs and other indirect costs—such as governance, leadership and compliance costs—are attributed to teams based on their FTE staff. These indirect costs are then directed to subsectors in the same manner as direct costs.

A large portion of the costs to regulate registered liquidators relates to several enforcement matters we are currently pursuing. Enforcement matters can take years to investigate, litigate and bring to a conclusion. When matters are concluded, the outcomes are reported in our annual report. The matters reported in our annual report do not reflect all matters currently under investigation or before the courts. Registered liquidators will be allocated costs attributable to the enforcement teams that are undertaking work in relation to the regulation of the subsector.

Revenue from the Published Notices Website

283 Some respondents queried whether the offsets to the regulatory costs for registered liquidators included the revenue generated from registered liquidators posting notices on the Published Notices Website.

ASIC's response

The adjustment for the Published Notices Website will be taken into account when the 2017–18 indicative levies are published and when the invoices are issued for 2017–18.

In Table 11, the adjustment to the total operating costs for registered liquidators does not include the revenue collected from the Published Notices Website. The adjustments for ASIC-sourced revenue item only captures departmental revenue (i.e. ASIC's own sourced revenue attributable to registered liquidators). The Published Notices Website revenue is collected by ASIC on behalf of the Australian Government.

Stakeholder consultation on the industry funding model

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

285 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.

286 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.

287 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.

288 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.

289 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.

290 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

291 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 62: 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 |

292 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

293 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.

294 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

295 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 for 2016–17](#) was released in October 2017.

Regulator Performance Framework

296 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.

297 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 published our second self-assessment in January 2018: see [Report 561](#) *Regulator Performance Framework: ASIC self-assessment 2016–17* (REP 561).

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 63: Key events and estimated dates

| Key event | Estimated date |
|--|------------------------|
| 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 |
| We will review our management information systems as part of the regulatory transformation program | June 2020 |

N CRIS approval and change register

Key points

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

Table 64: CRIS approval and change register

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

Appendix: List of non-confidential respondents

- Australian Bankers' Association Inc.
- Australian Financial Markets Association
- Australian Restructuring Insolvency & Turnaround Association
- Association of Financial Advisers Ltd
- Bent & Cogle Pty Ltd
- Capstone Financial Planning Pty Ltd
- Chartered Accountants Australia and New Zealand
- CPA Australia Ltd
- de Vries Tayeh
- Dye & Co. Pty Ltd
- Easton Investments Limited
- Gavin Moss, CA
- JP Downey & Co Chartered Accountants
- KordaMentha Pty Ltd
- Levi Consulting Pty Ltd
- McGrathNicol Partnership
- National Insurance Brokers Association of Australia
- PPB Advisory
- Professor Helen Anderson, Melbourne Law School
- Robson Cotter Insolvency Group

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 | <i>Australian Securities and Investments Commission Act 2001</i> |
| 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 74. |
| 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 69. |
| Corporations Act | <i>Corporations Act 2001</i> , 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 | <p>A recommendation or a statement of opinion, or a report of either of these things, that:</p> <ul style="list-style-type: none"> • 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. <p>This does not include anything in an exempt document</p> <p>Note: This is a definition contained in s766B of the Corporations Act.</p> |
| 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 | <p>Financial product advice that is not personal advice</p> <p>Note: This is a definition contained in s766B(4) of the Corporations Act.</p> |
| graduated levy | <p>A levy based on the graduated levy component formula, where all entities in a subsector must pay:</p> <ul style="list-style-type: none"> • 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 70(b) of this CRIS |
| Market Supervision Cost Recovery Regime | Has the meaning given at paragraph 174 of this CRIS |
| market licensee | The holder of an Australian market licence |
| market participants | Has the meaning given in s761A of the Corporations Act |
| 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 | <i>National Consumer Credit Protection Act 2009</i> |
| 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 | <p>Financial product advice given or directed to a person (including by electronic means) in circumstances where:</p> <ul style="list-style-type: none"> 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 <p>Note: This is a definition contained in s766B(3) of the Corporations Act.</p> |
| 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 <i>Superannuation Industry (Supervision) Act 1993</i> |
| relevant financial product | A financial product 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 <i>Superannuation Industry (Supervision) Act 1993</i> |
| 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. |
| superannuation fund | Has the meaning given in s10(1) of the <i>Superannuation Industry (Supervision) Act 1993</i> |

| Term | Meaning in this document |
|--------------------------------------|---|
| superannuation trustee | A person or group of person licenced by APRA under s29D of the <i>Superannuation Industry (Supervision) Act 1993</i> 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: <ul style="list-style-type: none"> 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*

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