

Stockbrokers

And Financial Advisers MONTHLY

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REGULATORY ISSUES

Rebrand



From SAA to SAFAA

Stockbrokers And Financial
Advisers Association



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From SAA to SAFAA

At our AGM on 24th November, members voted to change the name of the Association to *Stockbrokers And Financial Advisers Association* (SAFAA – you will be safer with SAFAA).

The inclusion of the words *Financial Advisers* recognises that some of our members no longer identify themselves solely as stockbrokers. They see themselves as providing financial advice that is broader than equities research.

SAFAA (safer) will continue to be the home Association for members who identify themselves solely as stockbrokers.

The decision to change the name coincides with the introduction of legislation into Parliament establishing the new Professional Standards regime. The legislation prescribes the term *Financial Adviser*, in the same way that *Stockbrokers* is a prescribed term.

The legislation also ushers in a new era of Code Monitoring by approved bodies.

In anticipation of the government's Professional Standards legislation, members at the AGM also resolved to amend the Association's constitution to allow the Association to adopt a *Conduct Review & Disciplinary System* (CRDS). The CRDS will bestow on the Association the power to become a Code Monitoring body.

Your Association intends to apply to the government to become a code monitoring body for the purposes of the Professional Standards regime, and we intend to ensure that every member of the Association upholds the highest ethical standards. Clients who deal with members of the Association will be able to do so knowing that this Association will be forthright in insisting on ethical behavior. Where an allegation of misconduct is upheld, after providing a member with due process, membership will be terminated.

I ask for your continuing support and commit to serve you in delivering ethical and efficient financial markets.

Application for TASA Recognition

The Association has formally applied to the Tax Practitioners Board to become accredited as a tax (financial) adviser Association. We expect to hear back from the TPB either before the end of the year, or in the worst case, February. This will enable us to accept TASA members who wish to take advantage of the TPB's transitional option which is available until 30 June 2017 to AFS licensees.

New Cyber Resilience Program

We start a national roll-out of our new cyber resilience program in March.

Sponsored by the ASX, Arthur J Gallagher & Huntsman, the course is pitched at advisers and middle managers. Our aim is to increase awareness of cyber risks and to provide a list of best practice strategies.

Portfolio Construction Course in June

Our third annual portfolio construction course launches in June. Delivered in conjunction with Western Sydney University, Leveraged and Morningstar, the course has built a strong reputation. Designed for advisers, the program teaches how to structure a portfolio for a clients and minimise downside risk. Know it all? An adviser with 20 years' experience attended our 2016 course and told me that he was surprised by what he learnt. "I came along thinking that I wouldn't learn much. I was pleasantly surprised."

SAFAA 2017 Conference May 24th & 25th

We have a fantastic line up of speakers including:

- Heather Brilliant, Morningstar
- Dom Stevens, ASX
- John Fraser, Treasury Secretary
- Greg Medcraft, ASIC
- Peter Farrell, ResMed



Andrew Green

- John Howard, Former PM
- Jost Stollmann, Tyro Payments.

Farewell Sean Lawrence

Sadly, one of our Directors, Sean Lawrence, has resigned as CEO of ABN AMRO Clearing in Australia and is heading back to the UK to do something entirely different. Sean made a very valuable contribution to the Association during his two short years on the board.

Sean has a fine intellect. He is also one of these people with a special ability to be in the moment. Often, he will view issues through a sociological lens. So for example in problem solving, he would try for a lateral solution that would achieve a win-win outcome for all parties. He will be a big loss to the Association.

Welcome to Kiri Pettigrew

I am delighted to welcome Kiri Pettigrew to the board. Kiri becomes the first woman elected to the Association's board. She has worked with ITG since 2006 where she is Regional Head of Legal & Compliance. She is a qualified lawyer in both Australia & Hong Kong. Based in Brisbane, Kiri is one of the key members of ITG's Executive Committee. She is a very capable individual and we are excited that she has joined the board of the Association. ■

HAPPY CHRISTMAS



On behalf of my team and our board, I thank you for your support during the year, and extend best wishes for a happy Christmas and a prosperous 2017.

Treasury Consults on Proposed ASIC Industry Funding Model

TREASURY HAS released the latest version of the ASIC Industry Funding Model for industry consultation.

The Model sets out the framework for recovering the whole of the ASIC budget from industry. Approximately \$240 million is to be recovered under the Model, with the balance of ASIC's annual budget (approximately \$80 million) to be recovered through fees for service (such as prospectus fees etc), the details of which have not yet been released.

The latest Model incorporates a number of changes to the Model that was previously discussed in August 2015.

Key features of the revised cost recovery Model are:

- the amount to be recovered in respect of market supervision increases from the approx. \$16 million being recouped under the existing ASIC Cost Recovery framework, to approx. \$20 million. Stockbrokers currently pay about 80% of the existing amount. The overall amount will increase slightly to include areas that are not currently cost recovered.
- the Market Participant levy will have the following components:
 - a fixed levy of \$9000 per Participant
 - a transaction levy of \$0.02 (indicative) per transaction (i.e. per line)
 - a message levy of \$0.002 (indicative) per message.

Points to note:



- The transaction levy replaces the previous variable fee based on the Market Participant's proportion of total turnover. SAFAA had strongly argued in favour of a transaction levy similar to the Hong Kong levy, which would facilitate the ability to pass the cost through to the end user. While the Government has declined to mandate a pass through or impose the levy on the end investor, the proposed transaction levy is intended to provide a certain figure which stockbrokers could, if they chose, add to contract notes in order to pass the cost through to clients.
- The message component similarly replaces the previous variable fee based on the Market Participant's proportion of total message count. The Proposed Model also includes a range of other fees that could apply to Market Participants:
- an annual levy on Licensees providing personal advice on Tier 1 products to retail advisers, calcu-

lated at \$960 for each adviser on the ASIC Adviser register

- an annual levy on Licensees providing personal advice on Tier 2 products to retail advisers, calculated at a flat \$1500 per licensee
- an annual levy on Licensees providing general advice only (either to wholesale or retail clients), calculated at a flat \$920 per licensee
- an annual levy on Licensees providing personal advice to wholesale clients only, calculated at a flat \$170 per licensee
- an Investment Banking fee comprising a fixed levy of \$1000 plus a graduated levy based on investment banking activity

The above fees are all cumulative.

Firms which are Securities Dealers (such as "shadow brokers") will become liable for ASIC cost recovery via a fixed levy of \$250 plus \$0.34 per \$10,000 of annual trade value.

It is already clear that the additional charges, in particular the retail adviser fees and the investment banking fee, will result in very significant increases in the amount that will be levied on many stockbroking firms.

The Association has consulted with Members and participated in industry roundtables conducted by Treasury. It will lodge a Submission on the proposed Model (due by 16 December 2016). ■

Approximately \$240 million is to be recovered under the Model, with the balance of ASIC's annual budget (approximately \$80 million) to be recovered through fees for service (such as prospectus fees etc), the details of which have not yet been released.

Compulsory reporting of cyber breaches

ON 19 OCTOBER 2016, the Federal Government introduced the Privacy Amendment (Notifiable Data Breaches) Bill 2016 into Parliament.

The proposed legislation will apply to entities which hold personal information and are under obligations under the Privacy Act Principles to keep the information secure.

Under the legislation, an entity that is aware that there are reasonable grounds to believe that there has been an “eligible data breach” must, as soon as practicable after becoming aware:

- prepare a statement setting out prescribed information
- provide a copy of that notice to the Privacy Commissioner, and
- if practicable, provide a copy to each individual to whom the compromised information relates; OR if practicable, provide a copy to each individual who is at risk from the eligible data breach; OR if neither of those are practicable, publish a copy of the statement on the entity’s website and take

reasonable steps to publicise the content of the statement.

An “eligible data breach” is one where either:

- there is unauthorised access to, or disclosure of, the relevant information, and a reasonable person would conclude that the access or disclosure would be likely to result in serious harm to any of the individuals to whom the information relates; or
- the relevant information is lost in circumstances where unauthorised access to or unauthorised disclosure of that information might occur, and if it did, a reasonable person would conclude that it would be likely to result in serious harm to any of the individuals to whom the information relates.

Under the legislation, a failure to comply with the obligation to report an eligible data breach will amount to an interference with the privacy of an individual. Significant civil penalties are prescribed for corporations and individuals who are guilty of serious or repeated breaches.

Firms should give close consideration to the application of these new obligations to their businesses, and to developing appropriate processes for identifying and responding to what may constitute an eligible data breach. ■

Under the legislation, a failure to comply with the obligation to report an eligible data breach will amount to an interference with the privacy of an individual.

National Guarantee Fund

THE ASSOCIATION has responded to a request for feedback from the Securities Exchange Guarantee Corporation (SEGC) on a number of proposals for reform of the provisions governing the NGF put forward by the SEGC. These include:

- imposing a \$ cap on claims on the NGF. SAFAA has supported a cap of \$250K per claim/\$500K per claimant in order to assist in preserving the adequacy of the amount of the NGF
- simplifying the drafting of the existing “heads of claim” in the Regulations, and replacing it with

a simplified claim covering clients (other than professional investors) of a market participant of a member exchange who suffer financial loss solely as a result of the insolvency of the participant, and arising from the broker’s actions as a participant of the exchange.

SAFAA has supported this proposal in principle subject to seeing the wording of the change, not wishing to see brokers subject to any new areas of liability not currently in the legislation.

- enabling future changes to the heads of claim to be made by the

SEGC Board, with the approval of the relevant Minister, in the interests of flexibility and reducing administrative costs. SAFAA did not support this proposal preferring that any changes to the heads of claim be the subject of the legislative process.

In addition, the Association proposed that any reform proposals for the NGF should include introducing Board representation for the stockbroking industry, with the Association being granted the power to appoint nominees to the SEGC Board. ■

Professional, Ethical and Educational Standards for Retail Financial Advisers

THE MINISTER FOR Revenue and Financial Services, The Hon Kelly O'Dwyer MP, issued a Press Release on 17 October 2016 announcing that the Government would be introducing legislation before the end of the year to establish the proposed new framework for the professional, educational and ethical standards for retail financial advisors.

The Corporations Amendment (Professional Standards of Financial Advisers) Bill 2016 was introduced into Parliament on 23 November 2016. The Government is hoping that the Bill will be passed by both Houses of Parliament early in the autumn session in 2017.

The elements of the proposed framework referred to in the Bill are consistent with what has previously been foreshadowed, including:

- compulsory education requirements for both new and existing financial advisers
- supervision requirements for new advisers
- a single code of ethics for industry
- a mandatory national exam for all financial advisers and
- an ongoing professional development component.

The Association attended an in-



that had been incorporated into the final version of the Bill, including:

- removing the mandatory requirement for supervisors to be present at all times when provisional advisers provided a financial service during their professional year. Instead, the supervisor has a requirement to ensure that there is "appropriate supervision"
- provision for appropriate recog-

complete the national exam in appropriate cases has been removed

- code monitoring bodies will have 160 days instead of 90 days to conclude an investigation of an advisor in the event that the adviser gives notice that they wish to resign from the compliance scheme and
- provisions enabling information to be shared between the Tax Practitioners Board and code monitoring bodies.

The timetable for implementing the legislation remains 1 January 2019 for the commencement date of the legislation; 1 January 2021 for existing advisers to pass the new national exam; and 1 January 2024 for advisers to reach bachelor's degree or degree-equivalent status.

The Minister in the announcement stated that the cost of establishing the new standard-setting body would be met exclusively by the large banks and by AMP. ■

The timetable for implementing the legislation remains 1 January 2019 for the commencement date of the legislation; 1 January 2021 for existing advisers to pass the new national exam; and 1 January 2024 for advisers to reach bachelor's degree or degree-equivalent status.

dusty briefing conducted by the Minister's Office and Treasury. Information was provided about the changes

- the exemption from having to

Senate Committee Discussion Paper on Corporate Whistleblower Laws

ON 9 NOVEMBER 2016, the Senate Economics References Committee released an Issues Paper entitled “*Corporate Whistleblowing in Australia: Ending corporate Australia’s cultures of silence*”.

The Paper notes a number of high profile and important cases that have in recent times come to light, both in Australia and overseas, principally or only because whistleblowers had come forward to expose the situation. The Paper however notes that whistleblowers face a serious risk of retribution and potential damage for their actions in coming forward.

The Paper discusses a number of questions, including:

- 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?



- Is there a need for an office to act as advocate for whistleblowers?

One issue that also warrants being looked at more closely is whether there should be better provisions dealing with the potential that some employees might present themselves as whistleblowers when they are in truth pursuing a vindictive strategy

against their employer or former employer.

The Association is considering whether it should make a submission on this Paper. We invite members to provide their Feedback and views on this subject to assist in framing a submission. ■

One issue that also warrants being looked at more closely is whether there should be better provisions dealing with the potential that some employees might present themselves as whistleblowers when they are in truth pursuing a vindictive strategy against their employer or former employer.

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

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



Committee News

Recent meetings of Stockbrokers And Financial Advisers Association Committees and Working Groups:

Derivatives Sub-Committee Meeting, Thursday 10 November 2016

Chair: Peter Tardent MSAA, Commonwealth Securities

Mentor Program Working Group Meeting, Thursday 10 November 2016

Chair: Alison Perrott MSAA, Ord Minnett

Profession Committee Meeting, Wednesday 16 November 2016

Chair: Murray McGill MSAA, Patersons Securities

Annual General Meeting, Thursday 24 November 2016

Chair: Karl Morris MSAA, Ord Minnett

Directors Board Meeting, Thursday 24 November 2016

Chair: Karl Morris MSAA, Ord Minnett

CHESS Replacement Working Group Meeting, Friday 25 November 2016

Chair: Danielle Henderson, SAFAA Consultant

Newly elected SAFAA Director: Mrs Kiri Pettigrew MSAA, ITG Australia

New Organisation Affiliate Member: National Stock Exchange of Australia

New Individual Practitioner Master (MASAA) Membership application approved:

- Jason Milliss

New Individual Practitioner Member (MESAA) Membership applications approved:

- Matthew Hedditch
- Richard Timothy Ahern

New Individual Affiliate (AFSAA) Membership applications approved:

- | | | |
|-----------------------|--------------------|-------------------|
| • Aleksandar Trpkoski | • Erlu Lucy Zhang | • Mary Ann Ryan |
| • Andrew Chadwick | • Filip Markovic | • Peter Brookes |
| • Charles Wood | • Georgia Harrison | • Thomas Chrystie |
| • Conor Deans | • Kim Palmer | • Trevor Zibell |
| • Elizabeth Graham | | |

What good looks like



Making sure investors have trust and confidence in our markets is at the heart of everything we do at ASIC.

Our vision is to contribute to the financial well-being of all Australians by allowing markets to fund the economy and economic growth. We do this by ensuring fair and efficient markets and promoting investor trust and confidence.

THE 2015 CAPABILITY Review gave us the opportunity to assess the capabilities we need to achieve this vision. We have applied the review's recommendations by strengthening our capabilities to detect, understand and respond to misconduct. And we are transforming our regulatory business by more effectively capturing, sharing and using our data, including data from third parties.

Our recently published [Corporate Plan](#) sets out our roadmap for the future. It highlights our strategy for strengthening our capabilities, responding to our long-term challenges and achieving our vision.

One of our challenges and priorities is promoting conduct that supports investor confidence.

Across our regulated population we continue to see poor culture, incentive structures and systems driving misconduct and resulting in poor

investor outcomes. This has negative implications for the integrity of markets and the protection of investors.

What are we doing?

We are addressing this challenge by focusing on the culture of our gatekeepers. A positive culture – at industry and firm level – that drives good conduct is essential to investor trust and confidence, market integrity and growth.

In 2016, we conducted two surveys of firms' appetite and approach to conduct risk. Conduct risk can be caused by deliberate actions, or

by inadequacies in a gatekeeper's practices, frameworks or staff.

Over the next year, we are integrating cultural indicators into our risk-based surveillances and using our findings to better understand how culture is driving conduct. Where we think there may be a problem, we will ask questions and dig deeper.

We are also developing our data analytics capabilities by enhancing our markets surveillance system (MAI) to better analyse trade data for patterns and relationships. For example, we are using individual trading patterns to better detect and respond to insider trading.



To uncover and disrupt problems early, we will:

- **detect** misconduct through surveillance, gatekeeper breach reports and reports from the public and whistleblowers
- **understand** our environment by continually scanning it using our technology systems, data management and analytics capabilities to gather insights
- **respond** by providing guidance and engaging with gatekeepers and industry to drive behavioural change – and taking enforcement and other regulatory action to hold gatekeepers to account.

What should you be doing?

Firm and industry-wide culture is complex, fluid and difficult to influence. It can't simply be set from the top, it needs to be coordinated and involve staff and management at all levels.

As a regulated stakeholder, you need to make sure your conduct pro-

pensated when losses result from poor conduct.

Our Market Supervision team recently came across a real-life example of 'what good looks like' following a timely suspicious activity report from one of our gatekeepers.

Case study

Suspensions of insider trading activity were raised by one of our gatekeepers after three newly established trading accounts purchased a large volume of shares in an ASX-listed company, right before a takeover announcement.

All of the trading accounts had been opened within six days of each other; and all had registered addresses in close proximity to each other.

Prompt notification of the suspicious activity by the gatekeeper meant that we were able to identify a connection between the accounts and to a mutual third party who appeared to be working for a subsidiary of the bidding company.

quickly when misconduct happens in our markets.

To make sure your conduct promotes the integrity of our markets and the protection of investors, we encourage you to review the culture of your organisation to ensure your organisation's values translate into actual business practices. ■



ASIC

Australian Securities & Investments Commission

To make sure your conduct promotes the integrity of our markets and the protection of investors, we encourage you to review the culture of your organisation to ensure your organisation's values translate into actual business practices.

motes investor trust and confidence. To help you with this, we've published our view of '[what good looks like](#)' on our website.

'What good looks like' sets out our expectations of our gatekeepers, including the expectation to:

- act professionally and treat investors fairly
- have effective risk management and internal supervision, and
- ensure investors are fully com-

The timely conduct of this gatekeeper meant that we were able to immediately refer the insider trading matter to our Market Integrity Enforcement team for formal investigation.

We believe that making sure investors have trust and confidence in our markets is a joint exercise between gatekeepers and regulators. While it can take a long time to build up investors' trust and confidence, that trust and confidence can be lost very

Bigger is better when it comes to ETF market

By Damien Sherman, Vanguard Australia Head of ETF Capital Markets



If you told many investors a decade ago that buying hundreds of shares in a single trade was possible, they might have dismissed the idea as fanciful, technically difficult or expensive.

Fast forward to today and anyone who can buy Australian shares can now hold every company in the S&P/ASX 300 index with a single trade.

EXCHANGE-TRADED funds – or ETFs – have particularly grown over the last few years as the range of products on the market has expanded to cover all the key asset classes that an investor might use to build a diverse base for their investment portfolio.

From Australian shares to global bonds, listed property to developed and emerging markets equities, less than half-a-dozen trades can build a hugely diversified collection of holdings. Add to that the fact ETFs can be accessed for low costs typically reserved for large wholesale investors in traditional managed funds, but with the added bonus of trading units quickly and easily on the market as needed, and it's not difficult to see why the popularity of ETFs has surged.

Looking ahead to the coming years, we can see that the exponential growth rate of ETFs will continue as costs come down, liquidity increases and the range of funds available gives investors greater flexibility when it comes to building their portfolios.

Rapid growth points to great potential

Australia's ETF sector is still only small when compared to the overall

market cap and trading volumes of Australian direct equities. Locally-listed ETFs account for around \$24 billion in funds today, which is only 0.015 per cent of the S&P/ASX 300's \$1.6 trillion market cap.

But if we focus on the growth rate of the ETF sector, rather than its current size, we can see that it's shaping up to become a common way for investors to tap into different asset class exposures.

For instance, Australia's ETF market accounted for \$5 billion in funds invested in 2012. Four years later, the sector has grown more than fourfold. If we look to America, where investors have had a little longer to get comfortable with ETFs, listed funds are around 11 per cent of the US market's total size.

Not only has the size of the ETF investment pool ballooned, but the range of products available to investors has grown rapidly. In 2012, there were 80 ETF products in Australia: today there are 139.

The continued evolution of the ETF product line-up in Australia will significantly influence the future growth rate of the sector locally. Can we foresee a time when ETF funds come to be five or even 10 per cent of the broad market cap, in line with growth in the US? Absolutely.

But it largely depends on investors being comfortable that they can access a broad range of products that can be used to tailor their portfolio to their needs.

How are different investors using ETFs?

It's not surprising to see that, as different kinds of ETFs have emerged over the last six years, so has the mix of investors using ETFs for very different purposes.

Although institutional investors led the charge with ETFs when they were taking off in the US, individual investors have been the driving force behind Australian ETF growth. Self-managed super funds – which often prioritise control over their asset allocation and keeping costs low – were the early adopters, but financial advisers have also found that ETFs give them a simple, cost-effective tool for building client portfolios. For both advised and self-directed individual investors, broadly diversified and low-cost ETFs are increasingly their go-to for building the core of their portfolios.

On the other hand, Australian institutional investors have just started to embrace ETFs in the last few years.

They find ETFs useful as a way of quickly increasing their exposure to broad asset classes depending on how they see markets playing out. The high degree of liquidity with ETFs makes them a favourable solution for holding a significant position in the market for an interim period.

Meanwhile, financial services professionals like wealth managers, private client advisers and broker-dealers are using ETFs to give their clients exposure to asset classes that have traditionally been difficult to tap into, like bonds or global shares.

Within more complex investment strategies, boutique fund managers and other sophisticated investors have been using ETFs to construct multi-asset class portfolios using products like listed real-estate ETFs, as well as using ETFs as risk management tools by gaining broad exposure to specific asset classes when uncertainty prevails.

Following the funds....

The enduring theme for high-quality ETFs in coming years will continue to be transparency, broad diversification and low costs. ETF trends may come and go over the years, but these three traits will continue to drive the value of ETFs to investors.

So, where are investors putting their money when they use ETFs?

ETFs have typically been index-based products, which provide exposure to beta - increases and decreases in specific market returns - rather than outperformance of the market.

With many investors focused on keeping costs low instead of chasing outperformance through expensive active funds, it's no surprise that broadly diversified, low-cost ETFs continue to attract the lion's share

of cash in-flows among exchange-traded products.

An emerging trend among investors is a strong appetite for global shares and bond ETFs. Australian investors have typically been rusted onto a narrow band of locally-listed shares, but are now seeking wider growth opportunities overseas. Despite low interest rates, bonds have also become more popular as investors seek to balance their portfolios between risky to defensive exposures.

Although index ETFs have been the traditional go-to for investors, a wave of exchange-traded, actively managed funds are appearing on the market. We expect exchange-traded managed funds to continue to grow as investors seek accessible products that help them to flex their exposure to dynamic investment strategies.

What does the future hold for ETFs?

a virtuous cycle of more liquid and better value ETFs.

This increased liquidity will make trading ETFs more flexible for investors as the sector evolves in coming years, which we are seeing manifest in overseas markets. The effect of this is that ETF units should trade to tighter spreads, meaning smaller premiums and discounts on the net asset value of the underlying ETF units. This will typically mean trades will be executed at prices closer to the underlying unit's value.

While scale will bring benefits, it will also bring complexity. As more asset managers introduce ETFs, there will likely be a proliferation of products available from which to choose from. Although choice and competition is not a bad thing for investors, it will mean investors and their advisers will need to be especially diligent when selecting products, especially exchange-traded managed funds, which may bear higher management expenses and turnover within the fund, as well as less transparency of their holdings.

As ever, Vanguard will continue to counsel investors to favour broadly diversified, low-cost, low-turnover funds, when it comes to both active exchange-traded managed funds and index-based ETFs. At the end of the day, investors should be wary about investing in any exchange-traded product that they don't understand.

The enduring theme for high-quality ETFs in coming years will continue to be transparency, broad diversification and low costs. ETF trends may come and go over the years, but these three traits will continue to drive the value of ETFs to investors. ■



Covered calls strategy guide

Generating an additional income from your portfolio

A covered call involves owning or buying a share and then selling a 'call option'. The seller of a covered call needs to determine what price they are prepared to sell their shares at (the strike price). If they are comfortable to commit to a sale price today for a predetermined date in the future (the expiry date) they will receive a credit for that commitment (the premium/income).

IF THE UNDERLYING share continues to trade below the nominated strike price, the sold call would expire worthless, and they will keep the premium received and may continue to hold the share. The following month they can choose to sell another call with a new strike price and expiry date. This can be repeated as long as the investor holds the underlying share to generate an ongoing income.

Key features

- Enhance the yield from your blue-chip portfolio
- Suitable in a flat or gradually rising market
- Cushion losses in a falling market

For example

Cleo buys 1000 shares in Company A through his margin loan, which is trading at \$76.50. This gives him a total investment value of \$76,500.

Cleo decides that he is prepared to sell his shares in company A at \$80. He sells a call with a strike price of \$80, which expires 30 days from today. In return for the commitment to sell at \$80 he received a credit of \$0.70 per share, in total \$700 for the 1000 units held.

If Company A is trading above \$80 at expiry Cleo will most likely need to give up his shares at \$80. If the stock is trading below \$80, the sold call will expire worthless and he can choose to sell a new call at a new strike price.

Factors to keep in mind

If Company A trades above \$80 on any day before the expiry date he may not be exercised, which means he will continue to hold the share. It is up to the buyer of the call whether or not the call is exercised. The option is often automatically exercised if it is trading above \$80 after the expiry date.

If Cleo does not want to carry the risk of being exercised prior to expiry, he can choose to sell a 'European' style call instead of an 'American' call. As the European call can only be exercised at expiry, this is especially beneficial for investors who want to sell a call before a share goes ex-dividend, but do not want the risk of being exercised on the call before the share goes ex-dividend.

You can also sell a call for a period longer than one month which will give you a larger credit amount. For clients not looking to actively manage/trade in their portfolio they can look at selling a much longer dated call.

What happens if the share remains flat or increases gradually?

Let's assume the share closes anywhere between \$76.51 and \$79.99 on expiry. This is the most ideal scenario with a covered call, because Cleo is profiting from his underlying position in Company A as well having the sold call expire worthless, which means Cleo will keep the \$700 premium with no further obligation to the sold call. In a flat market, covered calls tend to outperform a long only portfolio.

Cleo will also have the ability to sell another call at a new strike price where he would be prepared to sell the shares at a new expiry date. This can be done as often as the investor chooses.

What happens if the Company A share increases in value dramatically?

If the share increases to \$82 at the option's expiry, Cleo will most likely be exercised on the call, which means he will need to sell the share at \$80 (the chosen strike price).

Here Cleo has still profited from the trade, as he will keep the \$3.50 profit from the share, which increased from \$76.50 to \$80. In addition, he will keep the \$700 premium from the sold call along with any other dividends or franking credits he may be entitled to.

The downside in this scenario is Cleo will not benefit from any further increase in the share price above \$80. In a quickly rising market, covered calls tend to underperform a long only portfolio.

What happens if the Company A share declines in value?

Let's assume that, at expiry, the shares for Company A are trading at \$72.00.

Given that Cleo purchased his shares at \$76.50, he will be down \$4.50 per share if he does not sell the call, being a total loss of \$4500 on the 1000 shares held.

Given he sold the call and received

a \$700 credit, his loss would be reduced to \$3800 (\$4500 loss in the share less the \$700 credit from the sold call premium). While this is still a loss, he is still in a better position than if he had not sold the call at all. If Cleo had been receiving a number of credits from the months prior his net loss would be even less. In a falling market, covered calls tend to outperform a long only portfolio.

While this is still a loss, it has put him in a better position than if he had just purchased the share without selling a call.

Is this the right strategy?

Investors need to choose whether they prefer to aim for growth or income from their portfolio. Historically, covered calls have been shown to produce more consistent returns in a flat, slowly rising or even a falling market but tend to underperform in a quickly rising market.

Investors may also choose to use this as a tool to diversify their investment strategy by allocating a portion of their portfolio to covered calls so they can benefit from a flat or slowly rising market, while leaving a portion of their portfolio for growth.

How to get started

To enable options trading on a Leveraged Margin Loan using Exchange Option Plus, call 1300 307 807 or visit www.leveraged.com.au to find out more. ■

Investors need to choose whether they prefer to aim for growth or income from their portfolio. Historically, covered calls have been shown to produce more consistent returns in a flat, slowly rising or even a falling market but tend to underperform in a quickly rising market.

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New year expectations

By Peter Grace

The year 2017 is shaping up as a busy time for super funds, SMSF trustees and members as they grapple with the most significant upheaval to super since the Simpler Super changes of 2007. The 2016 Budget proposals have been modified and the legislation has now been passed with most of the changes applying from 1 July 2017.



YOU CAN EXPECT the new year to be full of discussion of new strategies, implementation problems and discussion of unintended consequences or opportunities from the new rules.

This is a summary of the changes:

- The annual concessional contribution cap will reduce to \$25,000. From 1 July 2018, members with less than \$500,000 in super will be able to 'catch up' by making extra contributions for any unused caps from the past five years.
- The annual non-concessional contribution cap will be \$100,000 with a 'bring forward' cap of \$300,000. Once an individual has accumulated \$1.6m in super they will not be able to make further non-concessional contributions.
- Members over age 65 will still have

to satisfy a 'work test' to make contributions.

- Anyone can claim a tax deduction for personal contributions – effectively meaning salary sacrifice is available for everyone.
- The income limit to be used to determine when the extra 15% s293 tax on concessional contributions applies will be reduced from \$300,000 to \$250,000.
- The spouse contributions tax offset will become more widely available because the income threshold for 'a low-income spouse' will be increased from \$13,800 to \$40,000.
- The Low Income Superannuation Tax Offset (LISTO) will replace the Low Income Superannuation Contribution (LISC). LISTO will still refund the contributions tax

paid by members on incomes under \$37,000.

- Abolition of the 'anti-detriment' rules so super funds will no longer be able to make a refund of tax paid on death benefits made to dependents.
- The investment earnings backing transition to retirement pensions will be taxed at 15% in the same way as accumulation accounts.
- An indexed 'pension transfer cap' of \$1.6m will be introduced. Members with balances over this cap must transfer the excess back to a taxable accumulation account or cash it out of superannuation.

Managing the pension transfer cap will probably be the most complex change. Having a dollar limit for a superannuation pension raises the myriad problems that applied to the 'Reasonable Benefit Limit (RBL)' system that applied prior to 2007. It will be critical that the record keeping by superannuation funds and the ATO is up to date and reliable and advisers help their clients cope with the complexity. ■

Our RG146 Superannuation course is an elective in our Professional Stockbroker's Program. It provides the necessary qualifications for anyone who advises on securities in self managed or other superannuation funds. Each month we publish a short article covering a current superannuation topic written by Peter Grace the author of the course. Peter can be contacted at wordsandtraining@bigpond.com



Are you prepared for cyber threat?

Cyber security is an area that is only going to become more important, as technological innovation is inevitably accompanied by the increased risk of cyber attacks.

With ASIC's focus on cyber resilience as a top regulatory priority - now is the time to consider practical, everyday actions that all employees can take to make cyber resilience a part of a firm's culture and ensure that every employee is a part of the firm's cyber defences.

This 2 hour national workshop is relevant to every employee, in particular those who have involvement with clients.

Come along to learn about:

- The current cyber crime landscape
- US cyber security initiatives
- How Australian financial institutions measure up against the NIST framework
- Legal/regulatory obligation to be cyber resilient
- ASIC's health check prescription, principles outlined in REP 429 and ASIC's good practices listed in REP 468
- Mandatory data breach reporting
- Cyber security of third parties, outsourcing considerations
- Cyber insurance
- Creating an organisational culture of being cyber resilient
- Importance of educating clients about cyber security – not just staff.

2017 March Workshop Details

CPD hours:	2
Duration:	2 hours
Cost:	TBC
Locations:	Sydney Melbourne Brisbane Adelaide Perth

For further information

call 02 8080 3203 or email
education@stockbrokers.org.au

ACCREDITATION & TRAINING February, March & April 2017

Responsible Executive (RE) Series Workshops	RE REFRESHER – 4 CPD (COMPLIANCE) <p>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.</p>	MELB: Tues 7 Feb 9:30am – 1:30pm SYD: Tues 7 Mar 9:00am – 1:00pm
	RE EXAM PREPARATION COURSE – 10 CPD (COMPLIANCE) <p>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.</p>	SYD: Mon 13 & Tues 14 Feb 9:00am – 12:00pm MELB: Thurs 23 & Fri 24 Mar 9:30am – 12:30pm
	RE EXAM PREPARATION ‘SHORT COURSE’ – 4 CPD (COMPLIANCE) <p>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.</p>	MELB: Wed 8 Feb 9:30am – 1:30pm SYD: Mon 6 Mar 9:00am – 1:00pm
Professional Development Workshops	MARKET MANIPULATION AND OTHER PROHIBITED CONDUCT – 4 CPD (COMPLIANCE) <p>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.</p>	SYD: Tues 21 Feb 9:00am – 12:00pm SYD: Tues 7 Mar 1:30pm – 4:30pm
	INSIDER TRADING – 4 CPD (COMPLIANCE) <p>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.</p>	MELB: Thurs 9 Feb 1:30pm – 4:30pm SYD: Thurs 2 Mar 9:00am – 12:00pm
	A DAY IN THE LIFE OF A TRADE – 2 CPD (COMPLIANCE) <p>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.</p>	SYD: Thurs 16 Feb 9:00am – 11:30am MELB: Wed 1 Mar 2:00pm – 4:30pm 
	REVIEW & REMEDIATION – 1.5 CPD (COMPLIANCE) <p>This 1.5 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 workshop is well regarded by ASIC and also ties in with the new Regulatory Guide the regulator has recently published. 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.</p>	MELB: Tues 21 Feb 12:30pm – 2:30pm SYD: Tues 28 Feb 12:30pm – 2:30pm

CONDUCT RISK – 1 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: Thurs 16 Mar | 12:30pm – 1:30pm
MELB: Wed 5 Apr | 12:30pm – 1:30pm

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: Tues 7 Feb | 9:00am – 1:30pm
MELB: Tues 14 Mar | 9:00am – 1:30pm

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.

MELB: Thurs 30 Mar | 9:30am – 12:30pm
SYD: Tues 4 Apr | 9:00am – 12:00pm

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.


SYD: Wed 15 Feb | 9:00am – 11:00am
MELB: Thurs 16 Feb | 9:30am – 11:30am

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: Thurs 23 Feb | 9:00am – 11:00am
SYD: Wed 1 Mar | 9:00am – 11:00am

For further information visit www.stockbrokers.org.au



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