

Stockbrokers MONTHLY

MEMBERSHIP • iLEARNING • EVENTS • EDUCATION • POLICY & REGULATORY ISSUES

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Young Members Working Group

We recently established a Young Members Working Group.

The initiative arose out of frustration expressed by Jacques Rousset about how hard it is for people to get a start in the industry and progress through the ranks to become an adviser. Jacques has assumed the role as Chair of the Working Group.

Since announcing the initiative, we have received an enthusiastic response from across Australia.

Our plan is for the Working Group to meet quarterly either in person or via dial-in.

If you would like to join the group, please email Diem Tran. dtran@stockbrokers.org.au

SAA 2016

Delegate feedback from this year's conference held at the Crown Promenade in Melbourne on Wednesday 1st June and Thursday 2nd June has been very positive.

Delegates liked

- Holding the conference on Wednesday and Thursday and avoiding Friday
- Focus placed on importance of Gender Diversity
- Thematic versus company presentations
- Conference App
- Mix of quality sponsors & exhibitors, 26 in total
- Full media participation and extensive media coverage
- Cut price delegate tickets for under 35s attending their first conference
- \$50 tickets for full-time university students considering a career in finance

SAA 2017 will be held at the Hilton Sydney on Wednesday May 24th and Thursday May 25th.

If you have ideas for next year's conference that you would like to share, please email me. andrew.green@stockbrokers.org.au

SAA and new Professional Standards regime

We are excited by the imminent introduction of the government's Professional & Ethical Standards legislation and the opportunities it will open for the SAA.

A centre piece of the reforms will be the requirement that all financial advisers must comply with a Code of Conduct. Compliance with the Code will be monitored by accredited groups such as Associations. It will be up to individual advisers to join an Association of their choice to monitor their compliance with the Code, or outsource that to an accredited third party.

Naturally, the SAA is hoping that all financial advisers employed by member firms will join the SAA. At the moment, we have just 632 individual members out of an estimated 2,000 financial advisers employed by market participants.

Thinking further ahead, financial advisers employed by indirect participants will also need a home Association. My thoughts are we should encourage as many of these advisers as possible to join the SAA and comply with our high Professional & Ethical standards. This will give us a chance to influence their behaviour. If we find instances of poor behaviour, we will conduct a disciplinary hearing and after due process take appropriate action, including expulsion.

Guiding Principles for Gender Diversity in Stockbroking

Our Women in Stockbroking Working Group has completed a set of Guiding Principles for Gender Diversity. These principles can be viewed on our website in About Us > Women in Stockbroking.

The following are extracts from those principles.

Stepping up as Leaders

- a. Create leadership teams that embrace and implement gender diversity - lead by example.
- b. Publicly advocate and support change.



Andrew Green

- c. Actively develop, promote and advance inclusive leaders across your organisation through.

Creating Accountability

- a. Set granular targets and provide transparency and reporting on progress measuring and assessing diversity statistics.
- b. Hold your businesses accountable to targets and continue to monitor success.
- c. Break entrenched patterns by engaging leaders at all levels on the objectives set that clearly articulate the benefits of women's representation in their teams.

Disrupting the Status Quo

- a. Ask 50/50: If not, why not. Ask 50/50 across career lifecycles, from recruitment and talent development to leadership teams, boards and panels.
- b. Broaden your searches and challenge results in creating opportunities.
- c. Raise the bar on women's careers. Personally sponsor talented women.
- d. Mainstream flexibility. Reflect on work patterns and "what it takes to succeed in your organisation".

Dismantling Barriers for Carers

- a. Get the basics right, build environments where parents and carers thrive and encourage return to work
- b. Invest in back to work programmes making transitions easy
- c. Support primary carers by creating a supportive culture and awareness
- d. Support all genders men and women to embrace their choice
- e. Get under the numbers to see whether parents returning from leave continue to develop their careers. ■

SAA 2016:

REMARKS BY

Karl Morris, Chairman, Stockbrokers Association of Australia



Karl Morris

LADIES AND GENTLEMEN, welcome to this the 19th Annual Stockbrokers Conference – a yearly event where we aim to bring all of our members together to not only enjoy social and business networking events, but to hear and discuss current issues and developments that are affecting our industry.

It is always great to hold this event in Melbourne.

I think you will agree that we have an exciting line up of speakers again this year, who will be covering a wide range of topics and current issues that have a bearing on our industry.

So we are in for a thought-provoking and stimulating two days.

A great deal has happened since we gathered in Sydney last year.

Each year, I remark on the pace of change that is affecting our industry. Technology remains the key driver of this.

The phrase of the moment a year ago was “digital disruption”. Those words are still on everybody’s lips today, but they have been joined by a host of new terms. There is the “*internet of things*”, “*machine learning*” and Blockchain.

The impact of technology on trading and execution over the last 5 years has been significant. And it is not just our industry - almost every industry will be impacted by rapid technological change.

Apart from execution, the term “*robo advice*” has quickly become understood for electronic delivery of financial advice without the need for a human adviser. “Robo advice” has quickly moved from an idea to a reality, and we will hear more about this during the next 2 days.

We will hear more about blockchain and the latest in disruptive technology during the sessions at this conference. As I always stress, these are matters that this industry must remain alive to and be agile enough to adapt to.

I should also mention the downside of technology

and that is cyber crime, another relatively new term. While the amateurs seem to ‘hack’ the professionals are after the money. The SAA is aware of this risk and is assisting our industry to put in place new and improved risk procedures to combat this threat.

It is indicative of the pace of change that it was only in March that Australia moved to T +2. This was a significant advance for our market, and much credit goes to the ASX and to all of the market participants for the professional way in which the change was smoothly planned and implemented. However, it will be interesting to see how long we remain at T +2, in view of the potential for blockchain to possibly reduce settlement to real time.

The provision of retail financial advice is also facing massive change on the *regulatory front*. The Federal Government has been progressing quite quickly on a new framework for increased *professional, ethical and financial standards* for retail advisers. If the Government is successful in being re-elected in July, then we can expect its package of reforms to be put in place soon after that.

The Association has always stressed that the professional standards reforms have been the result of events that have *happened in other sectors* of the industry. Stockbroking has not been the cause of any of these problems, however it is, as always, being *caught up in the solution*.

Having said that, the SAA supports moves to fix the problems in the financial sector as a whole once and for all, and has always stood for the recognition of *stockbroking as a true profession*. The Government’s package will assist in that.

We do recognise the additional work that many retail advisers will face in undertaking the necessary educational qualifications to meet the new standards and the new National Exam. The Association has worked hard to ensure that there was a better transition period for industry to meet the new standards, and we are pleased



that the Government has listened to these arguments in the longer transition period that is now in the new proposals. The SAA is continuing to press the case with Government for a better alternative for *senior advisers in their later years*, instead of having to undertake mandatory studies.

One important aspect of the Professional Standards package is the need for Professional associations to offer a compliance scheme for advisers. This will involve associations such as ours establishing a mechanism for *monitoring and enquiring into complaints against members* in respect of breaches of the new Code of Conduct. For the Association to continue its relevance to members, we will need to make changes to our operations so as to be able to meet the new standards for a compliance scheme. We will have to receive complaints and conduct enquiries into them, which is a role that we have not previously carried out.

One unmet need is to provide a home association for retail financial advisers who give tax advice to clients. Advisers who provide tax advice need to be registered with the Taxation Practitioners Board. We are considering applying to the Taxation Practitioner Board and running a scheme for existing and future members who provide retail financial advice.

I believe that the Stockbrokers Association will be an ideal association for securities dealers of all shapes and sizes to choose as their compliance scheme under the Government's framework, but this would require the Association to become a much broader church than it is at present. A discussion needs to take place as to what would be needed for the Association to evolve to fulfil such a new role. We would need to look at the way our membership is structured to accommodate new members, and how the organisation is governed.

One thing that we can guarantee will not change is that the Stockbrokers Association will continue to act as the voice of the industry in shaping regulation and policy affecting our industry.

In this context, it has never been more important for members to do 2 things:

- keep up their membership of the Stockbrokers Association; and
- continue their professional education.

I would now like to take this opportunity to thank a number of people who have contributed to the success of this year's Conference.

Our very loyal sponsors, and to put it simply, without them, this Conference would not be held in the high regard it is today, and I would like to mention them individually.

CommSec Adviser Services and **GBST** who are our Gold Sponsors.

ASX who are our Silver Sponsor

Broadridge and **Thomson Reuters** who are our Bronze Sponsors

ANZ ETFs who are our Charging Station Sponsor; and our Supporting Sponsors, **Leveraged** and **Nomura Research Institute**.

We recognise that a number of you have been supporting the Association and our Conference for many years and we very much value our partnership.

Now to those who support our operations at the Stockbrokers Association, especially the Chief Executive Andrew Green and SAA team. I would like to acknowledge the dedication that you all have in serving our members and advocating on behalf of the industry. You do an outstanding job.

I thank my fellow directors for their support over the last year, as well as those who serve on Committees, our DTR Governors and others who give freely of their time in serving the industry.

I thank those members who have joined our Women in Stockbroking Working Group chaired by Morana Hunter, and I thank Justin Greiner for establishing a Champions of Change group to drive change from the top.

Finally, I would like to thank each of you, our members, for your continuing support throughout the year and your participation in our annual conference.

I hope each of you will enjoy what we have in store for you over the next two days. ■

ASX Releases Consultation Paper CP 260 on “Regulatory Sandbox exemption” for Fintech start-ups

AS PREVIOUSLY foreshadowed, ASIC released its *Consultation Paper CP 260 – Further Measures to Facilitate Innovation in Financial Services* on 8 June 2016.

CP 260 outlines proposals for what ASIC calls a “regulatory sandbox exemption” relating to AFS Licensing requirements applicable to Fintech start-ups. The CP seeks feedback on whether the regulatory exemption should extend to areas such as:

- Additional flexibility to ASIC in determining the skills and experience requirement for assessing license competency for Fintech start-up businesses, including the ability to rely on third parties;

- Possible class-wide licensing waiver to allow entities to conduct early stage tests and trials;
- A 6 month window for entities to test certain financial services without the need for a license;
- Specification on the types of financial services that can be offered in the testing window;
- Permission for services to be provided during the testing window to sophisticated clients; to retail clients subject to a numeric limit and \$ exposure limit;
- Modified conduct and disclosure obligations that will apply during the testing window;
- Consumer protections including

dispute resolution and compensation mechanisms to apply to testing businesses.

ASIC has said that these proposals, and the establishment of its Innovation Hub, are part of ASIC’s efforts to promote Fintech businesses, innovation and market efficiencies.

The Association is reviewing the Consultation Paper and will alert members to any issues. We are also inviting feedback from members for incorporation into the SAA’s proposed submission on the Consultation Paper.

Submissions on CP 260 close on 22 July 2016. ■

Professional, Ethical and Educational Standards for Retail Financial Advisers – Proposed Legislation



FOLLOWING THE calling of the Federal Election, the Government moved into caretaker mode and accordingly, there have been no developments on this subject.

The SAA remains concerned about the impact on older advisers due to the absence of any exemption from

the Bachelor’s Degree requirement for advisers with considerable experience and in the later years of their career. The SAA believes that there is a real risk that this will drive many valuable advisers out of the market prematurely.

The SAA recently sought data from member firms on the number of older advisers who may be impacted in this way, and who are likely to decide to exit the industry rather than undertake the necessary additional studies. Some responses have been received, but the data gathering has not yet been finalised.

The SAA has also passed on to

Treasury our concerns about the need to reconcile some areas where the professional standards framework directly overlaps with ASIC licensing supervision, such as:

- how the new supervision standards to be set by the Standard Setting Body will interact with ASIC’s supervision requirements under AFS Licensing
- how investigation of Code breaches will interact with a concurrent ASIC investigation.

We expect that the Government, if it is re-elected, will move quickly to introduce the Professional Standards legislation into Parliament. ■

ATO – Broker Reporting of Client Data – Issues with Data Specifications

MEMBERS WILL recall that the legislation enabling the regime for reporting client data to the ATO regarding transfers of a range of classes of property, including shares and units, was passed in November 2015.

The purpose of the legislation is to enable the ATO to target the under-reporting of capital gains by Australian taxpayers across a range of asset classes, including shares and managed investments.

The regime requires stockbrokers to provide the following specified client identification data to ATO so that it could match the Order Identifier in the ASIC market data with a taxpayer:

- client's name, address and date of birth (if applicable)
- client's telephone number
- client's ABN or ACN (if applicable)
- TFN withholding tax code
- 'non-resident indicator' in respect of the client
- client's account holding number (Share Reference Number (SRN)/

Holder Identification Number (HIN))

- client origin of order number as per RG223 5A of the ASIC FIX specification.

In January, the ATO issued the data specifications for the new reporting. A number of concerns have been raised about the content of the data specifications:

- the data specifications require the information to be reported in a format which is different to the way in which the information is recorded in CHESS. Many classes of information are required to be split into different fields, or reported in a *different format*, to that in which the information is currently held.

The SAA is aware that data vendors are looking at ways in which a system-fix can be delivered to deal with this issue, however we have not received any further advice from vendors about the progress of this work. Member firms are encouraged to raise this with their system vendors.

- the requirement for firms to provide a *Bulk Trade Data Report*. This additional item requires brokers to report for client accounts the "bulk trades" which the account participated in during the reporting period. The ATO is now looking to reconcile all of the trade data obtained from ASIC where an origin of order identifier is a shared order code, and not traceable to a particular client or account

The Stockbrokers Association has expressed its concerns to the ATO about these late developments, in particular, the potential for the ATO's data requirements to necessitate expensive system changes and/or manual reprocessing within broking firms. This was the very thing that the ATO stated it was keen to avoid in framing the reporting requirements.

The legislation comes into effect in relation to shares and units on 1 July 2017, with the first report due before 31 July 2018. ■

ASIC commences Court Action over Best Interests duty

ON 8 JUNE 2016, ASIC announced that it had commenced proceedings in the Federal Court alleging breaches of the "best interests duty" by National Sterling Group Limited, holder of an AFSL and provider of insurance products.

This may be the first time that a Court will adjudicate on the nature of the best interests duty, which was introduced as part of the Future of

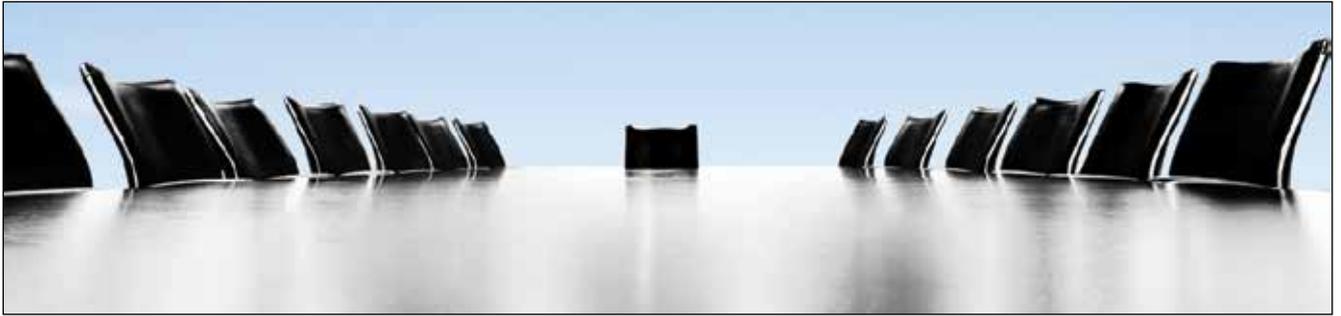
Financial Advice (FOFA) legislation. Hence, it is likely that the case will be closely observed.

According to the ASIC Media Release, ASIC's allegations include that the training provided to advisers was not adequate to ensure that the advisers provided products in the clients' best interests; that NSG's written policies relating to legal and regulatory compliance and risk

management were inadequate, and in any event, not followed or enforced; and that regular and or substantive performance reviews of advisers had not been conducted, and disciplinary action against advisers who did not act in compliance with their obligations under the Corporations Act had not been taken. ■

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

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



Committee News

Recent and upcoming meetings of Stockbrokers Association Committees, Working Groups and Advisory Panels, and major issues discussed:

Board of Directors Meeting, Wednesday 1 June 2016

Chair: Karl Morris MSAA, Stockbrokers Association

Retail Broking Committee Meeting, Thursday 2 June 2016

Chair: Dean Surkitt MESAA, Bell Potter Securities Limited

- Cost Recovery
- NGF
- BBY
- Professional Standards

Institutional Broking Committee Meeting, Tuesday 7 June 2016

Chair: Conor Foley MSAA, UBS

- ASIC Cost Recovery
- ASIC Report 452 Principal Trading and Facilitation
- ASIC Report on Research / IBD Conflicts
- ATO Broker reporting

New Individual Practitioner Member (MESAA) Membership applications approved:

- Alistair Warren
- Charles Craven
- Scott Beeton

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A common purpose – fair and efficient markets

By Commissioner Cathie Armour



I am the ASIC Commissioner with responsibility for the ASIC teams that supervise stockbrokers. Recently, I attended the SAA Annual Conference where I met and spoke with many of you.

It was mentioned at the SAA conference that the number of disputes about stockbrokers accepted by the Financial Ombudsman Service (FOS) is gobsmackingly low. In the 2014–15 financial year, accepted disputes against stockbrokers represented 90 out of a total of 25,800. Less than half of one percent of disputes before FOS related to this industry!¹

This result speaks to the commitment your profession has to the proper functioning of this industry, and its role in achieving fair and efficient markets.



Examples of suspicious activity reports

Another indicator of the commitment of your profession is the growing number of suspicious activity reports ASIC is receiving. These reports are an example of stockbrokers taking direct action to keep our markets clean.

Recent example 1:

An executive of Company A indirectly opened a trading account with a stockbroker. Shortly later, Company A listed and the client began buying small parcels of shares in Company A (and only Company A), which had a price impact.

The stockbroker attempted to contact the client to ask about their trading strategy and whether they had a connection to Company A. The mobile number on the client's

application form was answered by the executive, and the connection was established.

Given this event, the timing of the account opening and subsequent trading patterns, the stockbroker formed the view that the trading may be an attempt to manipulate the share price. They submitted a suspicious activity report to ASIC that day.

Recent example 2:

A client bought a large volume of mining shares immediately before a trading halt was called pending the release of exploration test results. Soon after the same client submitted an order to purchase a large number of other shares in another company. Similarly, immediately after the purchase of these shares the company released a material announcement to the market.

The coincidence of timing, with both large orders being placed by the same client immediately before market announcements, gave rise to suspicions the client may have been in possession of material information yet to be made public. A suspicious activity report was sent to ASIC.

Reports like this demonstrate that stockbrokers aren't willing to tolerate individuals trying to manipulate the market in their favour, and at the expense of the 6.5 million other Australians who own shares or other listed investments.

Technology contributing to market integrity

Advanced technology is also contributing to the integrity of our markets. ASIC has introduced leading

technologies, with the support of industry funding, such as our Markets Analysis and Intelligence (MAI) surveillance system and the Market Entity Compliance System (MECS).²

As well as improving market confidence and integrity, MAI has enabled us to reduce the number of notices we issue to stockbrokers by almost half since 2011. Not only are there fewer notices (and these continue to fall); they are more specific and targeted. This saves you time and ensures your contributions are productive.

There are now 400 individuals from 150 market entities who use MECS. In the 12 months since going live, over 1,000 applications and notifications have been submitted

through MECS. The user feedback we have is that undertaking regulatory functions through MECS is now simpler and more efficient.

We will continue to look at how we can use technology to reduce the regulatory burden, and improve industry communication and compliance.

Your contribution and vigilance in all forms is greatly appreciated.

Looking ahead

At the SAA conference ASIC Chairman, Greg Medcraft, spoke about our priorities for markets regulation. These are:

- cyber resilience
- conduct risk, and

- handling of confidential information and conflicts of interest.

You can read Greg's speech on the ASIC website.

In the coming weeks, we will write to stockbroking businesses directly to communicate our regulatory priorities for 2016–17 in greater detail.

This will assist us to work together to achieve our shared purpose. ■

¹ FOS, *Annual Review 2014-2015*, 2015, p. 56.

² ASIC was funded by Government on a cost-recovery basis to implement enhanced market surveillance and supervision technologies (including MAI and MECS).

Stockbrokers Foundation inducts Doug Clark into its Hall of Fame

By Peter Stepek, MESAA, Policy Executive, SAA

A T THE RECENT Stockbrokers Foundation Charity Dinner and Awards night, the Foundation gave this year's Stockbrokers Hall of Fame award to Doug Clark.

The award was given in recognition of Doug's considerable contribution to the stockbroking industry over nearly 30 years. In particular, Doug's tireless efforts as a Policy Executive at the Stockbrokers Association, and formerly the SDIA, since 2000 was acknowledged.

In presenting the Award, Chairman of the Foundation, Danny Dreyfus referred to the list of regulatory and legislative changes that had been imposed on the stockbroking industry over the last 20 years, and to Doug's efforts in analysing and communicating the changes to the industry, representing it in dealings with regulators, Government Departments and politicians, and seeking to influence proposals into a more sensible outcome for the industry.



'Helped shape the regulatory environment that affects every stockbroker'

L-R Danny Dreyfus, Chairman of the Stockbrokers Foundation presenting Hall of Fame Award to Doug Clark.

In particular, Doug's work in relation to the FSR changes, FOFA reforms, Margin lending, Market Supervision changes, and responses to the GFC, was praised.

Outside of his contribution to the industry, Doug's work for philanthropic and community groups was

acknowledged, as were his other many and varied extra-curricular talents. The latter included his abiding interest in languages, particularly Russian, and his musical talents, which ranged from his current membership of a be-suited male acapella flash choir known as Men in Suits, which appears at random throughout Melbourne, to his ability to play two recorders simultaneously with his nose.

The Stockbrokers Association congratulates Doug on this award. We are pleased that the Foundation, in recognising contribution to the industry, has not limited itself to individuals who have had a stellar career as stockbrokers, but has recognised someone who has made an outstanding contribution to the industry as a whole, in helping to shape the regulatory environment that affects every stockbroker and every broking business. ■

VANGUARD INVESTMENTS AND THE STOCKBROKERS ASSOCIATION OF AUSTRALIA PRESENT

2016 Leaders Forums



REGISTER NOW!

The 2016 Leaders Forum in Brisbane is designed for senior executives and leaders in the Stockbroking and Wealth Management industry to come together to hear about and discuss the 'hot' topics facing our industry. Through a mix of presentation and discussion, attendees will hear from industry experts and peers to update them on these issues. The Forums are held over a lunch time session and are hosted around Australia. These are Forums you need to attend to keep abreast of key issues for your business.

WHO SHOULD ATTEND?

CEOs, CFOs, COOs, Senior Executives, Senior Compliance and Legal, and team members who communicate with clients and staff on a regular basis.

DURATION

Held over a lunch time session, the 2016 Leaders Forum in Brisbane will commence at 12.30pm sharp (registration from 12.00pm) and concludes at 2.00pm.

CPD

Attendees will receive 1.5 hours of CPD (Compliance)

REGISTRATION FEE

Individual Members	\$105.00
Employees of	
Organisational Members	\$120.00
Non Members	\$140.00

Date

To be advised

FOR FURTHER INFORMATION: visit www.stockbrokers.org.au or call **02 8080 3200**.

Understanding the true liquidity of ETFs

ETF volume doesn't equal ETF liquidity

By Robin Bowerman, Vanguard Australia Head of Market Strategy and Communication

The demand for exchange traded funds continues to grow strongly, and so does the hunger for more information about how these products function.



Vanguard[®]

Over two years to the end of 2015, Australia's ETF market grew by more than 40 per cent, and this year total funds under management for exchange-traded products on the ASX have topped \$23 billion.

DESPITE THE RISING popularity of this product category, many investors and their professional advisers have lingering questions about the open-ended liquidity that is one of the hallmarks of ETFs, allowing ETF pools to expand and contract on-demand.

At a basic level, an ETF is a simple index fund. Its job is to track a target index – be it broad market indices like the S&P/ASX300 or MSCI World ex-Australia, or more targeted segments of the market like high dividend yield, small caps shares and so on.

Most ETFs can be thought of in the same way as an index managed fund that is listed for trading on the ASX.

While investors, financial advisers and brokers are becoming increasingly familiar with the benefits of ETFs, ongoing questions and misconceptions about the true liquidity of ETFs listed on the Australian Stock Exchange (ASX) persist.

To understand ETF liquidity it helps to start with a simple comparison between ETFs and individual stocks. A company's stock price is based on market supply and demand, is there a buyer and seller for the stock. Or is there any type of market news or news about the company that could drive the stock price higher or lower throughout the day.



An ETF is a portfolio made up of multiple securities. While market supply and demand could affect its price in certain circumstances, a more significant factor is the value of the ETFs underlying portfolio of securities.

The relationship between average daily trading volume (ADV) and liquidity is also different for ETFs and securities. A single security's liquidity is based on its trading activity on the stock exchange, which reflects investor demand for a fixed supply of shares. In this case, a measure of trading activity provides a good indication of a specific company security's liquidity.

With ETFs, ADV provides only a partial indication of liquidity. That's because unlike single stocks, the supply of ETFs is open-ended. New ETF units can be created and existing units redeemed based on investor demand.

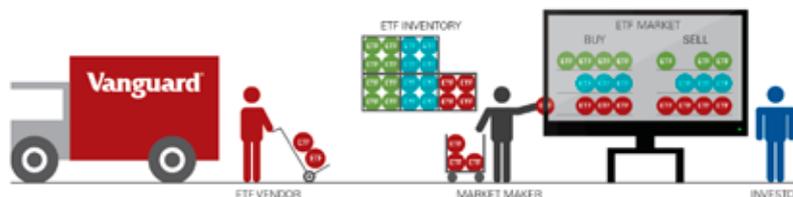
The creation and redemption process supports ETF liquidity by regulating the supply of ETF units in the secondary market as needed to meet investor demand. It also allows investors to execute large buy and sell orders for lower-volume ETFs—with little or no market impact.

The sources of ETF liquidity

Visible liquidity on the stock exchange: The most visible source of ETF liquidity is the trading activity of buyers and sellers in the secondary market that takes place on an exchange. This liquidity is affected by the number of firms trading each ETF, the number of orders from other investors and the investment environment on that day. ADV is a measure of this trading activity, but does not represent an ETF's total liquidity.

The natural liquidity of ETFs trading in the secondary market is enhanced by exchange-registered traders called market makers. Market makers help maintain a fair and orderly market by selling ETF units to potential buyers and by buying ETF units from potential sellers. In the

ETF liquidity



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absence of another buyer or seller, a market maker can often match the other side of a pending order.

“Hidden” liquidity on the stock exchange: Not all of an ETF's liquidity in the secondary market is readily visible. For most investors on screen view is probably limited to what's available through public financial websites. This means you'll have access to an ETF's highest bid price and lower ask price, but you won't be able to see all the quotes. These quotes are another source of ETF liquidity because they represent additional prices at which ETF units can be traded.

Liquidity from underlying securities: Although trading activity and market depth on the stock exchange contribute to ETF liquidity, most of an ETF's liquidity comes from its underlying securities. ETFs access this liquidity with the help of large institutions who act as Authorised Participants (APs) or Market Makers to create and redeem large blocks of ETF units directly from the ETF manager. This activity takes place in the primary market.

In action this process allows for an investor to purchase an amount of units in a given ETF that exceeds the ADV.

The motivation for an AP to play such an active role in ETF liquidity is the remuneration from their own market activities, and it is worth noting that they operate at arms-length from ETF issuers.

Market makers in Australia are offered a financial incentive by the ASX to maintain spreads and liquidity on market, market makers are active market participants and earn revenue through the bid/ask spread

and volumes that they trade. AP's earn revenue by acquiring ETF's in the primary market at the ETF's net asset value (NAV) and then selling in the secondary market at a margin above the NAV.

Similarly they can acquire ETF securities in the secondary market below the NAV and redeem in the primary market. Competition between the APs quoting each ETF security helps to ensure that bid/ask quotes for the ETF securities are consistent with the NAV. APs that quote wide spreads will be undercut by other APs and as a result will not have competitive trades available for the market.

This creation and redemption process allows ETFs to get most of their liquidity from their underlying securities.

When the underlying securities are difficult to trade, the market maker's costs may increase, resulting in wider bid-ask spreads than usual or compared with ETFs in other asset classes. As long as a dealer can efficiently trade the securities in the ETF basket, it can adjust the supply of ETF units in the secondary market as needed to meet investor demand.

As with any investment, every ETF has a unique liquidity profile that is based on how easy it is to trade the ETF's underlying securities, the costs associated with the creation and redemption process and a range of other considerations specific to each fund that extend well beyond the ADV. ■

For more information on ETF liquidity, trading and asset allocation, please contact Vanguard Australia National Manager – Broking and Wealth Management, Tim Sparks, on 02 8019 1112, or email tim.sparks@vanguard.com.au

When's a dependent not a dependent?

By Peter Grace

THE SOLE PURPOSE test underlies many of the superannuation rules. In brief it states that superannuation is 'to provide retirement benefits for a member or to provide benefits to the member's dependents if the member dies before retirement'.

When paying a death benefit trustees must decide who will receive the payment. They must pay a dependent as defined in the SIS Act or pay the money to the deceased's estate. SIS defines 'dependent' very broadly so a spouse, de-facto, same-sex partner and any children qualify.

Trustees also have to consider the tax legislation (ITAA 97). A death benefit paid to a 'tax' dependent is tax free whereas one paid to a non tax-dependent is taxed (the taxable component is taxed at 17%). ITAA 97 uses a narrower definition of dependent so children over age 18 do not qualify unless they were financially dependent on the deceased or in an interdependent relationship. Interdependency means the deceased and the dependents lived together and provided continuing mutual financial and emotional support to each other.

In a recent case a 22 year old son lived with his parents and they supported him in his education, board and living expenses as well as domestic services like providing meals and laundry. The son was said to 'help out around the house'.

The son was killed in a motor vehicle accident and a death benefit of \$500,000 was payable. The parent sought a private ruling from the ATO that they were in an interdependent



SIS defines 'dependent' very broadly so a spouse, de-facto, same-sex partner and any children qualify.

relationship with their son – but the ATO disagreed. The decision would cost them \$85,000 in tax on the death benefit so the parents appealed to Administrative Appeals Tribunal.

The AAT agreed with the ATO ruling saying there was insufficient evidence to support the claim of interdependence. They saw the relationship between son and parents as a one of commercial convenience rather than interdependence. There was substantial evidence that the son was dependent on the parents but little to show a mutual dependency.

When the interdependency legislation was introduced the Explanatory Memorandum to the Act cited various examples of the sorts of relationships that would be included. Typical

examples meant to be covered were elderly siblings supporting each other and someone caring for aged parents or a person with a disability.

The message from this case is that proving an interdependent relationship exists requires more than just an adult child living with their parents. ■

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

ACCREDITATION & TRAINING July, August & September

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.

MELB: Tues 19 July | 9:30am – 1:30pm
SYD: Mon 12 Sep | 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.

SYD: Mon 08 & Tues 09 Aug |
9:00am – 12:00pm
MELB: Mon 05 & Tues 06 Sep |
9:30am – 12:30pm

RE EXAM PREPARATION 'SHORT COURSE' – 4 CPD (COMPLIANCE)

This 4-hour intensive workshop is a condensed version of the Stockbrokers 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.

MELB: Wed 20 July | 9:30am – 1:30pm
SYD: Tues 13 Sep | 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 4 Aug | 9:00am – 12:00pm
MELB: Thurs 1 Sep | 1:30pm – 4:30pm

INSIDER TRADING – 4 CPD (COMPLIANCE)

This workshop provides a thorough analysis of Insider Trading. Topics include: elements of insider trading; statutory defences; insider trading and continuous disclosure; front running; dealing with rumours; management of confidential information; how to protect yourself, including Chinese walls, internal processes; and consequences of insider trading breaches. The Workshop is designed for sales staff/client representatives; proprietary traders; research analysts; investment banking; compliance and legal; and regulatory staff.

MELB: Wed 27 July | 1:30pm – 4:30pm
SYD: Tues 30 Aug | 9:00am – 12:00pm

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: Tue 26 July | 9:00am – 11:30am
MELB: Wed 10 Aug | 2:00pm – 4:30pm



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**.

MELB: Thurs 08 Sep | 9:00am – 1:30pm
SYD: Wed 14 Sep | 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.

SYD: Wed 20 July | 9:00am – 12:00pm
MELB: Wed 31 Aug | 9:30am – 12:30pm

UNDERSTANDING OPTIONS: FEATURES, BENEFITS AND RISKS – 2 CPD

This workshop focuses on equity options traded on the Australian Securities Exchange (ASX). Equity options offer investors an efficient means of managing the risks of adverse price movements in the share market. In addition, they give traders a vehicle by which to gain leveraged exposure to individual shares and selected indices. This workshop covers options pricing, basic strategies and the mechanics of trading options on the ASX.

SYD: Wed 3 Aug | 9:00am – 11:00am

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 11 Aug | 9:00am – 11:00am
SYD: Wed 31 Aug | 9:00am – 11:00am

INTRODUCTION TO CONTRACTS FOR DIFFERENCE (CFD) – 3 CPD

This workshop focuses on the class of derivatives known as Contracts for Difference (CFDs). This workshop covers the different types of CFDs, their uses, risks and potential rewards.

SYD: Wed 17 Aug | 9:00am – 12:00pm

For further information visit www.stockbrokers.org.au



Accreditation Training Workshops

INCREASE YOUR KNOWLEDGE AND SKILLS IN THE STOCKBROKING INDUSTRY TODAY!



REGULATORY CHANGE SEMINARS

Are you prepared for today and tomorrow?

A typical global financial services organisation deals with an average of 200 – at times conflicting – regulatory developments on a daily basis. Each one of these updates carries potential risk and can leave any organisation vulnerable if not properly managed and mitigated.

The consequences of non-compliance vary significantly and can include personal liability, fines and reputational damage to the organisation; all of these penalties more severe than ever before. With that in mind, how can you be certain your organisation is keeping ahead of the pace of these regulatory changes?

Thomson Reuters has released its annual *Cost of Compliance Survey* which highlights a number of potential red flags for the future of regulated financial services firms and their compliance officers.

Of the findings, the clear expectation is that compliance functions will need to do more to keep up with ever-growing regulatory change and complexity. Despite a sense that more needs to be done in terms of tracking and analysing regulatory change, reporting to the board and updating policies and procedures, however, many firms have been unable to increase their focus in these areas.

SYDNEY DETAILS

Tuesday 16 August 2016, 12.30pm to 1.30pm
 ASX, 20 Bridge St, Sydney

MELBOURNE DETAILS

Thursday 18 August 2016, 12.30pm to 1.30pm
 Venue – tbc

Additionally, efforts to comply can no longer be reactive; compliance professionals have to be proactive and anticipate the developments ahead of time. You need to take swift action to assess the impact of regulatory change on your organisation, report to the board and put appropriate plans in place.

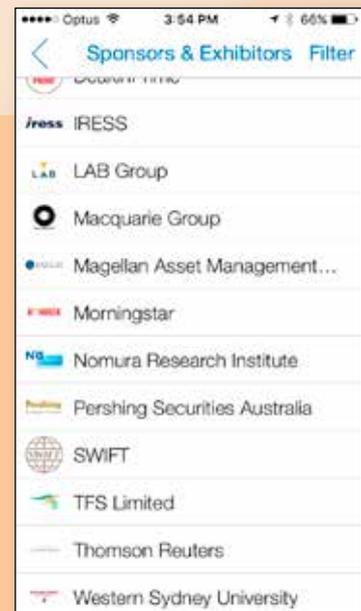
All this means that you face a rapidly changing and overwhelmingly complex regulatory environment, a landscape which is set to endure into the future.

Join Kelly Ann McHugh from Thomson Reuters who will share the findings from the survey and recommendations organisations can take to keep a step ahead.

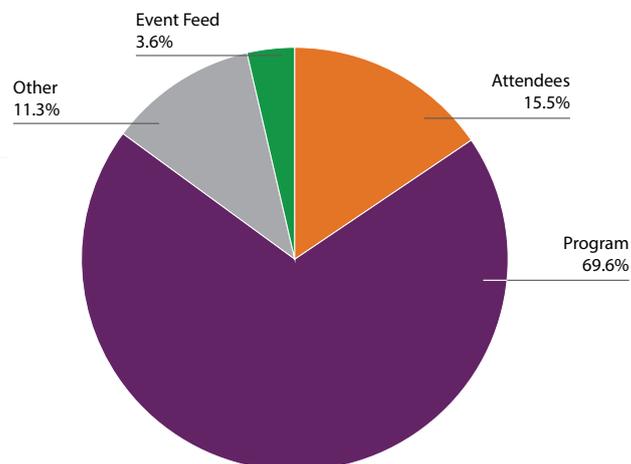
SAA 2016 Conference App

A new initiative implemented into the 2016 Stockbrokers Conference. The SAA 2016 app was a highlight for many of the delegation and included detailed information on the program, speakers and sponsors/exhibitors.

We look forward to implementing and releasing SAA 2017!



Most popular features at Stockbrokers Annual Conference



SAA 2016

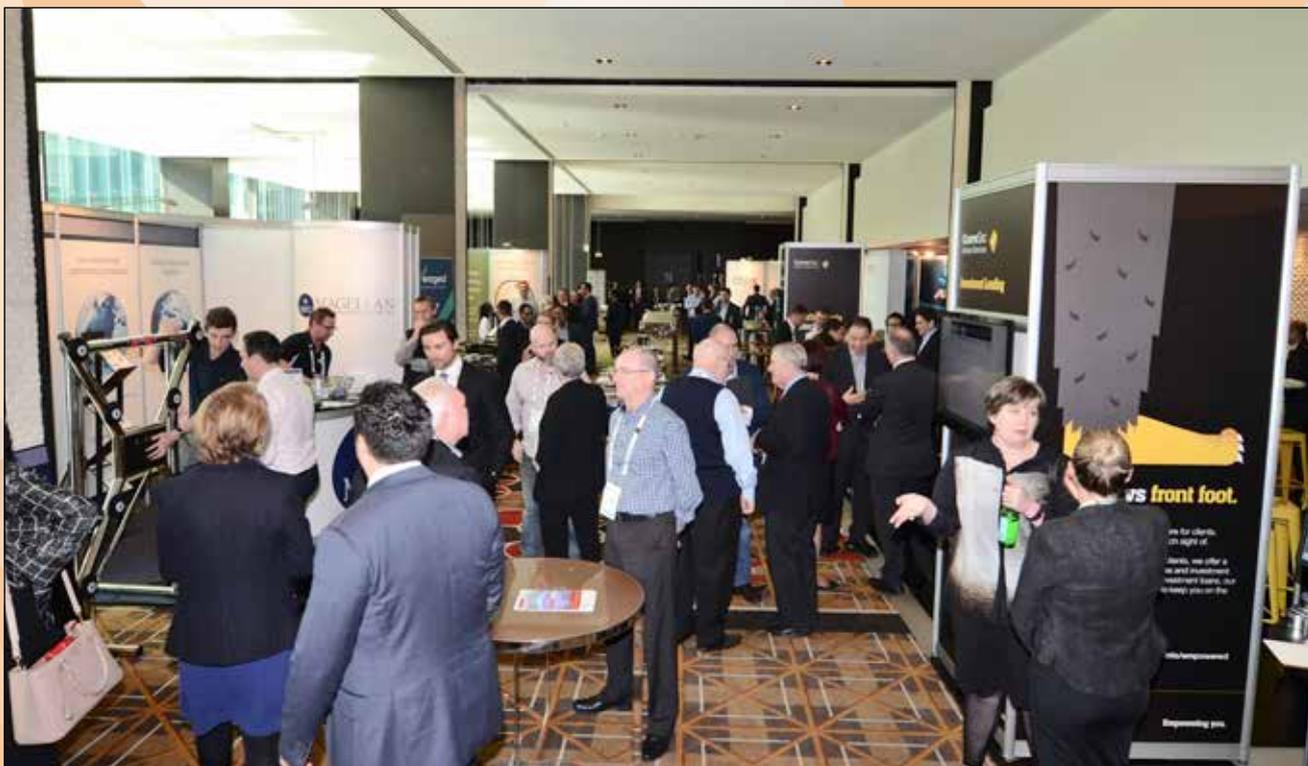




Greg Medcraft, Chairman, ASIC



Christine Holgate, Chief Executive Officer & Managing Director, Blackmores Ltd





SAA 2016 What You Thought

“The conference app was a terrific innovation”

“Event app is a fantastic initiative. Well done. SAA consider making the exec breakfast less of a lecture presentation from ASIC and more interactive with ASIC as the questions and feedback from other business heads is invaluable”

“Good to see no politicians”

“A very valuable conference. Good flow of events and functions. Convenient venue. It all worked well”

“Good blend of industry, listed companies, experts, commentators and panels”

“Good morning Andrew,

I just wanted to email and let you know how well I thought the conference went this year. Some points I thought as relevant:

1. The change to the days meant there were significantly more people who stayed till the end—an issue that all conferences face. I have for many years been involved with Diggers & Dealers in Kalgoorlie, and have some insight into the practical logistics that running such events can have.
2. The presentations provided much more relevant content than in previous years, from my perspective. More emphasis on the changing role of stockbroking, and the issues surrounding it was good, as were the corporate choices. Blackmores and Soul Pats were both particularly well received.
3. No-one objected to the inclusion of reporters in the main body of the conference, and for questions. I’m glad we have overcome this hurdle.

Lastly, I think it would be useful for the SAA to formally present at the opening of the conference, and provide more information on their work over the preceding 12 months. Some statistics on achievements, number of courses held, membership numbers etc. A lot of people are unaware of just how much work is undertaken by the Association, and I reckon it’s ok to sell it up a bit.

Are any of the presentations going to be made available to attendees? Some of them I would dearly like to talk to within my organisation, so if possible, this would be good. At Diggers, every presentation is lodged publicly just prior to being given, so perhaps a link to a secure website for attendees or something would be considered.

Regards & please pass on my thanks to the staff, who were omnipresent, as usual.”

**COMING
SOON!**

Portfolio Construction Program

Welcome to the 21st Century!

If you are committed to advancing your portfolio construction knowledge and wisdom, then the Portfolio Construction Program is for you.

We recognise that traditional tools and approaches to portfolio construction to set investment strategies for clients just aren't up to the job any more. And as strategies evolve, they demand new, innovative and flexible product solutions.

Technology also continues to evolve to allow for more complex strategies to be developed and implemented. Those responsible for portfolio construction need to be able to cater to a range of scenarios rather than relying on a limited range of strategies or portfolios.

That is why the Stockbrokers Association, in partnership with Western Sydney University, developed the Portfolio Construction Program. This program is especially suited to practitioners, which will be run by practitioners. The Portfolio Construction Program has been designed to encompass all of the information and tools needed for you to function in an evolving and increasingly sophisticated financial environment. There is a definite emphasis on the practical application of these techniques.



INNOVATIVE TECHNOLOGY SOLUTIONS

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