Stockbrokers

And Financial Advisers MONTHLY

JUNE 2017
www.stockbrokers.org.au

MEMBERSHIP
EVENTS
EDUCATION
POLICY &
REGULATORY ISSUES

Stockbrokers
And Financial Advisers
Association Limited

SAFAA 2017

Inside...

Stockbrokers And Financial Advisers Association Limited

Stockbrokers And Financial Advisers Association Limited ABN 91 089 767 706

(address) Level 6, 56 Pitt Street, Sydney NSW 2000

(tel) +61 2 8080 3200 (fax) +61 2 8080 3299 (email) info@stockbrokers.org.au

www.stockbrokers.org.au

COVER PHOTO: John Fraser, Secretary to the Treasury, addressing delegates at SAFAA 2017 on May 24th at Hilton Sydney.
Photo: Peter Rae – Fairfax Media

ASX sponsored ADA 1 & 2 Scholarships snapped up

We are pleased to report that all 60 ADA 1 & 2 scholarships offered by the ASX have been snapped up by members wishing to hone their skills. The scholarships were designed to help advisers expand their understanding of derivative products. Special thanks to Graham O'Brien at ASX for bringing the program to fruition.

Patersons COO Jane Irwin appointed Director

I am delighted to advise that at our board meeting on May 24th, Jane Irwin was appointed a Director of the Association. Jane is COO of Patersons Securities Limited.

We now have two women on our board, about which I am delighted. The other is Kiri Pettigrew, Managing Director for ITG Australia Limited.

Murray McGill becomes a Fellow of the Association

Outgoing SAFAA Director and long-standing Chair of the Association's Profession Committee, Murray McGill FSAFAA, has been elected a Fellow of the Association by the board. Murray is Executive Director & Head of Individual Managed Accounts, Patersons Securities Limited.

"I didn't think I could do it…"

How refreshing to read the comment in the AFR on May 16th by Tracey Fellows, the CEO of REA Group.

Tracey was commenting on her path to the job as CEO.

"When I first became the CEO of Microsoft Australia, I didn't think I could do it …"

I dare say that both men and women have apprehension about starting a new role. Men however seem not to worry so much about the things they don't know.

That's why it's great for successful CEOs like Tracey Fellows to admit they didn't think they could do it, and by their example inspire other women to take on business challenges.

New TASA members

I am delighted to welcome 150 new members from Morgan's Financial Limited.

Most of these are registered with the Tax Practitioners Board as Tax (Financial) Advisers.

Following SAFAA's accreditation by the Tax Practitioners Board as a recognised Tax (Financial) Adviser Association, SAFAA is able to provide code monitoring services for Tax (Financial) Advisers.

This means that SAFAA has to monitor compliance of Tax (Financial) Advisers with SAFAA's Code of Conduct.

SAFAA's Chairman Karl Morris presenting Murray McGill with his Fellowship Certificate at the start of the 2017 annual conference.

Andrew Green

I am also delighted to welcome Dr Michael Drew and Dr Adam Walk from the Myer Family Company as Master Members of SAFAA.

Michael and Adam are highly regarded investment professionals and academics. They will be speaking at our 2018 Conference on *The hallmarks of a really good investment adviser*.

Feedback on name change

I was pleasantly surprised to receive complimentary feedback on our name change from delegates at the annual conference.

We respect that some members wish to continue to refer to themselves solely as stockbrokers, and we are very happy with that.

Equally, we are happy to be the home Association for advisers who provide holistic financial advice to clients covering both listed and unlisted investments, investments within a super fund, investments outside a super fund, tax, estate planning and so on.

Our new name recognises that reality.

Our new name also makes us the natural home for finance professionals employed in Wealth Management Firms and Family Offices who trade and clear through a Market Participant.

Our unique selling proposition

I have attempted to codify what I think is our point of difference as an Association. Please read page 5. ■

YOU'RE INVITED
BOOK NOW!

TABLES SELLING FAST!

The Australian Stockbrokers Foundation invites you to join us for the 24th Annual Stockbrokers Awards Charity Dinner

Thursday 22nd June 2017
6:00pm for 6:30pm
Sofitel Wentworth Sydney

Book now to secure your table of 10 for $2950 or $295 for individual tickets, don't miss out!
http://stockbrokersawards2017.floktu.com
TABLES SELLING FAST, BOOK NOW!

STOCKBROKERS AWARDS 2017

ASF AUSTRALIAN STOCKBROKERS FOUNDATION

Raising funds for brighter futures

SOFITEL LUXURY HOTELS

SAFAA'S UNIQUE SELLING PROPOSITION

By Andrew Green
CEO, SAFAA

The paradox of membership – what's in it for me?

People sometimes ask me to recite the benefits of membership, hoping that I will say you get free drinks once a month, half price at the movies on Monday nights and so on.

One important benefit of membership is the opportunity to come together with your peers and discuss issues of the day, the aim being to create a solution for the industry, a solution that is good for both members and clients.

The challenge is to distil a coherent argument that is broadly reflective of industry consensus, and present this to regulators and government. Sometimes it is not easy to get a consensus position.

In the absence of a distilled consensus position, regulators and government do not have guide posts and we risk getting regulations that are detrimental to the interests of the industry and indeed Australia.

Membership of an Association is in many ways part of our democratic duty – the Association provides a voice for the industry, a voice that shapes the legislative framework for the industry.

So when people ring me and ask to explain the benefits of membership, I end up saying *it's not what you can get out of the Association, but indeed what you can contribute to it that will ultimately benefit you.*

The following Committees and Sub-Committees of the SAFAA board leverage the collective wisdom across our Principal and Practitioner membership base:

- Institutional Broking Committee
- Retail Broking Committee
- Profession Committee – Education & Membership
- Derivatives Sub-Committee
- Compliance Sub-Committee
- Women in Stockbroking Working Group
- CHESS Replacement Working Group
- Cyber Crime Working Group
- National DTR Working Group

Over the last 12 months, members have participated in a raft of working groups covering important issues including the External Dispute Resolution Framework, ASIC Cost Recovery, Professional Standards regime, the CHESS Replacement project and reform of the NGF to mention a few.

Win, lose or draw, our commitment to our members and their clients is to advocate for ethical and efficient financial markets. We don't always win, but we will always be the voice for the industry trying to distil a consensus position that will be in Australia's best long-term interests.

The good old days when practitioners taught classes

Many years ago, I attended lunch time lectures run by the former SIA. These lectures were given by practitioners. If you talk to people who did those courses, they quickly reminisce about the glory days.

The good news is that SAFAA still delivers courses written by its subject matter experts. On Monday 5th June for example, as I pen this note, one of our presenters, Chris Harris, is delivering a *Day in the Life of Trade* to 14 people employed in the Stockbroking And Financial Advisory industry. And also on this day, at lunch time, a Cyber Crime subject matter expert, KPMG's Stan Gallo is delivering an in-house Cyber Resilience Workshop for one of our Principal Members in Sydney, attended by 40 staff members.

What's even better is that a lot of our courses have now been digitised by our education partner **GRC Solutions**. They have done a fantastic job. So if you are marooned at an airport lamenting a delayed flight, you can now jump on line and earn CPD points by studying one of our courses.

New members – many are called, few are chosen

On February 9th, the Senate passed the Professional Standards legislation, which means, among other things, that all retail financial advisers will soon need to belong to an accredited body that monitors their compliance with a code of conduct. Our plan is to apply to become an accredited body, drawing on the experience we have as a code monitoring body for the Tax Agents Services Act.

Our aspiration is to admit as members people who:

1. care about the industry and want to make a difference
2. aspire to the highest level of education and training
3. are prepared to uphold our high ethical standards.

If all our members embrace these aspirations, we will make a strong contribution to ethical and efficient financial markets in Australia. ■

Review Committee on External Dispute Resolution – Release of Final Report

THE EXPERT REVIEW Panel on External Dispute Resolution, chaired by Professor Ian Ramsay, delivered its Final Report to the Government on 9 May 2017.

Of interest also was the announcement by the Federal Government in the Budget, also on 9 May, of the decision to merge FOS, the Credit Industry Ombudsman (CIO) and the Superannuation Complaints Tribunal (SCT) into a single external dispute body to be called AFCA (Australian Financial Complaints Authority).

Subsequently, the Government has announced that is has adopted all 11 recommendations of the Final Report.

The Review Panel has since invited submissions from from industry on a limited range of questions regarding the Final Report.

The Ramsay Committee Final Report contains a number of Recommendations, including:

- The creation of a single EDR Body to replace FOS, CIO and the Superannuation Complaints Tribunal. Interestingly though, the Interim Report of the Ramsay Committee was of the view that, whilst there should be a single EDR body, the SCT should not be integrated immediately. Rather, the SCT should develop its superannuation framework at first instance, and consideration given to merging it at a later date. The Final Report has moved away from this position, and the Government has acted in that way in the Budget announcement.
- There be an increase in the monetary limits under the new EDR framework, to a claim limit of $1 million, and a compensation limit of $500,000. This is a significant increase from the current FOS limit of $500,000/$309,000. The Committee recommended also that there should be consultation prior to establishing the EDR body as to whether, for certain industry sectors, such as mortgages and general insurance, there should not be an immediate increase to $1 million for the compensation cap as well.

SAFAA had argued strongly that there was no evidence that the existing EDR arrangements in the stockbroking industry were unsatisfactory. There were very low levels of complaints against stockbrokers to FOS; and there were few awards by FOS in favour of clients...

SAFAA had argued strongly that there was no evidence that the existing EDR arrangements in the stockbroking industry were unsatisfactory. There were very low levels of complaints against stockbrokers to FOS; and there were few awards by FOS in favour of clients. In fact, in the latest year reported, the number of FOS decisions in favour of the broker exceeded the number in favour of the complainant. Where amounts were awarded, they were all at the lower $ levels, and well below the existing limits.

For these reasons, SAFAA's view was that, whilst there may be problems in some industry sectors that would justify a review of EDR arrangements in those sectors, it was unnecessary to impose those changes, and inflict the extra costs involved, onto the stockbroking industry, where the changes were not needed.

As regards a single EDR body, SAFAA is concerned about the creation of another statutory body that is not open to the pressures of competition, and the cost of which will be borne by industry. SAFAA is not supportive of monopolies as a matter of principle, and the AFS License regime was deliberately constructed on the basis of not prescribing a single EDR body.

Member firms will need to review the impact that the proposed monetary limits would have on the adequacy of their PI insurance cover and on the cost of it. SAFAA will continue to argue that monetary limits at the proposed levels are excessively high for the stockbroking industry, and far higher than any other comparable EDR scheme in any other country.

It is also manifestly unfair, in our view, to expose firms to an award at those high dollar levels (a claim level of $1 million is higher than the jurisdiction of the District Courts) when the EDR body is not obliged to apply rules of law, where there is not the same ability to obtain evidence in order to test a claim, and where there is no right of appeal.

The closing date for submissions on the Final Report is 14 June 2017.

ASIC Industry Funding

ON 4 MAY 2017, Treasury released the long-awaited final version of the ASIC Industry Funding Model (IFM) to recover the cost of ASIC's Budget. The Draft Regulations are to be in place before 30 June 2017, so that they can operate for the 2017-2018 Financial Year. Hence, there is little scope for any further feedback to be entertained on the Regulations at this stage.

The Final Regulations are largely in line with the Model consulted upon earlier in the year. There are however some significant modifications. Key points to note:

- ASIC Market supervision costs will again be recovered from Market Participants by way of a direct levy on Market Participants, not on any trade based levy (as SAFAA had urged). The Participant levy is a combination of a flat fee ($9000 per Participant); a component based on the MP's share of transactions; and a component based on the MP's share of message count.
- Cash equities and futures have been separated for the MP levy, with separate levy calculations for each product, to reflect the different nature of a trade and a message in each market.
- The retail financial adviser fee payable by licensees for the number of advisers who provide personal advice remains. The fee will be calculated based on the number of advisers in this category at 30 June as a percentage of the total number of retail advisers on the ASIC register. There is no fixed fee (the previous draft set a fee of $960 per adviser).
- The retail personal advice fee is not payable in respect of a financial adviser who is employed by a Market Participant who only provides advice in respect of a listed product (cash equities, listed managed fund or futures) or a basic banking product. Hence, there is effectively a carve-out for vanilla stockbroking. Securities Dealers also receive the benefit of this carve-out.
- Securities Dealers (i.e. non-Market Particpants) are liable for a levy if they are responsible for more than $250,000 in transactions on a "large equity market". The levy consists of a $1000 flat fee plus a graduated levy based on the dealer's percentage of the total value of all transaction for that subsector (previously, it had been set at $0.34 per $10,000 annual trade value).
- The flat fee for providing general advice only remains (set at $1200 per licensee).
- The former Investment Banking levy has been separated into a Corporate Advisory levy and an OTC Derivatives levy. This is in recognition of the very different nature of each activity.
- The Corporate Advice levy remains based on Gross rather than Net income, and is calculated on the licensee's percentage of Total Gross Corporate Advice income from all leviable entities. It is impossible to estimate what the latter figure is likely to be.
- Corporate Advice income includes all of the areas previously set out (M&A, capital raising, underwriting, corporate advice). This presumably will include broker firm and stamping fees, which SAFAA had argued were in the nature of a selling commission and therefore should should be considered as Corporate Advice revenue.

The amounts of each of the levies, other than the flat fees, will only be known after the end of the Financial Year, when an invoice is issued. It remains to be seen whether ASIC will publish the "indicative" figures previously mentioned, and if so, how early in Financial Year, and how accurate those figures prove to be, so that Licensees may be in a position to budget for the liability or to recover fees during the Financial Year (if they so choose) from end-users. ■

Review Committee on External Dispute Resolution – Compensation Scheme of Last Resort

FURTHER TO THE previous item regarding changes to the External Dispute Resolution framework, the Minister for Revenue and Financial Services has extended the Terms of Reference for the EDR Review Committee to include "recommendations on the establishment, merits and potential design of a compensation scheme of last resort and the merits and issues associated with providing access to redress for past disputes."

On 5 May 2017, SAFAA attended an Industry Roundtable held by the EDR Review Committee to discuss the Terms of Reference, in advance of a Consultation Paper, on the subject being issued by the EDR Review Committee in the near future.

It is not entirely clear what the scope of any proposed last resort compensation scheme is proposed to be. It could be limited to a scheme to ensure that investors who are awarded compensation by an EDR body, such as FOS, have access to a fund in the event that the AFS Licensee does not pay the award, for whatever reason (such as the Licensee becoming insolvent). On the other hand, a scheme could be more ambitious, and could be established as a general compensation scheme for financial loss by investors.

Any such scheme will be industry funded.

There was considerable concern expressed by a range of industry groups, including SAFAA, as to why this review was taking place. Reference was made to the Report by Richard St John Q.C. in 2012, which was undertaken as part of the FOFA process.

In that Report, St John Q.C. concluded that "…It would be inappropriate, and possibly counter-productive, to introduce a last resort compensation scheme at this stage…" Instead, the Report recommended that the administration of the AFS License regime and Professional Indemnity Insurance be fixed first.

A number of industry groups expressed the view that, given the previous recommendation, it was not clear why the Government would now be looking at the same issue all over again, without having taken any steps with respect to the St John Report recommendations, or having set out a response to its conclusions.

A Consultation Paper on the subject has since been issued on 31 May 2017. ■

SAFAA had argued strongly that there was no evidence that the existing EDR arrangements in the stockbroking industry were unsatisfactory. There were very low levels of complaints against stockbrokers to FOS; and there were few awards by FOS in favour of clients...

Breach Reporting Proposals – Position Paper issued by ASIC Enforcement Review Task Force

SAFAA HAS LODGED a Submission on the Position and Consultation Paper 1 "*Self-Reporting of contraventions by financial services and credit licensees*" issued by the Government's ASIC Enforcement Review Taskforce.

The ASIC Enforcement Review Taskforce was established by the Federal Government in October 2016 to review the adequacy of ASIC's enforcement regime, including in relation to industry Codes of Conduct, to deter misconduct and foster consumer confidence in the financial system. This first Position Paper and Consultation dealt with the subject of breach reporting by licensees.

The Taskforce appears to have adopted the view that existing breach reporting regime needs to be strengthened, and set out 12 "Positions" (which presumably are its recommendations) in the Position Paper.

These include:

Position 1: No change to the requirement that only 'significant' breaches must be reported by an AFS Licensee, but introduce an objective test for determining what is a 'significant" breach. The test should be whether "a reasonable person would regard the breach as significant".

Position 2: The breach reporting requirement to be extended to require reporting of significant breaches or other significant conduct by an employee or representative.

Position 3: The reporting obligation should arise when the licensee "becomes aware or has reason to suspect" that a breach has occurred, or may occur. This may bring forward the obligation, as the existing requirement to report arises when the licensee reaches the decision that breach has occurred.

Position 4: Increase the penalties for failure to report.

Position 5 & 6: Introduce a civil penalty, and infringement notices, for failure to report, as alternatives to criminal prosecution.

Position 9: Introduce a similar breach reporting regime for credit licensees.

Position 12: Require annual publication by ASIC of breach report data. This does not extend to the publication of names and identities. In this regard, the Taskforce did not support introducing a "naming and shaming" approach, which it noted was not a feature in any other comparable jurisdiction overseas. The published data can assist licensees in deciding whether changes to their policies and procedures maybe warranted to manage their compliance or operational risk.

SAFAA in its Submission questioned the extent to which there was any evidence that the existing breach reporting regime was not operating appropriately. SAFAA members indicated that they could live with an objective test of determining whether a breach was 'significant', but were of the view that this would still result in a significant degree of uncertainty in complying with the requirement. Knowing when a 'reasonable person' would conclude that a breach has occurred is not at all clear. Hence, there was a need for ASIC to issue clear Guidance to assist Licensees in complying.

SAFAA also made the Submission that penalties for non-compliance should not be increased unless there was clear evidence to show that existing penalties were not serving as a sufficient deterrent against breaches. As already noted, SAFAA does not believe this evidence has been presented.

In our assessment, the changes if implemented are likely to require matters to be reported to ASIC at a much earlier time, and may result in reports to ASIC of many breaches that were not, in all the circumstances, significant. ■

ASIC CP 277 - Market Integrity Rule Harmonisation

ASIC HAS MADE some public announcements regarding the outcome of its Consultation on its Harmonisation of the Market Integrity Rules (Consultation Paper CP 277).

Members may recall that ASIC was proposing to harmonise the various ASX, Chi-X and other market-specific MIRs into a standard rule book applicable across markets. There is to be a standard rule book for Securities, a separate Futures Market Rule Book, and standardised Capital MIRs for Securities and for Futures.

As part of the Consultation, ASIC was also proposing:

- 'Clarifying' the rules regarding aggregation of Principal and Client orders on one side of a Block special crossing
- Removing the waiver, applicable to derivatives market contracts, from the requirement to notify retails in confirmations where the trade was crossed as Principal;
- Removing the Responsible Executive requirements, leaving supervision to be governed by the AFSL responsible manager and license requirements alone.

ASIC has indicated that it will be proceeding with the proposals as outlined in CP 277. In relation to Block Special Crossings, ASIC would change the existing wording of the MIRs, which prohibited aggregation of Principal and client orders, by adopting proposed Option 3. Under Option 3 Principal orders can be aggregated with client orders, but only once the Block Size threshold is reached on the basis of client orders alone.

In its Submission on CP 277, SAFAA had:

- noted its support in principle for the harmonisation of the MIRs, and removal of the duplication of the Responsible Executive and Responsible Manager regimes. SAFAA did however argue against removal of the specific CPD obligations and the requirement to pass the RE Exam. In the view of SAFAA members, those specific requirements served as a valuable benchmark, and removing them is likely to lead to a drop in standards.
- supported retaining the derivatives waiver. The case for removing the waiver was not strong, in the view of our members. The options market has a heavy presence of market-makers, and clients were aware of the high likelihood that they will be facing an intermediary on the other side. Clients had not expressed any interest in receiving these disclosures in relation to ETO trades, unlike in the cash equities market, where the rise of dark pools has led to a very different dynamic. ■

Members may recall that ASIC was proposing to harmonise the various ASX, Chi-X and other market-specific MIRs into a standard rule book applicable across markets. There is to be a standard Rule books for Securities, a separate Futures Market Rule Book, and standardised Capital MIRs for Securities and for Futures

SUBMISSIONS | Members can view submissions at www.stockbrokers.org.au

POLICY ENQUIRIES | Peter Stepek, Policy Executive, pstepek@stockbrokers.org.au

Committee News

Recent meetings of the Stockbrokers And Financial Advisers Association – Committees, Working Groups and Advisory Panels:

Profession Committee Meeting, Wednesday 10 May 2017

Chair: Murray McGill FSAFAA, Patersons Securities

Institutional Broking Committee Meeting, Thursday 11 May 2017

Chair: Andrew Green, Stockbrokers And Financial Advisers Association

Derivatives Sub-Committee Meeting, Tuesday 16 May 2017

Chair: Peter Tardent MSAFAA, Commonwealth Securities

Directors Board Meeting, Wednesday 24 May 2017

Chair: Karl Morris MSAFAA, Ord Minnett

Retail Broking Committee Meeting, Thursday 25 May 2017

Chair: Dean Surkitt MeSAFAA, Bell Potter Securities

New Individual Practitioner Master (MSAFAA) Membership applications approved:

Adam Walk	Diana Lock	Jarrod Martin	Michael Drew
Anthony Mackenzie	Garry O'Neill	Kathleen Paynter	Michael Innes
Bradley Tuckemeran	Jane Irwin	Mark Olivetta	Sandra Crouch

New Individual Practitioner Member (MeSAFAA) Membership applications approved:

Amanda Miller	Brent Fiedler	Dean Mellers	John Templeton	Peter Knight
Andrew Della-Sale	Campbell Walker	Geoffrey Nash	Jonathan Pitt	Philip Hutton
Andrew Eddy	Charles Johnston	George Tanaka	Justin Sharples	Richard Gregory
Andrew Inglis	Charles Smallhorn	Gordon Barratt	Leonardo Senese	Roger Skitt
Andrew Wallis	Cheyne Peat	Hamish Dee	Luke Wilson	Rohan Dayal
Anthony Foy	Christopher Titley	Hayley Della-Sale	Mark Thomas	Rollo Morgan
Anthony Hung	Clare Shewan	Ian Elks	Matthew Clarke	Scott Harvey
Anthony Le Brun	Colin Marshall	Ian Macaulay	Michael Dempsey	Simon Davies
Anthony Miller	Darrell Ling	Ian Schuntner	Michael Parnell	Stephen McAllister
Anthony Wall	David Codey	Jared Olive	Mike Fittler	Timothy Harrington
Ashley Greaves	David Grosser	Jeffrey Kumnick	Paul Ford	Vernon Low
Bradley Burns	David Oliphant	Joel Fishlock	Peter Carpenter	
Brent Boardman	David Ritchie	John Polinelli	Peter Durbin	

Savings, service, certainty.

Fix and prepay now.

Now's the time to take advantage of the benefits of locking in a competitive interest rate on a margin loan from Leveraged.

Three reasons to fix and prepay interest

1. **Savings**
   Take advantage of discounted interest rates for fixed rate loans.

2. **Certainty**
   Be certain of your borrowing costs.

3. **Potential Tax Benefit**
   Pay up to 12 months interest in advance and you may be able to claim the amount as a tax deduction in the current financial year.

To find out more, contact Leveraged on 1300 307 807 today.

leveraged.com.au
1300 307 807

Leveraged™
The professional's choice

In focus – financial advisors, registers and references

By Liam R. O'Brien

I attended a recent licensees' liaison meeting at ASIC's Sydney HQ. There was a range of topics addressed during the session and ASIC were generous in answering questions from a large crowd, which included financial services and credit licensees, law firms and consulting firms.

Of particular interest to members was a presentation on the Financial Advisors Register.

GRC solutions

ASIC STATED THAT this has been and will be a continued focus for them. There have been somewhere close to 1.4 million searches of the register since 2015 suggesting that the information is useful and of benefit to industry and consumers.

It is a requirement of all licensees with a personal advice authorisation, that their financial advisors are registered adequately.

ASIC suggested they will focus on:

- Incomplete information in the register
- Controlling entities of Body Corporate Licensees
- Missing or unregistered advisors

This includes limited licensees where applicable authorisations exist.

They were quick to remind the audience that there are criminal penalties and regulatory actions that can apply when registration has not been made, is incomplete or incorrect.

The strong message for licensees is that now is the time to ensure your processes for registering advisors are adequate and are complied with. A short assessment of the processes

might be a good place to start and determine whether or not further investigation is required.

Should there be insufficient confidence that the register is up to date, it may be advisable to complete a full reconciliation of each advisor and their details on the register. For some larger licensees, this is likely to be a time consuming task.

The register requires a comprehensive set of information about your advisors including:

- Date of appointment
- Representative number
- Country and town of birth
- Products or services being authorised and any caveats or restrictions
- Employment history including start and finish date, and the year advice was first provided
- Education and qualifications
- Professional memberships

It is important for licensees and advisors to provide ASIC with consistent information. This was very clear in another topic of the meeting which focused on the importance of adequate reference checks.

ASIC suggested that the employee screening for financial services handbook HB 322 2007 be used as a guide when checking references.

Employee due diligence has broad implications for finance professionals. There are requirements under AFSL, ACL, AML/CTF and most professional memberships, that adequate employee checking occurs. What has emerged from ASIC is that specific commentary about the compliance performance of the subject of the reference is required for references to be accepted.

With the regulatory currency of references growing in value, it remains to be seen how this will stack up with a trend of some organisations moving away from providing references at all. There was also some concern about the consequences for referees given the growing reliance on their endorsement of individuals. Comments from the audience at the ASIC meeting predicted a situation where references could be used disproportionately or inappropriately as leverage. ■

ABOUT THE AUTHOR

Liam is a Senior Consultant and Subject Matter Expert for GRC Solutions. Liam has worked for large and diverse organisations in senior management roles since 2003 including Suncorp, SAI Global and QR Limited. His governance, risk, and compliance expertise comes from successfully executing:

- Risk management frameworks
- Compliance programs
- Governance reviews
- Bribery and corruption assessments
- Audit programming

He has provided expert content to professional development courses for industry bodies such as the Governance Institute and to universities, where he also teaches, lectures and facilitates sessions on compliance, governance and risk related topics. He often speaks at conferences and networking events for professional associations such as Risk Management Institute of Australia, GRC Institute, Governance Institute, Institute of Internal Auditors, and the International Association of Privacy Professionals.

A guide to Exchange Traded Funds

Exchange traded funds (ETF) are one of the fastest growing investment tools in the world. This is because they are easy to understand and give investors a convenient way to add diversification to their portfolio.

What is an ETF?

An ETF is a listed security that usually tracks an index, currency, commodity or bond. Unlike managed funds, these trade on market and therefore can be bought or sold just like ordinary shares.

ETF popularity

According to the March 2017 ASX spotlight report, the Australian ETF market has over $27b of investor funds and has increased by approximately 21% in the last 12 months. The table below shows that 39% of funds invested in ETFs are in global equities, with the second highest allocation going to Australian equities at 38%.

Benefits and risks

Benefits of ETFs

Accessibility: given that ETFs are exchange traded, it means investors are able to gain access to markets that they would usually not have access to. Sectors like corporate bonds for example have historically only been available to sophisticated clients with high minimum investment requirements. ETFs overcome this issue and make various asset groups available to investors.

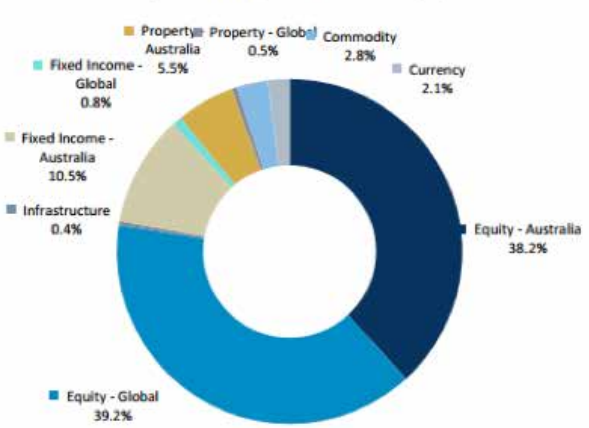
Diversification: By purchasing an ETF, investors can easily gain diversified exposure to the S&P500, specific regions such as Asia, India and Europe, emerging markets or specific sectors such as commodities, bonds, currencies and infrastructure.

Liquidity: ETFs are highly liquid and can be bought and sold on market during trading hours.

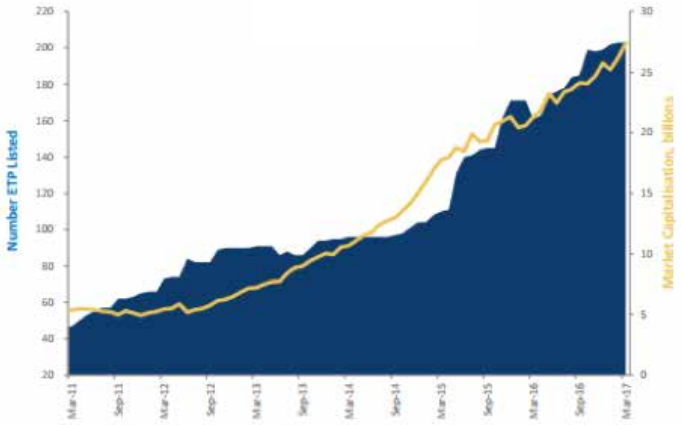
Cost effective: ETFs are usually passively managed which means they typically have lower fees compared to traditional managed funds. It is also much more cost effective than paying transaction costs to purchase a number of domestic and international securities.

Transparency: Holdings within an ETF are usually published on the provider's website, so investors know exactly what they are getting.

Asset Spread of ETFs, Current Period FUM (A$)



ETF Market Growth



EXAMPLES OF POPULAR ETFS

Ticker code	Fund name	MER (%)	FUM ($M)	1 yr return (ann.)	3 yr return (ann.)	5 yr return (ann.)
STW	SPDR S&P/ASX 200	0.19	3385.26	20.29%	7.28%	10.71%
VHY	Vanguard Aust Shares High Yield	0.25	$779.72	21.67%	4.89%	10.91%
IOO	iShares S&P Global 100	0.4	1121.25	16.02%	11.11%	14.75%
IVV	iShares S&P 500	0.04	2142.96	16.91%	17.19%	20.06%
IEM	iShares MSCI Emerging Markets	0.68	434.54	1.44%	3.18%	17.40%
IXJ	iShares S&P Global Healthcare	0.47	432.92	8.38%	12.94%	20.36%
AAA	Betashares Aust High Interest Cash	0.18	1155.64	2.15%	2.67%	NA
USD	BetaShares U.S Dollar	0.45	512.31	-0.15%	6.01%	5.91%

http://www.asx.com.au/documents/products/asx_funds_monthly_update_mar_17.pdf

Risks of ETFs

Market risk: ETFs will track the value of the underlying market, which may be volatile.

Tracking error: There is a risk that an ETF will not identically track the underlying benchmark. This can be seen when ETFs tracking the same index have different performance.

Currency risk: Unhedged funds with exposure to international assets will be impacted based on exchange rate movement as well as the underlying investment.

Liquidity risk: This often depends on the underlying investment and describes the risk of being able to buy and sell the underlying asset quickly without impacting the price.

In Summary, ETFs are ideal for those that are looking for a convenient way to add diversification, for those who are time poor or would prefer to avoid the challenges of selecting individual shares.

Gearing strategies using ETFs:

Cash extraction for diversification: Investors who hold existing shares but do not want to sell them can use a margin loan to extract cash from their current holding. They can then use those funds to add diversification to their portfolio using an ETF. For example, if a client is holding CBA shares and does not want to sell them as they do not wish to trigger a CGT event, they can transfer their CBA stock into their margin loan, without triggering a CGT event and then use funds from the loan to purchase a diversified exposure to an index or asset group that will reduce their stock specific risk.

Positive gearing: With low interest rates that can be fixed, investors are able to purchase high yielding ETFs to create a positively geared portfolio. This creates a diversified portfolio where the dividend is greater than the interest rate and so investors are effectively being paid to borrow to invest. This is an attractive strategy given that it is becoming harder to positively gear in other asset groups such as property. Of course investors still carry the risk that a dividend may be cut or the market may fall, however holding a diversified exposure through an ETF decreases 'stock specific' risk of a dividend cut.

Scalable business: Investing in ETFs allows you to add diversification for your clients in a scalable manner. For example if a client has an existing portfolio that focuses on domestic resource stocks, you are able to easily add exposure to the broader domestic market, global equities and various asset groups with ease. For an SMSF, clients may look to use a high yielding ETF to take advantage of the franking credits in a low tax environment. Currency ETFs can be used to hedge against currency movements for relevant clients. Whatever the strategy, ETFs can be used to reduce the number of separate securities held across your business while still maintaining overall diversification. ■

TO LEARN MORE about gearing into ETFs, please contact Leveraged on **1300 307 807**.

Budget downsizing proposal

By Peter Grace

The 2017 Budget proposed that anyone over age 65 who sells their home will be able to contribute up to $300,000 from the sale into superannuation. The proposal is an incentive to encourage people whose home is too big to sell up, free capital for retirement needs and increase the supply of houses. It is one small initiative to address the pressure on house prices.

The detail

The proposal as it stands is:

- It applies to anyone over age 65 (maybe this will become age-pension age when the rules are announced)
- It applies to home sales made after 30 June 2018
- The contribution is capped at three times the non-concessional contribution cap (at today's threshold this is three times $100,000)
- There is no work-test or age test on the contribution and individuals will be able to make the contribution even if they have used the pension cap of $1.6m (though the contribution would then have to be held in an accumulation account)
- The concession applies to individuals so a couple could contribute $600,000.

Positives

This proposal may be attractive to self-funded retirees who are not concerned that the contribution will impact on their age pension. It could be of particular benefit to anyone over age 75 who under the normal contribution rules cannot make non-concessional contributions.

Many self-funded retirees receive the income tested Commonwealth Seniors Health Card (CSHC). The definition of income for the test includes taxable income and deemed income from an account based pension. By retaining all or part of the downsizing contribution in an accumulation account, the retiree will be able to stay under the CSHC income threshold because assets in superannuation don't count.

If the retiree has not reached the $1.6m pension cap they can roll the money into a pension account and will be able to receive tax free income from an untaxed pension fund.

Negatives

The proposal may not be valued by age pensioners because whilst their home is exempt from the asset test any cash released from downsizing (whether held in superannuation, a pension account or in personal names) will count.

Selling a property incurs costs and buying a new smaller property may incur stamp duty.

Retirees should consider their estate planning needs. Remember money in superannuation or an account based pension is not automatically handled by the deceased's will. Appropriate nominations may be required in their super fund to ensure the money goes where they want.

Caveat

Like all Budget proposals this has to be approved by Parliament and turned into regulations. The details may change by the time it is legislated. ■

2017 Annual Conference debrief

HILTON SYDNEY MAY 24th & 25th

By Andrew Green

It's always fun to debrief after an event – that's if it has been a good one.

OVERALL, DELEGATE numbers nudged 500, with some even declaring it's as good as it gets.

The conference was preceded by a charity golf day at the beautiful Pennant Hills Golf Club – and that too was very satisfying.

An important contributor to the conference was the quality, enthusiasm and relevance of our sponsors and exhibitors. By all accounts, delegates were eager to learn about new technology, platforms and services during the tea and lunch breaks.

For those unable to attend, our sponsors included the following:

- CommSec Adviser Services
- Broadridge Financial Solutions
- Nomura Research Institute
- Thomson Reuters
- IRESS
- ASX Limited
- Leveraged
- National Stock Exchange
- Sydney Stock Exchange

A number of speakers also flew from around the world to join us.

- Ms Blythe Masters, Digital Asset Holdings
- Dr Bradley Betts, BlackRock
- Dr Peter Farrell, ResMed
- Mr Hiroyuki Suzuki, Nomura Research Institute
- Mr Michael Chin, Thomson Reuters REDI
- Mr Carl Kimball, Dion Global Solutions

SAFAA 2017

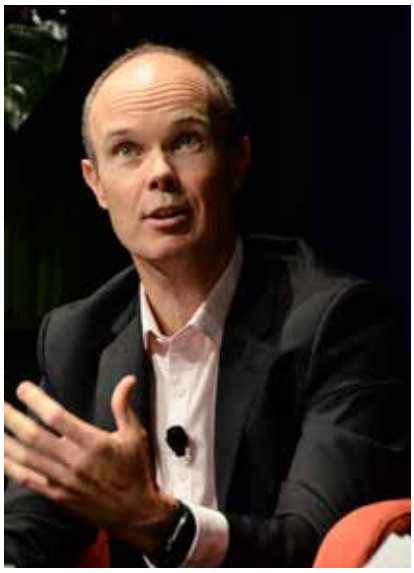
Blythe Masters, CEO, Digital Asset Holdings

The conference presentations were also first class.

Dom Steven's (ASX) slide showing a tantalising amount of $9.4 trillion in super by 2035 was very thought provoking.

The discussion between Blythe Masters and James Eyers was captivating. What a capable person she is. The prospect of inter-operability of Distributed Ledger Technology across platforms is indeed an alluring goal for Australia and indeed APAC.

I thought Lisa Shand from Morgans did a great job interviewing Hamish Douglass. The comment that grabbed the headlines in the AFR was Hamish's description of Uber as a Ponzi scheme. But the thing that blew me away was his statement that Jeff Bezos was his hero. And that's because Amazon has only ever raised US$150 million and is now capital-



Hamish Douglass, CEO, Magellan Financial Group

Rocky Scopelliti, Global Industry Executive, Telstra

L-R Katrina Glover (Credit Suisse), Justin Greiner (JBWere), Liz Leverett (Vanguard Investments Australia), Jane Irwin (Patersons Securities)

Greg Medcraft, Chairman, ASIC

ised at US$479 billion. Wow - how many times money is that!

John Fraser's presentation shows how lucky we are to have someone with real world banking experience (UBS) running Treasury. Having brought in colleagues with private sector expertise, Mr Fraser spoke confidently about the future, described Australia as a great nation, was optimistic about the outlook for domestic growth, and indicated that non-mining businesses would benefit from low interest rates.

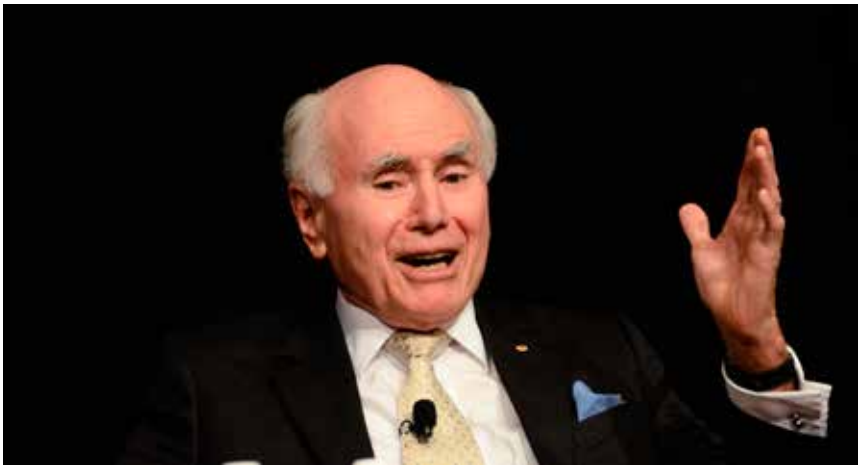
And then we heard from BlackRock's Dr Bradley Betts. There is signal in the noise he said when talking about the ability to look at data and predict the future – for example tracking on-line searches for cold and flu remedies as a predictor for an outbreak of the flu.

Our Gender Diversity Panel chaired by Patersons' Jane Irwin added real value. Katrina Glover from Credit Suisse indicated that in her business, head hunters must provide at least two female candidates for all roles. Where female candidates are not obviously available, the head hunters are required to think outside the box. Katrina also said it was important for leaders to demonstrate to staff their commitment to gender diversity. Liz Leverett from Vanguard spoke about the importance of paid maternity leave at Vanguard. Justin Greiner from JBWere emphasised that it was important for leaders to role model behaviour that supports gender diversity. And in that regard Katrina Glover was very happy to declare that she normally worked from home on Friday.

Rocky Scopelliti's presentation was a case of deja vu for anyone living with millennials. His video clips on Millennials, Mobiles and Money were real eye openers – the millennials have the purchasing power and therefore the whole world is targeting them. For millennials he said, personalisation is at the heart of what they want through mobile Apps. The physical and digital world are inextricably linked. And then he screened a series of video clips with millennials who indicated they wanted to do all their banking on a mobile device

Dr Peter Farrell, Founder & Chairman, ResMed

Heather Brilliant, CEO, Morningstar Australasia



The Hon. John Howard OC AM, Former Prime Minister

Julia Lee, Equities Strategist, Bell Direct

and would happily change banks for a cool App offered by a competitor!

Greg Medcraft in his opening address on Day 2 spoke about the importance of trust. He said there were three things central to maintaining trust:

- data access and use – privacy will be a big issue in the future
- Cyber resilience
- Accountability – algorithms and AI are not a replacement for human judgement

And then we heard from Dr Peter Farrell, the Founder and Chairman of ResMed. What an amazing individual. His presentation displayed charisma, theatre, wit, inspiration and a willingness to be completely outspoken, explaining why he no longer lived in the People's Republic of California, where half the inhabitants are reliant on government handouts.

On display was his entrepreneurial flair – a flair that enabled him to extract the technology from Baxter Healthcare and turn it into a global business – a business that is still evolving by the minute in a relentless search for the stars.

John Howard's interview with our Chairman Karl Morris shows a former PM who is as lucid as ever. In response to a question about populism, Mr Howard said it was hardly new. You can trace it back to the 1890's and the Shearers strike – populism is really just people who are cranky with the status quo. He said Australian's would embrace change if it was good for Australia, and it was fair. He expressed optimism about the US economy, and said that China was doing incredibly well, albeit they will have to deal with the ageing demographic. He described the energy crisis on the East Coast as one of our greatest public policy failures. He expressed concern about events in Indonesia resulting in blasphemy charges against the former Christian Governor of Jakarta.

Morningstar's Heather Brilliant and Adam Fleck gave a fascinating insight into Moats, the ultimate aim being to identify companies with a sustainable competitive advantage and buy them at a discount to intrinsic value. I love finding companies that have the 5 Star rating from Morningstar.

Julia Lee from Bell Direct did an awesome job moderating the panel with John Pearce from UniSuper, Paul Taylor from Fidelity and Aidan

Geysen from Vanguard. My takeaway from the panel was that to achieve any sort of reasonable return you have to be in equities. Bond yields lower for longer. Bond market ridiculously expensive. We could be closer to the start of the yield phase than the end.

Ian Pollari's interview of Jost Stollmann revealed how Jost managed to create a business valued at $500m following his arrival in Australia in 2004. Jost explored the question of whether Australian banks will be able to disrupt themselves from within. If not, they could be the victims of disruption from groups such as Ant Financial Services, formerly Alipay, with 450 million customers and a market cap of US$60 billion. The Wall Street Journal called Ant a juggernaut of online banking, fund management and other financial services. Jost said that open banking will give customers the right to instruct their bank to share KYC details with a third party bank of the customers choosing.

Future Advisers

At this year's conference, our delegates included a number of students from Western Sydney University, UTS, and The Women's College within The University of Sydney.

We received some very warm feedback from the students, and we were delighted with their enthusiasm.

Next year

Planning is well advanced for next year's conference.

The event will be held on 23rd & 24th May 2018 at Crown Promenade, Melbourne.

Feedback

Please send me a note if you would like to provide comments about this year's event, and / or suggestions for next year. ■

L-R Ian Pollari, Partner, KPMG & Jost Stollmann, Co-Founder & Executive Director, Tyro Payments Limited

L-R: Melissa Nolan MSAFAA (Baillieu Holst Ltd), Nick Humphrey (Huntsman Security), Paul Byrne (Deloitte) & Commander David McLean (AFP)

STUDENT DELEGATES AT SAFAA 2017

L-R, Stephanie Xu, Estelle Pham, Mary Artinian, Lily Zhang, Lily Cole, Katharine Goulstone (ASIC) & Andrew Green (SAFAA).

Students learning what it takes to become a good financial adviser.

SAFAA 2017 IN PHOTOS

ACCREDITATION & TRAINING June, July & August 2017

Responsible Executive (RE) Series Workshops	**RE REFRESHER** – 4 CPD (COMPLIANCE) This workshop provides a refresher on the requirements applicable to REs and reviews some of the main topics in The ASIC Market Integrity Rules (ASX Markets) 2010 and/or The ASX Clear Operating Rules (Clearing & Settlement) Responsible Executive Examination. Intended as a refresher course for existing REs who have already passed the Exam(s), this workshop could also be of interest to potential REs. Topics include RE Management & Supervision Requirements (& ASIC RM comparisons); Capital Adequacy, Records, Trust; Dealing & Client relations rules; Disciplinary Processes; Corporations Act requirements.	SYD: Fri 23 Jun | 9:00am – 1:00pm MELB: Tues 18 Jul | 9:30am – 1:30pm
	RE EXAM PREPARATION COURSE – 10 CPD (COMPLIANCE) This 2 x 3-hour intensive workshop (conducted over 2 days) covers the ASIC/ASX Markets & ASX Clear (Clearing & Settlement) RE exam syllabus in detail, ensuring that candidates are well prepared for the exam(s) and know what to expect on the day, with sample questions and a practice exam.	SYD: Tues 29 & Wed 30 Aug | 9:00am – 12:00pm
	RE EXAM PREPARATION 'SHORT COURSE' – 4 CPD (COMPLIANCE) This 4-hour intensive workshop is a condensed version of the Stockbrokers And Financial Advisers Association 2-day RE Exam Preparation Workshop. It covers The ASIC Market Integrity Rules (ASX Markets) 2010 and/or The ASX Clear Operating Rules (Clearing & Settlement) Responsible Executive exam syllabuses in detail, with 7 subject areas and 2 assessments during class time.	SYD: Thurs 22 Jun| 9:00am – 1:00pm MELB: Wed 19 Jul | 9:30am – 1:30pm
Professional Development Workshops	**MARKET MANIPULATION AND OTHER PROHIBITED CONDUCT** – 4 CPD (COMPLIANCE) This workshop covers an in-depth examination of what constitutes market manipulation and other prohibited market conduct. Involving a mix of presentation and scenario-based discussion, it is designed to suit market professionals, both front and back office, including: Sales staff/client representatives; Proprietary Traders; DTRs; Investment banking; Settlement staff; and Compliance & Legal.	SYD: Thurs 15 Jun | 9:00am – 12:00pm MELB: Thurs 27 Jul | 1:30pm – 4:30pm
	INSIDER TRADING – 4 CPD (COMPLIANCE) This workshop provides a thorough analysis of Insider Trading. Topics include: elements of insider trading; statutory defences; insider trading and continuous disclosure; front running; dealing with rumours; management of confidential information; how to protect yourself, including Chinese walls, internal processes; and consequences of insider trading breaches. The Workshop is designed for sales staff/client representatives; proprietary traders; research analysts; investment banking; compliance and legal; and regulatory staff.	MELB: Thurs 22 Jun | 1:30pm - 4:30pm SYD: Thurs 20 Jul | 9:00am – 12:00pm
Introductory Series Workshops	**UNDERSTANDING DERIVATIVES: OPTIONS AND WARRANTS** – 4 CPD Derivatives are an established and essential component of global financial markets. Focusing on options and warrants, this workshop discusses how and why derivatives are used for leverage and/or manage risk. Key concepts are explained through worked examples, under the guidance of an experienced practitioner. This half day workshop is also ideal preparation for **Accredited Derivatives Adviser Level 1 - ADA1 candidates**.	SYD: Thurs 31 Aug | 9:00am – 1:30pm
	UNDERSTANDING OPTIONS: FEATURES, BENEFITS AND RISKS – 2 CPD This workshop focuses on equity options traded on the Australian Securities Exchange (ASX). Equity options offer investors an efficient means of managing the risks of adverse price movements in the share market. In addition, they give traders a vehicle by which to gain leveraged exposure to individual shares and selected indices. This workshop covers options pricing, basic strategies and the mechanics of trading options on the ASX.	MELB: Tues 8 Aug | 9:00am – 11:00am SYD: Thurs 24 Aug | 9:00am – 11:00am

For further information visit **www.stockbrokers.org.au**

2017 Stockbrokers And Financial Advisers Charity Golf Day

PENNANT HILLS GOLF CLUB, SYDNEY

Special thanks to our sponsors for their support of this charity event

CommSec Adviser Services

Vignerons and Winemakers
Family Owned Estate
Hungerford Hill
Estd 1967

Leveraged
The professional's choice

Pershing®
A BNY MELLON COMPANY℠

UBS

Proudly supporting

heartWell Foundation

2017 Charity Golf Day IN PHOTOS

CAN YOU

PUT THE CAN IN CANDIDATE?

Can you motivate someone to put their best foot forward? Can you help us find someone with a can-do attitude and the drive to succeed? Whether that sounds like someone you know or even yourself, get in touch today.

CAREER OPPORTUNITY

JOB TITLE: HEAD OF COMMSEC ADVISORY
LOCATION: SYDNEY CBD AREA
JOB NUMBER: 989930

The Commonwealth Bank brand is the most recognised brand in the Australian financial services industry.
At CommBank, we never lose sight of the role we play in other people's financial wellbeing. Our focus is to help people and businesses move forward, to progress. To make the right financial decisions and achieve their dreams, targets and aspirations.
We are seeking the expertise of a senior Executive to join CommBank in the role of **Head of CommSec Advisory**.
CommSec Advisory is a full service Stockbroker (within CommSec). Our role is to provide investment advice in accordance with the Corporations Act and the associated legislation (FoFA), with a focus on providing exceptional advice and customer service.
As Head of CommSec Advisory your key focus areas will be leading and mentoring of your team, strategic direction of Advisory, Risk and Operations.

More specifically your main duties will include:

- Lead the Business and drive change.
- Coach, mentor and lead a national team of direct reports to achieve excellence.
- Develop strategy and direction for Advisory.
- Channel engagement and building key relationships.
- Manage Regulatory change
- Revenue growth.

To be successful we are seeking a motivated individual with:

- Head of Desk experience
- Management and people leadership
- Business acumen at management level
- Strategic mindset
- Knowledge of P&L
- RG146 qualified

In return, we offer you the opportunity to expand your career surrounded by a skilled and successful group of individuals. Our remuneration packages are highly competitive and you will have access to a range of exclusive and exciting benefits.
The people, businesses and communities we serve are wonderfully diverse. To reflect this, we're committed to hiring a similarly diverse workforce. With a focus on inclusion, accessibility and flexibility, we'll support you at every stage of your career.

Apply now >

For all enquiries call Samantha Kerr in the Talent Acquisition team on 0476 804 240.

Advert closes Friday 23rd June 2017

USEFUL LINKS:

CommNet:
Other career opportunities >

Video:
We are CommBank >

commbank.com.au/careers >

WE ARE COMMBANK.

CAN

STOCKBROKERS AND FINANCIAL ADVISERS CONFERENCE

SAFAA 2017

24 & 25 MAY 2017 | HILTON SYDNEY

Stockbrokers And Financial Advisers Association Limited

Thank you to our Sponsors & Exhibitors...

GOLD SPONSOR

CommSec Adviser Services

BRONZE SPONSORS

Broadridge

NRI 未来創発 Dream up the future.

the answer company™ THOMSON REUTERS®

PREMIUM SPONSOR

iress

SUPPORTING SPONSORS

ASX

Leveraged The professional's choice

National Stock Exchange of Australia

SYDNEY STOCK EXCHANGE

EXHIBITORS

Broadridge

AMG SUPER

AUSTRALIAN MONEY MARKET

CommSec Adviser Services

WESTERN SYDNEY UNIVERSITY

NRI 未来創発 Dream up the future.

DION

DEAKINCo.

LAB

Pershing A BNY MELLON COMPANY

MORNINGSTAR™

chi-x

Leveraged The professional's choice

STATE STREET GLOBAL ADVISORS SPDR

MACQUARIE

ASX

MAGELLAN ASSET MANAGEMENT LIMITED

iress

the answer company™ THOMSON REUTERS®

Schroders

Complii automation innovation Complii FinTech Solutions Ltd

DDH GRAHAM LIMITED

Huntsman Defense-Grade Cyber Security

National Stock Exchange of Australia

GRC solutions