Stockbrokers

And Financial Advisers MONTHLY

OCTOBER 2017
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MEMBERSHIP
EVENTS
EDUCATION
POLICY &
REGULATORY ISSUES

Stockbrokers
And Financial Advisers
Association Limited

MICHELLE LEE

Combining motherhood & career

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

ASX takes Gold

Preparations for our 2018 annual conference are off to a flying start with ASX signing up as a Gold Sponsor.

As part of its sponsorship, ASX will sponsor our ETF breakout on Day 1 of the conference. The ETF breakout will explore the many benefits of both ETFs and mFunds, and will appeal to advisers who are keen to provide clients with access to diversified, low-cost products.

Breakouts for 2018 Conference

At our 2018 annual conference to be held at the Crown Promenade on May 23rd & 24th we will be introducing Breakout Sessions.

The Breakouts will enable us to provide richer content on specialist topics such as tax and ETFs.

The tax breakout sessions will appeal to tax financial advisers, and the ETFs will appeal to advisers who are keen to provide clients with access to diversified, low-cost products.

Women in Stockbroking Working Group

I am very pleased to welcome Jane Peter to our Women in Stockbroking Working Group. Jane has recently joined the ASX as GM of Customer Experience, Operations.

Jane recently returned to Australia after four years at RBS in Edinburgh. She and her partner have a young child. When asked about attitudes to Gender Diversity, she was quick to applaud our Gender Diversity Guidelines, and commented on the importance of continuing to focus on positive change and not become complacent.

In her time in the UK Jane felt more work was needed to ensure professional women have the same standing as their male counterparts – particularly in regard to career progression after becoming a parent.

Ironically, research consistently shows that diverse workplaces are more productive. I am hopeful that over time, generational change will increase the momentum for gender diversity.

Membership renewal

Most members should by now have received their membership renewal for the membership year commencing October 1st. On behalf of the board, I thank members for their support over the last 12 months and ask for their continuing support.

Our focus is to represent and train a group of advisers that is known both for their integrity and competence.

FASEA Code Monitoring is coming

Don't say you didn't know! By November 2019, all retail financial advisers must have nominated the Compliance Scheme that will cover them for FASEA code monitoring.

Our plan is to apply to ASIC to become accredited as a Code Monitoring Body for the purposes of FASEA.

We are now providing Code Monitoring services for our Tax (Financial) Advisers, and are making sure that advisers are doing the right thing.

If you would like to know more about membership or Code monitoring, please contact our Head of Education and Member Engagement, Gillian Gilmore.

Margin Lending Scholarships going like hot cakes

The Margin Lending Scholarships we are offering with Leveraged are selling like hotcakes!

The Leveraged/SAFAA Margin Lending Scholarships are designed to help advisers expand their knowledge and understanding of gearing, margin lending, alternative means of achieving geared exposure, tax deductibility of the interest, franked dividends and Capital Gains Tax.

Each Scholarship is valued at up to $300 and covers the full cost of SAFAA Margin Lending Accreditation enrolment.

Scholarship recipients also attend a preparatory workshop that has been designed to assist Scholarship candidates understand the material and assist in passing the online assessment.

Contact Gillian Gilmore ggilmore@stockbrokers.org.au for further details.

Andrew Green

AGM

Our AGM will be held on Thursday 23rd November 2017.

Directors standing for election include:

- Andrew Fleming – Morgans Tynan Partners
- Jane Irwin - Patersons
- Stuart Knowling - Instinet
- Barry Parker – ABN AMRO
- Paul Rayson - CommSec
- Luc Renard – BNP Paribas
- Dean Surkitt – Bell Potter
- Scott Webster - UBS

2018 Cyber Workshops

Our 2018 Cyber Security Workshops will kick off in February and include a practical guide to cyber incident management:

- who needs to be involved
- identifying the nature of the breach
- reporting and escalation protocols
- legislative and contractual obligations
- review process.

The Workshops will coincide with the introduction of the Notifiable Data Breaches scheme on 22 February 2018. Organisations with existing personal information security obligations under the Australian Privacy Act 1988 will be required to notify individuals of data breaches that are likely to result in serious harm. They must also notify the Australian Information Commissioner.

The workshops will also assist members understand regulatory requirements around cyber resilience and risk management. ■

ASIC Consultation Paper CP 290 – Sell Side Research

SAFAA HAS LODGED a submission with ASIC in response to ASIC's Consultation Paper *CP 290* on *Sell Side Research* released in June.

CP 290 has generated considerable discussion in the markets and in the media. SAFAA convened meetings of members to discuss the various proposals in the CP and to gather feedback to assist with preparation of the Submission. SAFAA also convened a members' meeting with senior ASIC staff on 16 August to discuss ASIC's thinking behind the proposals.

The key points highlighted in the SAFAA Submission include:

- The high level of process that has been injected into research analyst interactions with issuers and with corporate advisory.
- The cost of ASIC's proposed compliance measures is likely to be one that smaller capital raising will not be able to afford. There is a strong likelihood that capital raising by small to medium entities will be adversely impacted. This has been something that has been observed and quantified by market commentators in the US, where comparable policy measures were introduced in response to the tech bubble in the early 2000's.
- The proposals impact on the ability of firms to rely on their analysts as subject matter experts, for reliable valuations and to critically assess management of issuers.
- There is an excessive reliance on compliance staff to act as a supervisor of research communications, when compliance staff will generally not have the skills in research to fulfil expectations.
- The high degree of chaperoning and "gate keeping" of communications will slow the process of issuing timely equities research and the capital raising process.
- The wider definition of research, which extends to other communications, such as sales desk notes, which contain recommendations, is likely to jeopardise the ability to issue sales notes in a timely fashion. Clients want access to such communications, but the information in them is useless if the notes are not timely.

ASIC is now in the process of considering the feedback received, and we wait to see if any of the proposals are refined in light of market feedback. ■

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ASIC – Proposed review of allocation practices in capital raisings

MEMBERS WILL recall from last month's SAFAA Monthly that ASIC has commenced a review of allocation practices in capital raisings.

The scope of the review is to include matters such as:

- Equality of information regarding the level of coverage of the book
- The basis on which allocations are made to different investors
- Allocations made with the view to securing commitments of future order flow or corporate mandates
- Staff allocations.

The review will look at issues of management of conflicts of interest; potential for misleading and deceptive conduct or statements; potential for market manipulation; and compliance with license conditions.

ASIC has advised that it will be consulting a range of stakeholders, including issuers, corporate advisers, licensees and industry associations. It anticipates releasing a Report of the review in 1H 2018.

There have been no further announcements regarding the progress of the work being carried out as part of the Review. ■

Release of Whistleblowing Report

READERS MAY recall that the Senate Economics References Committee issued a Discussion Paper late last year on the subject of the adequacy of Australia's whistleblowing laws in the public, private and not-for-profit sectors.

The Paper, entitled "*Corporate Whistleblowing in Australia: Ending corporate Australia's cultures of silence*" canvassed issues such as:

- Are the whistleblowing provisions in the Corporations Act adequate, and if they are, why have they received virtually no use since they were introduced?
- Are there any changes to the law required to better protect whistleblowers and encourage them to come forward?
- Should a "bounty" type arrangement, such as exists in the US, be considered, under which whistleblowers are paid a percentage of fines that are levied for wrongdoing that has been exposed?

Consideration of this subject was then referred to the Parliamentary Joint Committee on Companies and Securities, which in September tabled a Report containing 35 recommendations for changes to strengthen whistleblower protection in Australia.

If enacted, the laws will extend protection from reprisals to any current or former employees, contractors and volunteers in the public and private sectors, who disclose information about relevant breaches or misconduct.

Amongst the Recommendations are:

- Harmonised Commonwealth, State and Territory legislation on whistleblowing
- The establishment of a Whistleblower Protection Authority to cover both public and private sectors
- "Disclosable conduct" should be defined as
  - a contravention of any law of the Commonwealth
  - a contravention of any law of a state or territory, where the disclosure relates to the employer of the whistleblower and the employer is an entity covered by the Fair Work Act, or the disclosure relates to a constitutional corporation
  - any breach of an industry code or professional standard that has force in law or is prescribed in regulations.
- Whistleblower protections are to be extended to internal disclosures within the private sector, including
  - any person within the employer's management chain
  - any current officer of the company or its Australian or ultimate parent
  - any person specified in a relevant policy issued by the employer or principal.
- That a Court or a whistleblower protection body which imposes a penalty against a wrongdoer be entitled to make a "reward" to the whistleblower, being a percentage of the penalty that was imposed (based on a legislated range of percentages).
- Compensation payable to a whistleblower should be uncapped.

These Recommendations would result in a significant expansion of whistleblower protections, including the sectors to which they apply, and the types of conduct captured. The reference to industry and professional codes is particularly noteworthy.

The response by the Government to these Recommendations, and any subsequent draft legislation, should be closely monitored. ■

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

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

Committee News

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

Management Committee Meeting, Thursday 12 October 2017

Chair: Andrew Green, Stockbrokers And Financial Advisers Association

Cyber Working Group Meeting, Tuesday 17 October 2017

Chair: Melissa Nolan MSAFAA, Baillieu Holst

Nominations Committee Meeting, Tuesday 17 October 2017

Chair: Karl Morris MSAFAA, Ord Minnett

Practitioner Master Member MSAFAA applications approved:

- John Robertson
- Paul Bennett
- Mark McGinty
- Sandra Mason
- Nigel Baldwin
- Scott McAlister
- Pasquale De Petro

Practitioner Member MeSAFAA applications approved:

- Amanda Donaldson
- Ci Ming Stephen Lin
- Jonathon Fulton
- Tanya Musgrave
- Anthony Leto
- Glenys Cook
- Julie Williams
- Ashleigh Swayn
- Grant Croft
- Karl Vaivads
- Benedict Tighe
- Jason Dawson
- Stephen Greatrex

The Financial Advisers Register

The Australian Securities and Investments Commission (ASIC) remains focussed on promoting investor and consumer trust and confidence in Australia's financial advice industry.

ASIC
Australian Securities & Investments Commission

OVER THE LAST five years significant law reform has taken place to improve standards in the financial advice industry, including the Future of Financial Advice (FOFA) reforms, the incoming improvements to education and professional standards for advisers, and the introduction of the Financial Advisers Register (FAR).

As readers will know, FAR is a register of individuals who are authorised to provide personal advice to retail clients on investments, superannuation (including SMSFs) and life insurance. It contains details of where the adviser has worked, their qualifications, training, memberships of professional bodies, disciplinary actions and what products they can advise on.

FAR is an important tool for consumers to be able to check the legitimacy and qualifications of an adviser. Since FAR was launched in March 2015, it has received 959,000 unique page views and 1.9 million conducted searches.

FAR also helps us to monitor and track advisers and it assists licensees with their recruitment practices and reference checking.

We have clearly communicated to the financial advice industry the importance of reference checking to stop so-called 'bad apples' circulating in the advice industry. Licensees should be using FAR as part of their reference checking process, to confirm both qualifications and experience, and that an adviser is correctly and fully listed. For further assistance on how to improve reference checking, licensees should read Report 515 Appendix 2: Checklist—Background checking of advisers.

However, FAR is only as good as the information it holds. It is essential that licensees are appointing their advisers to the register and ensuring the information on it is up-to-date. Licensees are responsible for verifying and ensuring the accuracy of the information on the register. We have a current surveillance looking at the data on FAR and so licensees are strongly encouraged to make sure that their data is accurate.

Advisers need to ensure they know their ASIC representative number, as FAR is their proof of professional standards and training. Advisers also need to ensure that any new licensee has their existing number — if a new number is created for them by a new licensee it will create difficulties in maintaining their digital record of skills and experience. For advisers, their ASIC representative number in FAR is their credential to provide personal advice.

With the introduction of the new education and professional standards, FAR will become even more important — for consumers, for ASIC, for licensees and for advisers.

The education and professional standards changes that the Financial Advisers Standards and Ethics Authority (FASEA) will be tasked with implementing include requiring financial advisers who provide personal advice on complex products to hold a degree qualification (or equivalent). Advisers will also need to pass a standardised national exam, be covered by a registered compliance scheme, comply with a code of ethics, and complete ongoing professional development. People starting in the profession from 2019 will also be required to complete a professional training year.

FAR will hold information about all advisers that meet, or are working towards meeting, this new standard, including whether an adviser has completed or is currently completing their professional training year. It will also provide information about an adviser's compliance scheme and details of any failure to comply with the code of ethics and any sanctions imposed.

With implementation of the education and professional standards reforms, FAR will become an even more important channel for well qualified financial advisers to demonstrate the breadth of their qualifications and experience. ■

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INDEXING AND ETFS:

a force for good or evil?

By Robin Bowerman*

Whenever a new way of doing things begins to be widely adopted, that's when the doomsayers – often those who have a vested interest in the status quo remaining intact – step forth.

Pick up a newspaper or log into a business and finance news website these days and the odds are that you will see a column by such detractors decrying the rise of exchange-traded funds (ETFs).

TAKING A CRITICAL view of a growing trend in the investment world is healthy – taking the time to analyse a certain product or practise and ensure that it is indeed in the best interests of investors is never a bad thing. However, it's critical that these discussions remain grounded in facts, and there is much misunderstanding and misinformation swirling around the ETF debate.

A critical piece of the puzzle that is often missing in criticisms of ETFs is that when we are talking about ETFs, we are really talking about indexing at large. In Vanguard's view, ETFs are just another way for investors to implement a portfolio based on broadly diversified, low cost strategies that track broad market indices. Whether they do that via an ETF or a managed fund is down to which vehicle best suits a given investors' needs.

So, as we unpick a few of the common myths that dog both indexing and ETFs, it's important to recognise that while ETFs as an investment vehicle are relatively new, they perform the same function as non-listed index managed funds which have been around for decades.

MYTH #1: ETFs are 'becoming too big'

Perhaps the most common myth is that ETFs are becoming so big, their disproportionate size poses a risk to capital markets. In reality, indexing represents just 19.4 per cent of Australia's managed investment market, according to Rainmaker data. The implication is that active managers are still in the driver's seat when it comes to setting asset prices, and this is before we consider the multitude of individual investors also trading on the local market. We should keep in mind that index products are typically designed to reflect, rather than influence, market performance.

If we look at ETFs specifically, the local ETF market has grown rapidly over the last five years, and today holds just over $30 billion. Yet when we consider that managed funds locally hold hundreds of billions in funds under management, it's easy to see why much of the hype about the size of the ETF market is overblown.

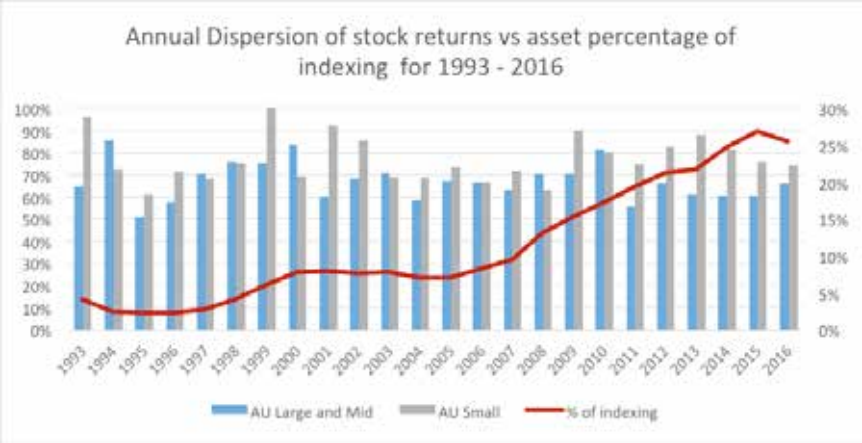
For the record, indexing accounts for just 15 per cent of global equity market value, and less than five per cent of fixed income market value.

MYTH #2:
ETFs are eroding market efficiencies and opportunities for outperformance

A common claim levelled at ETFs (and indexing at large) is that they stifle capital market performance and prevent investors and managers alike from being able to effectively find opportunities for outperformance of average broad-market returns.

When we look at the Australian-domiciled universe outside of the large super funds, we can see that across the pool of assets in Australian equities managed funds and ETFs, around 27 per cent of this pool is in index strategies. When we chart the rise of indexing's share of this pool over more than 20 years, we can see that the proportion of companies of all sizes across the market that over or underperform the average market return has not materially changed.

This dispersion of returns within the Australian sharemarket has flexed over time, and indexing has continued to reflect the aggregate result, rather than influence it.



Source: Vanguard calculations using data provided by FactSet and Morningstar. Index fund asset percentage is the percent of assets in Australia domiciled Australia equity managed funds and ETFs that are indexed. Dispersion is defined as the percentage of stocks in the MSCI Australia index and MSCI Australia Small Cap Index that have either outperformed or underperformed the index by at least 10 percentage points.

Note: Average index fund includes Australian domiciled index mutual funds and ETFs in the Australia Large Blend, Australia Large Growth, Australia Large Value, Australia Mid/Small Blend, Australia Mid/Small Growth, Australia Mid/Small Value, and Australia Other categories, and its returns are asset-weighted. Average index fund returns and Vanguard Australian Shares Index Fund returns are relative to a total market index represented by S&P/ASX All Ordinaries Index. Data are from January 2006-March 2017.
Source: Vanguard calculations, using data Morningstar

MYTH #3:
ETF investors are blindly 'buying the market'

Another common claim made by opponents of ETFs and indexing is that money in these products is 'dumb money' because it invests in the broad market based on market capitalisation, rather than by the intrinsic value of individual securities, and that this practice ultimately distorts pricing in the market.

However, this claim relies on the assertion that all index funds are broadly diversified, market cap-weighted products. Although indexing is often referred to as broad market cap-weighted exposure, this ignores the fact that many index funds allow investors to implement a view that deviates from broad market composition. Increasingly, indexing is allowing investors to express a view on factors such as company size or industry segment, essentially using index funds to make an active investment decision.

Contrary to expectations, the average Australian index fund or ETF investor hasn't exactly tracked the broad market. In fact, the excess returns versus those of a total market fund have fluctuated greatly, outperforming or underperforming the market by around 2 per cent and -6 per cent respectively at various intervals. A truly 'passive' approach to investing would resemble the broad Australian equity market as we see with Vanguard's broad market product, the Vanguard Australian Shares Index ETF (ASX: VAS).

With these points in mind, next time you read an anti-ETF or anti-indexing article, you can quickly discount three assertions: that ETFs are some sort of market behemoth; that ETFs and indexing are hampering market efficiency; and that all indexing does is encourage investors

to take positions that are broadly diversified and market cap-weighted.

The critics also – perhaps conveniently – overlook the range of benefits that ETFs have delivered to millions of investors, having provided a low cost way to access broad exposure to listed markets in a way that was traditionally in the domain of large institutional investors. For instance, thanks to the emerging range of fixed income ETFs in Australia, brokers can now access local and fixed income markets to provide asset class diversification using the same trading platform that clients are comfortable with for their equity holdings.

We know from the ASX's 2017 Australian Investor Study that Australian investors are significantly undiversified given the size and structure of the Australian market – 75 per cent of share investors only own Australian shares.

ETFs have delivered access to entire global markets – for example the Vanguard total US market ETF (VTS) – that owns 98 per cent of the US market and costs an Australian investor just 4 basis points courtesy of being able to leverage the scale of the US-domiciled ETF.

This is not to say everything is perfect within the ETF world. ASIC is understandably vigilant about any product category growing so strongly at home and overseas. One area of growing concern is product proliferation. In Australia there are 163 ETFs available to trade, up from 90 just five years ago. But the Australian market is relatively young compared to much more established ETF markets in the US and Europe. Looking across the globe, there are now more than 5000 ETFs for investors to choose from.

What is concerning is that, as more product issuers chase the growing pool of assets in ETFs, all sorts of niche and exotic offerings are coming to the fore. This makes it all the more difficult for investors to navigate the increasingly complex ETF menu, and highlights the value a trusted adviser can play in helping them to identify which products are true-to-label, are backed by their underlying assets, have an effective third-party market maker, provide ready liquidity and follow a clear and comprehensible investment strategy. ■

*Robin Bowerman is Head of Market Strategy and Communications at Vanguard Australia.

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YOU'RE INVITED

Broadridge Exchange Australia
1 November 2017 › 3-7pm

Broadridge is pleased to invite SAFAA members to our annual thought leadership conference in Sydney on 1 November.

The Broadridge Exchange will once again connect key participants in the financial services industry and promote a dialogue on key industry trends in Australia. This year we will focus on how to accelerate growth, navigate risk and optimise operations in a challenging business environment. With a combination of keynote speeches and a panel discussion with industry experts from both buy- and sell-side, we will address the impact of regulation and market changes on the financial markets ecosystem – and importantly how you can prepare to be ready for what comes next. We will also explore emerging technologies, and how to apply and commercialise them in the financial industry.

We hope that you are able to join us for an insightful afternoon, engage in the trends affecting our industry today, and meet your industry peers over cocktails.

RSVP here to register your attendance, space is limited.

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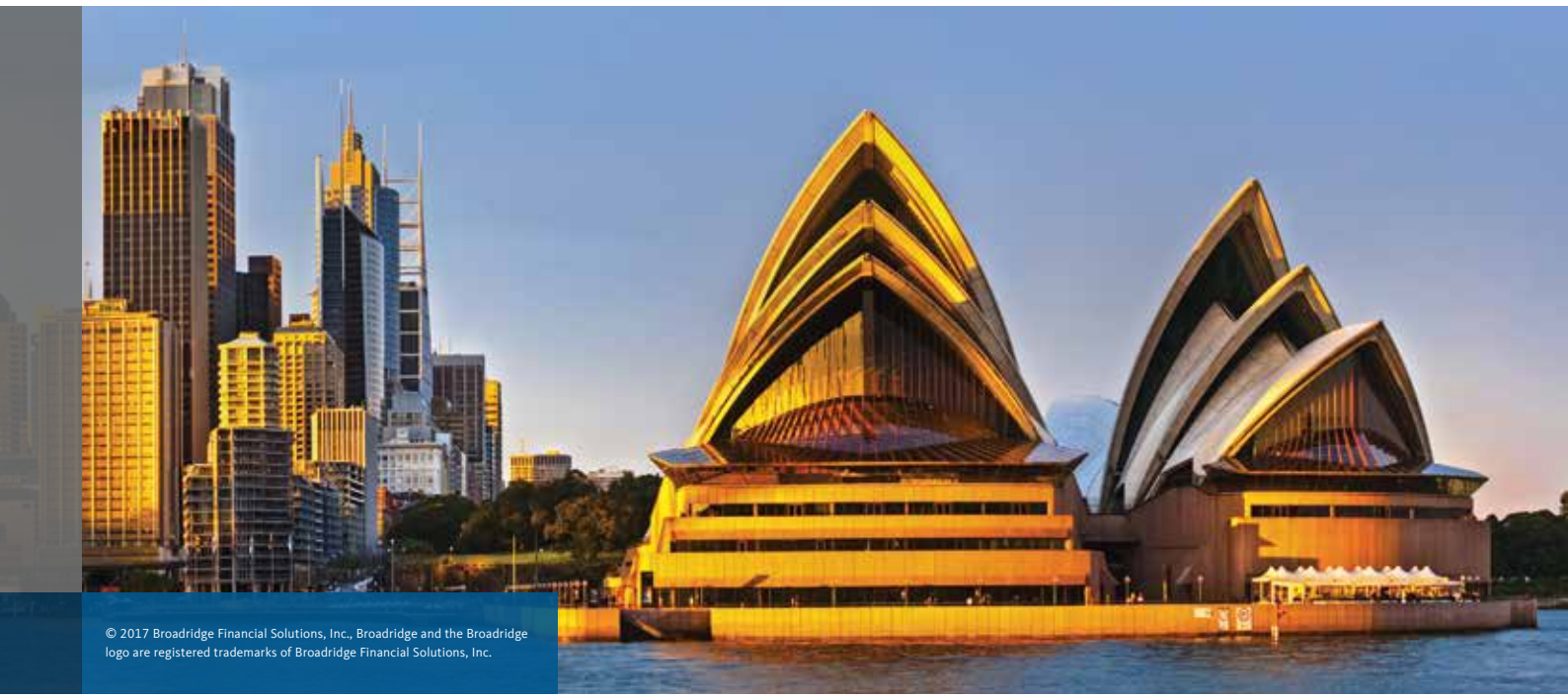

WOMEN IN STOCKBROKING AND FINANCIAL ADVISING

MICHELLE LEE: combining motherhood and a career

Ten years ago, entering the dealing room would confront you with a vast array of expensive suits, and men to match. Yet champions of change over time have looked to break down and challenge this 'old boys' club attitude, in turn lifting the participation of women in the stockbroking industry and tackling gender balance.

One champion of this change has been Michelle Lee, Senior Private Wealth Manager of Ord Minnett and mother of one, who holds the strong belief that gender roles should fall away and women should empower themselves to enter an industry which is working to reward merit, not gender.

By Lily Cole and Lucy McDonald

A ROLE IN wealth management was not always on the cards for Michelle. Growing up in Asia, her original interests and career aspirations were in journalism and television, however entering the workforce during the peak of the Asian Financial Crisis resulted in a move to banking, and it was this experience that sparked Michelle's interest and love for financial services.

Michelle moved to Australia in 2003 to study a Masters in Commerce at UNSW. On completion, she took up a Relationship Manager role at Citibank, while successfully juggling further studies and developing her skills in the industry. From this, Michelle was able to develop a unique skill set through her work in investment advice at UBS and financial planning at Perpetual Limited, and it was quickly clear that her passion lay in assisting individuals to achieve their financial goals. For Michelle, it is helping other people that inspires and propels her career as a financial advisor.

Michelle's role in wealth management at Ord Minnett has provided her the opportunity to put this passion into work, as she now provides financial solutions to high net worth

clients and their families. It is clear Michelle feels a great sense of achievement in the role, as she has created a business model which allows her to provide a tailored service to her clients, whilst also having a more flexible working environment.

Despite Michelle's success today, her entrance to the financial services industry made it clear that diversity was lacking and little was being done to change this. However, her role as a woman in a male dominated environment empowered her to prove she had a different set of skills to bring to the table and was not limited by the misconceptions which surrounded her. And quickly, despite often being confronted with confusion when presenting to boards and companies, Michelle's strength in communication, negotiation and an impressive ability to multi task saw her prove to be a vital member of the industry.

Michelle firmly believes that unconscious bias is the key force perpetuating gender imbalance in the industry, and that this manifests itself in a few key areas: traditional gender roles and the idea that "diversity" connotes support and encouragement for women rather than for everyone.

With her husband working from home and taking on the role as the main carer for their 4 year old daughter, Michelle lives out her belief that traditional gender roles need to be broken down to encourage gender balance in the industry.

"There is no reason that a woman must assume the role of main child carer," said Michelle. "Many women feel bound by this assumption, and similarly, many men feel they must assume the breadwinner role in a relationship and family.

"To break down this expectation, support needs to be offered to fathers just as much as mothers.

"Firms need to reinforce this in communications with their employees. This support is pivotal to encouraging greater gender balance in the industry. It can be further reinforced through role modelling from the top down, by leaders embracing flexible work practices themselves, and in turn encouraging and building an environment that encourages a work/life balance."

Michelle revealed that she greatly admires all working mothers as they exemplify that it can be done; an extremely encouraging message to other women and mothers, including herself. She strongly believes that it has strengthened her abilities in the workforce, particularly, she has become more efficient and far more flexible whilst bringing up a young child. Further, she considers that while external motivation is extremely encouraging, women can and must empower themselves; she strongly believes women must not let their self-doubt or lack of confidence in ability hold them back.

Michelle commented that the slow progress towards gender balance within the industry is mirrored by its change in client base. An industry traditionally revolving around men advising other men about their finances has begun to transform as women have looked to take greater initiative in creating wealth for themselves and their families. With this, a greater demand for female advisors has emerged. This emulates Michelle's belief that a diverse gender mix in advisors will further encourage this emerging trend, and in turn creating a more diverse client base.

Our time with Michelle proved that there is no reason a woman cannot succeed in this industry. Despite deeply engrained social expectations of gender roles, she urges both men and women to advocate and support greater gender diversity in the industry. Organisations that embrace greater flexibility will encourage these gender roles to fall away, and by facilitating this change, a stronger and more diverse workforce will be achieved. Michelle Lee exemplifies that by driving for change through self empowerment and moving beyond traditional expectations, success is well within reach. ■

ABOUT THE WRITERS

Lucy McDonald is a third year University of Sydney Bachelor of Economics student majoring in Finance and Economics and undertaking her honours year in 2018. She is a second year resident at the Women's College with previous experience at CBA and will be interning at the RBA this coming summer.

Lily Cole is a third year University of Sydney Bachelor of Commerce and Bachelor of Arts student, majoring in Economics, International Business and Music and is a third year resident at the Women's College. Through her internship at Morgans Financial in Scone, Lily has developed a keen interest in equities.

Crackdown on CRYPTOCURRENCY

By Stephanie Wong

August was a landmark month for anti-money laundering in the financial services industry. Barely a day went past without another major headline about the Commonwealth Bank of Australia, who faces a maximum civil penalty of $966 billion for failing to meet its Anti-Money Laundering and Countering Terrorist Financing (AML/CTF) obligations. The other Big Four banks were quick to disavow CBA's scandal, making public statements about their compliance with AML/CTF law. The price of CBA shares tumbled, leading to CBA shareholders launching a separate action against the bank, claiming that senior management and the board of directors had known about the AML/CTF allegations for two years and that CBA had therefore breached the disclosure rules.

GRC solutions

Regulatory response

On the regulatory side, the Commonwealth government swiftly introduced reforms to tighten Australia's AML/CTF regime. Amongst other things, the proposed amendments will bring digital currency exchange providers under the remit of the Australian Transactions Reports and Analysis Centre (AUSTRAC), the key financial intelligence unit and AML regulator.

Under the new laws, digital currency exchange providers will need to be registered on an AUSTRAC Digital Currency Exchange Register, in addition to general AML/CTF obligations imposed on reporting entities, such as creating an AML/CTF program, identifying and verifying customers, reporting suspicious matters and threshold transactions.

The problem of money laundering

Money laundering is the process criminals use to make profits from illegal activities, such as drug trafficking, tax evasion and corruption, look

GRC solutions

like legitimate wealth and income. Proceeds of crime often take the form of conspicuously large amounts of cash, so criminals need to use banks (especially offshore banks), as well as casinos, foreign exchange services, to introduce that cash into the mainstream financial system before they can use it.

To do this, they use banks (especially offshore banks), as well as casinos, foreign exchange services, and any other industry that handles large amounts of funds. One of the ways the AML/CTF regime tries to catch criminals when they try to move their "dirty" funds into the mainstream financial system is by requiring banks and other financial institutions to report when a customer makes a cash deposit of more than $10,000.

In the CBA case, the bank's intelligent deposit machines (IDMs) accepted deposits of up to $20,000 per transaction but failed to report many of these deposits to AUSTRAC as required. CBA needed to assess the risk of that the IDMs would be used to carry out money laundering or terrorism financing before they were rolled out to the public. It also needed to report suspicious matters, such as large, regular cash deposits, and monitor its customers.

But money launderers aren't just limited to depositing buckets of cash in banks. One of the other common ways of introducing "dirty" money into the financial system is by using that money to invest in valuable assets which can later be sold and converted into clean money. Real estate (especially during a property boom), expensive artwork, jewellery and shares have all historically been popular with money launderers. And even though the financial or legal professionals involved in facilitating these transactions are unaware of that the money is "dirty", they can be held liable for failing to prevent money laundering.

Digital currency AML risks

Regulators and mainstream financial institutions have long been wary of digital currencies. Just recently, JP Morgan Chase chief executive Jamie Dimon notoriously described cryptocurrencies as a fraud and said that he would fire any employee trading bitcoin for being "stupid".

Among the many noted risks of digital currencies is the fact that digital currencies are a hotspot for money laundering. It can be difficult for regulators to ascertain whether the source of money is from criminal activities when digital currencies, by design, have a high degree of anonymity. So, unlike real estate which must be registered in a person or company's name, holders of digital currency never have to reveal their real identity. The blockchain transactions can also be obscured, making it difficult to tell where an order came from.

While Australia's AML/CTF regime already applies to e-currencies (which are virtual currencies backed by a commodity such as precious metal or bullion), many digital currencies, including bitcoin, are outside the current scope of the law.

A stronger AML/CTF regime

While Australia's AML/CTF regime already applies to e-currencies (which are virtual currencies backed by a commodity such as precious metal or bullion), many digital currencies, including bitcoin, are outside the current scope of the law. One of the key aims of the proposed AML/CTF amendments is to rectify this. In the official media release for the new laws, the Hon Michael Kennan MP, Minister for Justice, said, "The threat of serious financial crime is constantly evolving, as new technologies emerge and criminals seek to nefarious exploit them. These new measures ensure there is nowhere for criminals to hide."

Know Your AML

GRC Solutions have developed an Anti-Money Laundering CPD course that is accredited by the Stockbrokers and Financial Advisers Association. The e-learning delves into the topics mentioned before and gives a well-rounded overview, including recent cases and FS-related examples. It has been developed with Australian retail and institutional stockbroking firms and investment banks in mind.

The learning platform easily connects to most learning management systems meaning all the benefits of personalised e-learning are there – including reporting capabilities. Individual subscriptions are available as well as a subscription package to a range of RG146 topics. ■

For further information, visit http://grcsolutions.com.au/CPD or email contactus@grcsolutions.com.au

Salt CPD is not a tick-and-flick exercise: it is a carefully developed program designed to help advisers and brokers grow their skills and maintain high levels of competency.

Long-term investing

By Peter Grace

For most members, superannuation is a long-term investment so it is not surprising there is a bias to growth investments. Most members have a choice of investment in their super fund even if they do not exercise that choice. Some members close to retirement may have a preference for low-risk assets though unless they are planning to 'cash out' they will still be invested for many years.

FOR MOST MEMBERS, superannuation is a long-term investment so it is not surprising there is a bias to growth investments. Most members have a choice of investment in their super fund even if they do not exercise that choice. Some members close to retirement may have a preference for low-risk assets though unless they are planning to 'cash out' they will still be invested for many years.

In advising members, advisers need to consider the member's circumstances, their time horizon, their objectives and their attitude to volatility.

Vanguard, the well-known index manager, publishes asset class returns back to the 1970s but the statistics since 1994 cover cash, local and overseas bonds, local and international shares and local and international property (represented by Real Estate Investment Trusts).

An analysis of the 24 financial years between 1994 and 2017 shows average returns for each asset class over the period. The returns are ranked in increasing volatility (standard deviation).

Not surprisingly over this timeframe, shares and property have the highest returns and the highest volatility. Each asset class (except cash) has had a turn at being the best performer for a financial year with shares and property being 'best' in 19 of the 24 years.

Another use of the Vanguard figures is to remind ourselves of the lessons of history. We are notorious for focussing on the short term forgetting the events of the past.

In Australia cash deposits over the period have produced a modest and positive return. The Vanguard figures however remind us that in 1990, cash returned 18.5% - a far cry from the 2-3% returns of recent years. Of course, at that time, inflation was close to 8% and mortgage rates were over 17%.

Both local and international shares have produced spectacular one-year returns. Local shares returned 30.3% in 2007 and international shares returned 33.1% in 2013. On the other hand, local shares fell 22.1% in 2009 and international shares fell 23.5% in 2002.

The Global Financial Crisis of 2009 reminded all investors that diversification cannot always protect portfolios from losses. At that time both local and international share markets fell by 22.1% and 16.2% and at the same time local and international property markets fell by 42.3% and 24.3%.

Members of superannuation funds invested in growth assets benefit by having a long investment timeframe to ride out this volatility. ■

The source and basis for the asset class returns can be found on the Vanguard website.
http://insights.vanguard.com.au/static/asset-class/app.html
http://insights.vanguard.com.au/VolatilityIndexChart/ui/advisor.html

Our new and updated RG146 Superannuation course is highly recommended for anyone who advises on securities in self managed or other superannuation funds. Each month we will be publishing a short article covering a current superannuation topic written by Peter Grace the author of our new course. Peter can be contacted on wordsandtraining@bigpond.com

	Cash	Int'l bonds	Local bonds	Aust shares	Aust property	Int'l shares	Int'l property
Average return	5.0%	7.7%	6.7%	10.2%	9.6%	7.8%	10.2%
Volatility	1.61%	3.95%	4.13%	13.06%	17.06%	17.33%	17.67%

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ACCREDITATION & TRAINING October, November & December 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: Tues 28 Nov | 9:00am – 1:00pm
	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.	MELB: Tues 21 & Wed 22 Nov | 9:30am – 12:30pm
	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: Mon 27 Nov | 9:00am – 1:00pm
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 26 Oct | 9:00am – 12:00pm MELB: Thurs 30 Nov | 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.	SYD: Thurs 2 Nov| 9:00am – 12:00pm
	REVIEW & REMEDIATION – 2 CPD (COMPLIANCE) This 2 hour workshop will cover the key components of review and remediation. The aim of review and remediation is to place the affected client in the position they would have been in had misconduct not occurred. This is an important area - to be ready and prepared to address complaints and issues that can arise from potential misconduct or deficient advice. The workshop will be of interest to all AFS licensees, no matter the size of the licensee. It will have value not just to those who have a current need to put a remediation/review program in place, it will also cover how the licensee assesses whether a program is required.	MELB: Wed 25 Oct | 12:00pm – 2:00pm
	A DAY IN THE LIFE OF A TRADE – 2 CPD (COMPLIANCE) This 2.5 hour short 'course in operations' focuses on the evolution of share and derivative trades from order placement through to execution to settlement (and later exercise/expiry where relevant) and reporting requirements. Designed for new or unfamiliar starters in the Industry or Markets, this workshop provides a comprehensive overview of the market and operational process. It provides an excellent foundation for retail desk assistants and would suit as a refresher for experienced staff as well as those staff in auxiliary and rotating roles: legal, IT, HR and other supporting roles associated with stockbroking. There is no assumed knowledge for participants of this workshop.	SYD: Wed 25 Oct | 9:00am – 11:30am MELB: Tues 31 Oct | 2:00pm – 4:30pm
	CONDUCT RISK – 1.5 CPD (COMPLIANCE) In this lunchtime seminar hear from a Conduct Risk specialist on what it is; where Conduct Risk might go wrong; and where it belongs in the risk world. More importantly, learn how it will affect you.	SYD: Wed 29 Nov | 12:30pm – 2:00pm

Introductory Series Workshops		
	THE BUSINESS OF STOCKBROKING IN AUSTRALIA – 2.5 CPD This workshop provides an overview of Australia's financial markets and the critical role that stockbrokers play in both retail and institutional markets. A short history of broking in Australia sets the scene for explanation of the current market structure, operations and regulation..	SYD: Wed 18 Oct | 9:30am – 12:30pm
	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: Wed 22 Nov | 9:00am – 1:30pm
	UNDERSTANDING WARRANTS: TYPES, DIFFERENCES AND RISKS – 2 CPD This 2 hour workshop covers the main types of warrants traded on the ASX with a particular focus on equity trading warrants and instalments. Basic warrant pricing will be discussed, and the role of the warrant issuer will be explained. Ideal for those who wish to acquire fundamental knowledge about the Australian warrants market..	MELB: Tues 14 Nov | 9:00am – 11:00am SYD: Thurs 16 Nov | 9:00am – 11:00am
	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: Thurs 2 Nov | 9:00am – 11:00am SYD: Thurs 9 Nov | 9:00am – 11:00am

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

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